

15 Oct 2013

Share Price: \$0.035  
12mth Price Target: \$0.10

## SUN RESOURCES NL (SUR)

### Kings of Leon

The past year has been frustrating for investors in Sun Resources NL (The Company, SUR) given limited technical and economic success. With a fresh cash injection we think SUR is now better positioned to demonstrate that it can extract meaningful value from its significant Woodbine acreage. Knowledge gained from its own wells, access to recent peer results and the new Petro-Hunt relationship should, in our opinion, increase the chance of SUR delivering a commercially successful well program. Recent drilling success by other operators on nearby acreage validates management's view that well economics are improving. We maintain our Speculative Buy recommendation on the stock with a 12-month target price of 10c.

### A timely cash injection

SUR recently raised A\$13.5m via a private placement of new shares to a wholly owned subsidiary of the Hancock Group. At the end of the September quarter we expect SUR to have a cash balance of A\$15m. After the completion of the placement Hancock will hold an 18.48% stake in SUR making them the largest shareholder.

### The PetroHunt joint venture

In our opinion SUR's joint venture to explore the Lower Woodbine (northern part of Leon County) with PetroHunt LLC (PetroHunt) is very positive. PetroHunt will be the operator with the first well expected to be drilled sometime in 4Q CY13. SUR has contributed 810 acres from the Delta Oil project to earn a 25% working interest (PetroHunt contributing 2,430 acres). A successful well could lead to further acres from the Delta project being farmed down to the JV.

### What to expect over the next 6 months

SUR hope to spud three wells before the end of the year in addition to receiving results from the remaining 18 stages yet to be fraced from the T-Keeling #1 well. We expect SUR to become a more active operator and in those wells where they are not the operator to take a more active role in well planning. The Company believe they now have the required experience to design and operate an exploration program. We look for SUR to farm down acreage in which it holds a large equity position. Currently SUR has 100% of the Delta Oil Project and 50% of the Amerril Oil and Normangee Oil Projects.

### Valuation and recommendation

A lack of success has significantly reduced the markets expectation of SUR. Now with enough cash, a better knowledge of the Lower Woodbine and a significant increase in peer Lower Woodbine activity we think SUR has the potential to surprise the market. Valuing stocks such as SUR is far from an exact science. At a very basic level we can attempt to assign a value to SUR's acreage based on recent transactions. At US\$10,000/acre SUR is worth A9c / share. With the addition of a modest premium for future production growth we derive a 12month target price of 10cps. Our "Dare to Dream" valuation values the stock at 20c. We maintain our Speculative Buy.

#### Brief Business Description:

Acquired significant position in emerging non-conventional Lower Woodbine play.

#### Hartleys Brief Investment Conclusion

Potential of Lower Woodbine being realised by others and new well results improving.

#### Chairman & CEO:

Wolf Martinick (Chairman)  
Govert van Ek (Managing Director)

#### Top Shareholders:

Hancock Prospecting Subsidiary 18.5%

#### Company Address:

Level 2, 30 Richardson Street  
West Perth WA 6872

Valuation: \$0.140  
Issued Capital: 1984.9m  
- fully diluted 2298.2m  
Market Cap: \$69.5m  
- fully diluted \$80.4m  
Cash (Mar 13): \$5.3m  
Debt (Mar 13): \$0.0m

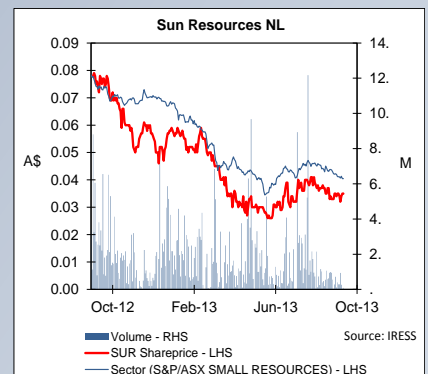
#### Valuation Summary

	Value (\$m)	Value (cps) risked	Value (cps) unrisksd
Woodbine@10%*	\$220.3	0.096	0.192
Exploration	\$105.1	0.046	0.437
Cash	\$5.3	0.002	0.002
Debt	\$0.0	0.000	0.000
Corp Admin	-\$8.6	-0.004	-0.004
Options/Equity	\$0.0	0.000	0.000
<b>Total</b>	<b>\$322.1</b>	<b>0.140</b>	<b>0.628</b>

\*NPV discounted by 50%

Prospective Shale Acres 20,020  
EV / acre \$2,973

Source: Hartleys Research



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Hartleys has completed capital raisings in the past 12 months for Sun Resources Limited ("SUR"), for which it has earned fees. Hartleys has also provided corporate advice within the past 12 months and continues to provide corporate advice to SUR, for which it has earned fees and continues to earn fees. Hartleys has a beneficial interest in 7 million SUR shares and 25 million SUR options, and may receive a further 3 million SUR shares and 20 million SUR options for advisory services provided. See disclosure on back page for details.

The analyst has a beneficial interest in this stock.

# SUMMARY MODEL

Sun Resources NL SUR		Share Price \$0.035		15-Oct-13 Speculative Buy	
<b>Key Market Information</b>			<b>Directors</b>		
<b>Share Price</b>		<b>\$0.035</b>	<b>Company Details</b>		
Market Capitalisation		\$85m	Wolf Martinick (Chairman)		
Cash		\$3.6m	Govert van Ek (Managing Director)		
Issued Capital		2434.9m	John Kenny (Non-Exec Director)		
ITM options		121.0m	Matthew Batrick (Technical Director)		
Options		173.25m @ A\$ 0.41	The Hon Alexander Downer, AC (Non Exec. Director)		
Issued Capital (fully diluted ITM options)		2555.9m	Prof. Ian R Plimer (Non Exec. Director)		
Issued Capital (fully diluted all options)		2608.2m	<b>Substantial Shareholders</b>		
<b>EV</b>		<b>\$81.7m</b>		<b>m shs</b>	<b>%</b>
<b>Valuation</b>			Hancock Prospecting Subsidiary	450	18.5%
<b>12Mth Price Target</b>			Amerill Energy LLC	292	12.0%
<b>Projects</b>			<b>Investment Summary</b>		
<b>Projects</b>	<b>Interest</b>	<b>Partners</b>	<b>Net acres</b>	Building acreage in the Woodbine play in the US. Actively drilling but yet to experience commercial success. Substantial equity positions means there is scope for farmouts to fund further exploration if required.	
Delta	100%		11,010		
Amerill	50%	Amerill	6,147		
Beeler	14%	Farmors Steadfast Res Richland Amerill	227		
Normangee	50%	Amerill	1,826		
Petro Hunt	25%	Petro-Hunt	810		
<b>Sub-total</b>			<b>20,020</b>		
<b>Quarterly Cash Flow</b>			<b>Expected Newsflow</b>		
	<b>FY2013F</b>	<b>FY2014F</b>	<b>FY2015F</b>	<b>No (m)</b>	<b>\$ (m)</b>
<b>Net Revenue</b>	na	na	na	<b>Ave Pr</b>	<b>% Ord</b>
<b>Total Costs</b>	na	na	na	3Q 13	Prelim results from T Keeling
EBITDA	na	na	na		Amerill
Deprec/Amort	na	na	na		
<b>EBIT</b>	na	na	na		
Net Interest	na	na	na		
<b>Pre-Tax Profit</b>	na	na	na		
Tax Expense	na	na	na		
<b>NPAT</b>	loss	loss	loss		
Abnormal Items	na	na	na		
<b>Reported Profit</b>	loss	loss	loss		
			<b>Unpaid Capital</b>		
				<b>No (m)</b>	<b>\$ (m)</b>
				<b>Ave Pr</b>	<b>% Ord</b>
			30-Jun-13	-	-
			30-Jun-14	98.6	2.6
			30-Jun-15	23.7	0.9
			30-Jun-16	51.0	3.6
			30-Jun-17	140.0	0.1
			<b>Comments</b>		
			A number of poor flow results has put some pressure on the stock but the Company continues to drill and frac so success will come.		
Analyst: Simon Andrew			Last Updated: 15/10/2013		
Phone: 618 9286 3020					
Sources: IRESS, Company Information, Hartleys Research					

## HANCOCK....A WELCOME CASH INJECTION

SUR recently raised A\$13.5m via a private placement of new shares to a wholly owned subsidiary of Hancock Prospecting. The placement of 450m new shares was done at A\$0.03 per share representing a 6.25% discount to the previous closing price. After the completion of the placement Hancock hold an 18.48% stake in SUR and is the largest shareholder in SUR. Hancock has also appointment two board members..

Following the placement SUR now has \$16.5m in cash on the balance sheet. To put this in perspective SUR spent close to A\$15m in FY13.

At this stage we are unsure if the investment is the start of a broader foray into unconventional oil and gas exploration by Hancock. Our research suggests this is the first significant investment into unconventional oil and gas by the Hancock Group.

*Fig. 1: SUR - quarterly cash burn*

Cash Burn (A\$k)	Corporate overheads	Capex	Other	Total cash burn
Sep Q 2012	437	4,155	3	4,595
Dec Q 2012	569	6,560	118	7,247
March Q 2013	379	2,822	-422	2,779
June Q 2013	479	1,653	-203	1,929

Source: The Company, Hartleys

## BENEATH THE SURFACE – WHAT AND WHERE IS THE WOODBINE?

The Woodbine is a bit like a trifle. As you dig your spoon into a trifle you discover the various layers of sponge, cream, jelly and fruit etc. You can then decide which of the layers you most desire and which to try and scoop out sideways with a longer spoon. The Woodbine consists of multiple stacked horizons with only a small number that have been exploited with horizontal drilling. The maps and diagrams in Figures 1 and 2 detail the location and some simple geology of the Woodbine.

The Woodbine is located at the North Eastern end of the broader Eagleford trend. The Woodbine has several similarities to the better-known southern end of the Eagleford but importantly some significant differences. Similar to the Eagleford the Woodbine sits below the Austin Chalk and above the Buda formation. The Eagleford and the Woodbine sit either side of the San Marcos Arch (geological formation). The Eagleford is essentially carbonate rich, organic shale whereas the Woodbine can be described as an un-conforming sandstone interlaced with organic shale.

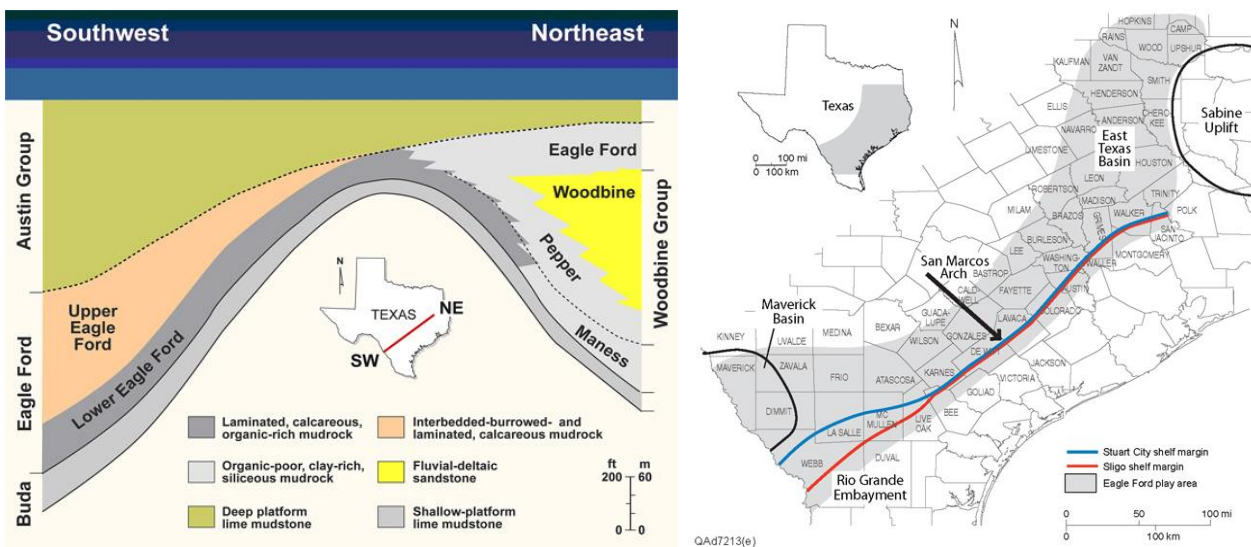
Historically the East Texas Basin has been the target of conventional explorers going back as far as the 1930's. As with other regions along the Eageford trend that have a significant history of conventional oil production, the Woodbine is now being exploited with unconventional production techniques.

Within the broader Woodbine zone there exists several discrete hydrocarbon rich zones. The market needs to be aware of the different nomenclature used to

describe these zones. For example the lower section of the Woodbine has been described as the “Woodbine C”, “Lower Eaglebine” and the “Dexter”. SUR uses the term “Lower Woodbine”. Different operators are targeting different Woodbine intervals, however most recent activity has also focused on the Lower Woodbine.

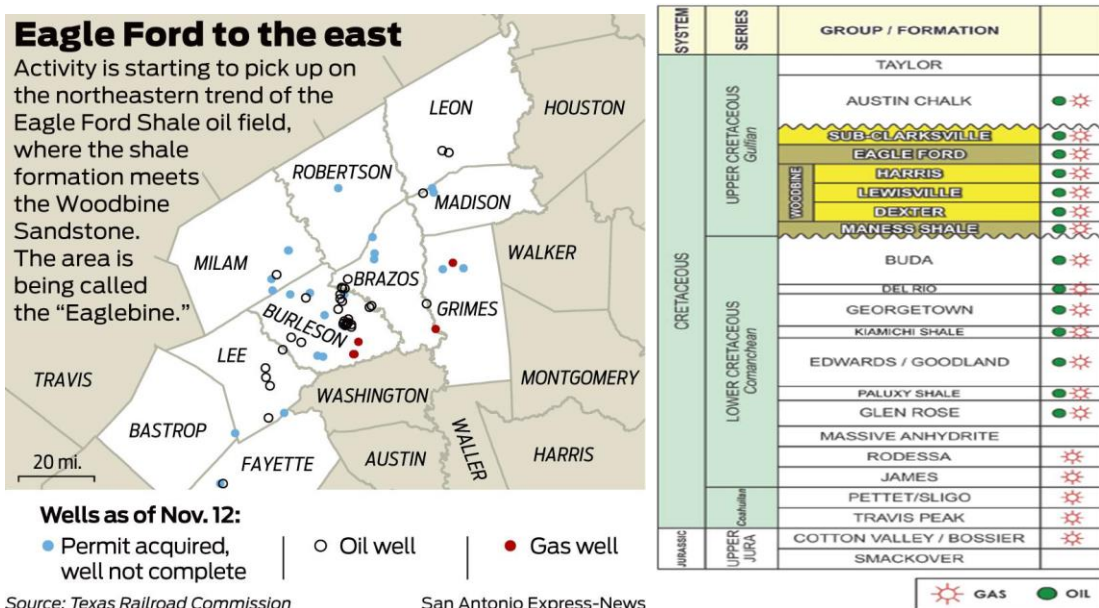
Other nearby horizons within and below the Woodbine are also starting to get the attention of operators. The Austin Chalk (above the Woodbine), Buda (below the Woodbine) and Georgetown shale (below the Buda) are some of the horizons receiving attention. The Buda horizon is especially pertinent to the SUR story. Recent press reports suggest some operators are reporting 1,000 boe/d flow rates on well costs as low as US\$4m from wells drilled into the Buda. The Buda formation exists across a large part of SUR acres and thus could become a significant value driver.

Fig. 2: Woodbine versus Eagleford



Source: State of Texas Advanced Oil and Gas Resource Recovery

Fig. 3: The Woodbine spans across the counties of mid-East Texas



Source: Texas Railroad Commission

San Antonio Express-News

Source: Texas Railroad Commission and San Antonio Express News

## WOODBINE – A GROWING BODY OF KNOWLEDGE

Historically only a conventional field, the body of knowledge on how to effectively exploit the Woodbine with unconventional techniques was limited. With frontier exploration comes a large number of “unknowns” that in many cases can only be solved with drilling. As acreage has been acquired and more lateral wells drilled the iterative process of coming up with optimum operating parameters has matured.

The more wells that are drilled the better the understanding has become of the geology of not only the broader Woodbine but also the various pay sections contained within. SUR management concede that it has taken time to determine the optimum frac design and frac completion. SUR’s ongoing discussions with consultants, other operators and contractors together with its own in-house knowledge should hopefully result in improved flow rates and overall well economics.

Recent well results from competitors in adjacent acreage have been encouraging. The table below highlights some important activity by SUR’s neighbours:

**Fig. 4: Woodbine – competitor activity**

Operator	Well details
Halcon	<p>“Halcón expects to have data from a 330 square mile 3-D seismic survey spanning across portions of Leon, Madison and Grimes Counties in-house by the end of 2013 to aid in the further development of the play.”</p> <p>“The average initial rate for the three most recently drilled and completed wells in Leon County is 513 Boe/d, which represents an 6% improvement compared to all prior Company-owned Woodbine wells located in Leon County.”</p> <p>“Halcón is operating five rigs at El Halcón. The average effective lateral length for the two most recently drilled and completed wells in the play is 8,349 feet. The average initial production rate from these two wells is 1,116 Boe/d (94% oil) on a 16/64 choke, or 18% higher than the average initial rate for all previously drilled and completed Company-owned wells in this area.”</p>
Devon	Mathis #2H IP'd at 763 boe/d into the Georgetown formation
EOG / ZAZA	<p>Donaho #1H Ip's at 179 boe/d</p> <p>Blazek-Peters #1H IP's at 295 boe/d</p>
Navidad Resources	Ferguson #1 vertical IP's at 552boe/d into the Buda / Georgetown /Glen Rose
Other operators	“Two successful wells -- Crimson Energy Partners' (private) Jackie Robinson 4H and Weber Energy's (private) Lewis 1H -- have been often quoted in the industry. Both wells IP'ed at around 600 bo/d and validated the thesis regarding potential producibility of this oil shale.”

Source: The Company, Hartleys, Crimson Exploration, Halcon Energy, Press Reports





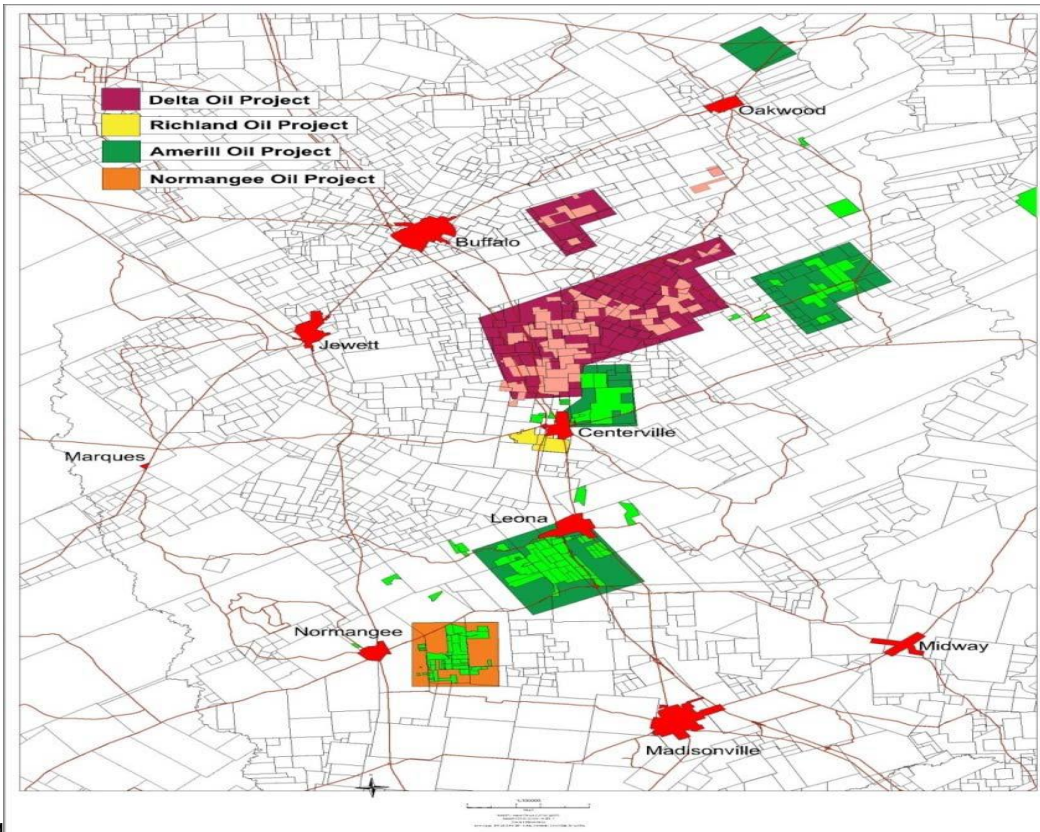
## THE ASSETS

**Fig. 7: The Assets**

Project	Location	SUR (WI)	Partners	Gross Acres	Net Acres	Wells Drilled	Wells Planned	Status
<b>Delta</b>	Leon	100%		11,010	11,010			Planning 2014 drill program
<b>Beeler</b>	Leon	13.54%	Farmors Steadfast Res LLC Richland Amerril	1,360	227	3		All 3 wells now have jet pumps attached and are producing. Ellis #1 the best performer with an IP90 of 150boe/d
<b>Amerril</b>	Leon	50%	Amerril	12,293	6,147	2	1	Technical issues with the Sealel #1 well. Waiting on IP results from T.Keeling #1 (18 stages_to frac) Possible Murphy 1 well to come
<b>Petro-Hunt JV</b>	Leon	25%	Petro-Hunt (75%)	3,240	810		1	Expect first well in 4Q CY13
<b>Normangee</b>	Leon, Madison	50%	Amerril	3,652	1,826		1	Expect first well in 4Q CY13
<b>Sub-total</b>				<b>31,555</b>	<b>20,020</b>			

Source: The Company, Hartleys

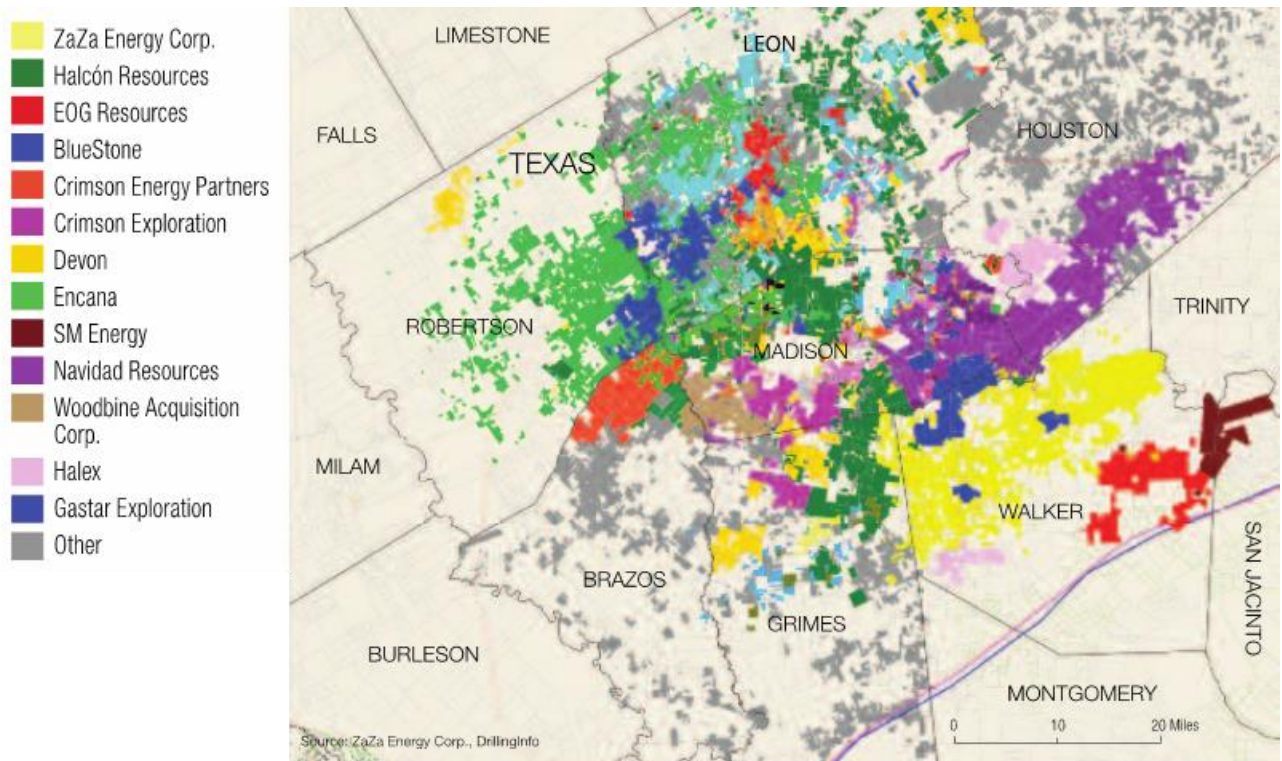
Fig. 8: Asset Map



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Source: The Company, Hartleys

Fig. 9: Asset Map



Source: The Company, Hartleys



## VALUATION AND RECOMMENDATION

At this stage we are reticent to try and assign a more meaningful value to SUR assets based on expected flow rates and drill spacing. Until SUR can deliver a better inventory of producing wells we will stick with a very simple per acre valuation. Table 10 details some recent transactions in the Eagleford with some specific to the Woodbine. If we assume a conservative US\$10,000 / equity acre we come up with a base valuation of A9c /share.

**Fig. 10: Recent Woodbine and Eagleford Transactions**

Buyer	Seller	Date	Value (US\$m)	Acres	US\$/Acre
Meidu	Woodbine Acquisition LLC	July 2013	535	15,100	35,430
Unkown	Austin Exploration	May 2013	26	3,007	8,631
Energy & Exploration Partners	Chesapeake Energy Corp	April 2013	500	57,275	8,730
EOG Resources	ZaZa Energy Co	March 2013	123	50,000	2,465
Halcon	Petrohawk & others	Aug 2012	489	20,268	24,117

Source: Various Sources

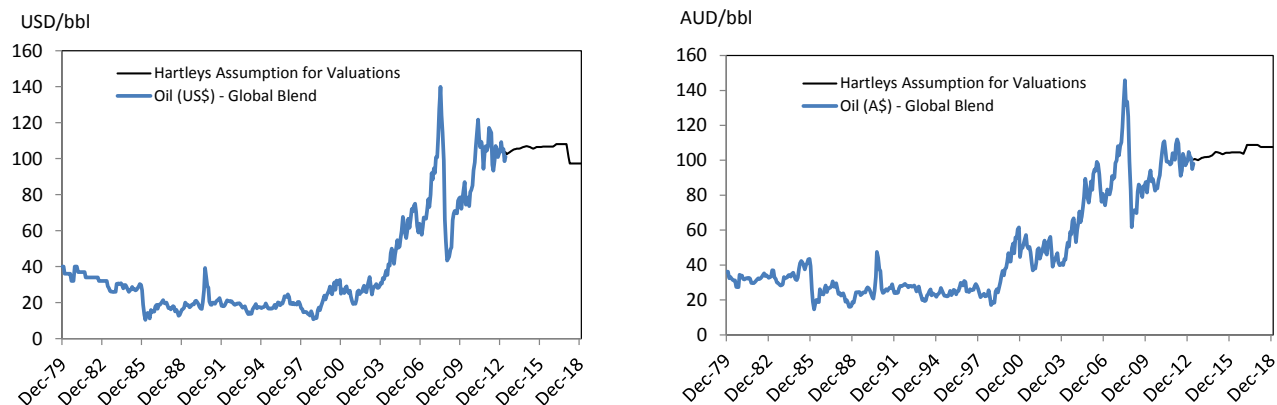
**“Dare to dream” valuation**: If we dare to dream that SUR can start to generate some meaningful flow rates from its significant average position then we can start to think about potential value. For example if we assume that on the 100% owned Delta Oil project a typical well NPV is US\$6.5m. If we use 160 acre drill spacing across the 10,000acres than we generate a total NPV of US\$406m or Ac20 / share for this project alone.

**Fig. 11: Well simulation**

Delta Oil project -typical well simulation	Assumptions
T + 1 month production rate	450
Depletion (Year 1)	65%
Oil price realised (\$/bbl)	95
Gas Price ( \$mcf)	4.00
Blended price	80.44
Revenue Interest	75%
Expected well life	11
Drill and completion costs (US\$m)	6.5
Tax rate	7.50%
Oil / Gas mix	90%
Variable cost \$ / boe	5
Fixed Cost / month	\$10,000
Discount rate	10%
NPV of well	\$6.5m
IRR	52%

Source: The Company, Hartleys

# COMMODITY PRICE ASSUMPTIONS



Source: Hartleys, Bloomberg

**Fig. 1: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Downside risk to valuation if assumption is incorrect	Comment
Appraisal Risk	Moderate	Meaningful	Initial results in the play are encouraging but there are not enough data points to conclusively establish the economics of the play. Until this is done we have discounted our valuation considerably, as appropriate.
Development Risk	Low-Moderate	Low-Moderate	Access to experienced personnel and fracing equipment is crucial for development of non-conventional plays. In general well costs are coming down.
Funding risk	Low	Moderate	Following the placement to the Hancock Prospecting, SUR's funding requirements have been resolved in the near term. Should SUR undertake a more aggressive drilling program in 2014 then it will require further financing.

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Conclusion

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## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a “Buy”. Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a “Buy”.
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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