Oil & Gas: Producer

BURU ENERGY LTD (BRU)

A Carbonate Puzzle

The Ungani Oil Field continues to present numerous challenges. The JV has been forced to undertake a number of additional workovers to boost production and the drilling of new wells to facilitate drainage. The JV are currently targeting production of 1,800 bopd with the longer-term goal of achieving 3,000bopd. However, total production with the recent well configuration including Ungani 4 offline, and Ungani 5 without artificial lift, was circa 1,100 bopd. BRU expects this to increase substantially if the Ungani 4ST1 well is completed successfully and with artificial lift now installed at Ungani 5. A successful result at the Ungani West 1 exploration well could add further material production. An additional development well, Ungani 6, has been agreed by the JV to be drilled in the Eastern portion of the field (from the Ungani 3/5 pad). On the basis of the evidence from the producing wells to date and to be conservative we have downgraded our annual peak production rate to 1,800bopd (from 2,400bopd) and lowered our estimate of ultimate recoverable reserves to 4.9mmbbl/d from 6mmbbl.

An uplift beyond our estimates could be achieved through; i) the successful recompletion of the Ungani 4ST1 well, ii) a boost from artificial lift at Ungani 5, iii) additional tie back opportunities could also add to overall production, such as a successful result at the Ungani West 1 exploration well (currently drilling), the Ungani 6 development well in the East and Ungani South 1 if drilled and/or iv) horizontal development wells if technically and commercially feasible. Our Ungani field NPV10 is now A$67m (for 50% at US$75/bbl Brent) versus $89m previously This interestingly is now much more in line with the $64m which Roc Oil paid for their 50%.

Maintain Speculative Buy

Looking into 2019 the focus will turn more to the imminent exploration programme along the Ungani Trend. The exploration programme will be targeting 'best estimate' prospective resources in excess of 100mmbbls. We value BRU's 'risked' conventional and unconventional at just over 24c per share (unchanged). This compares to our updated base value for Ungani and Corporate of 24c per share (down from 31c per share). The latter continues to be roughly in line with the current share price, so as long as Ungani can deliver our updated assumptions (we note we have had to downgrade our valuation of Ungani by 34% over the past year), then the exploration upside is a 'free option' at the current share price based on our assumptions.

Our 12-month forward valuation and target price has been downgraded to A$0.48 per share (from A$0.55 per share due to our more conservative assumptions on peak production rates and ultimate recoverable reserves). Our valuation contains a risked value (24c per share) for future oil potential along the Ungani Trend including a minimal value for the Goldwyer unconventional oil potential and Laurel Formation gas potential based on a peer value for similar early stage resource plays. The key catalyst over the next 12 months that we expect will drive the current price up towards our target is now the fully funded Ungani trend exploration programme. On the basis of the upside to our 12-month target price and pipeline of catalysts we continue to rate BRU a Speculative Buy.

BRU.asx
Speculative Buy

12 Nov 2018

Share Price:	**$0.260**
12mth Price Target:	**$0.48**

Brief Business Description:
BRU is an oil producer and explorer with a core focus on the Canning Basin. Key asset is the Ungani Oil Field.

Hartleys Brief Investment Conclusion
BRU generates cash flow from oil sales from the Ungani Oil Field with additional upside potential from further development. BRU has an extensive exploration acreage position.

Chairman & CEO:
Eric Streitberg — Executive Chairman

Substantial Shareholders:

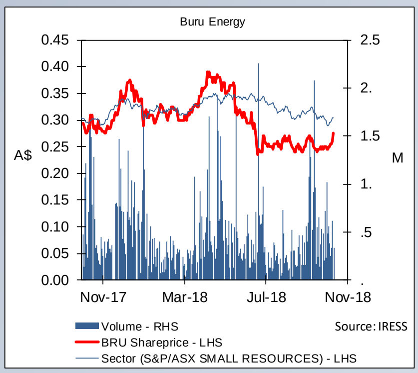
Birkdale Enterprises Pty Ltd	8%
Chemco Pty Ltd	8%
E C Streitberg	5%

Company Address:
16 Ord Street
West Perth
WA 6872

Issued Capital:	432m
- fully diluted	441m
Market Cap:	$112.3m
- fully diluted	$114.8m
Debt (end CY18e)	$4.8m
Cash (end CY18e)	$63.5m

	FY16A	FY17A	FY18F
Prod ('000 bbl)	23	133	402
Op Cash Flw	-$10m	-$4m	$37m
Free Cash Flw	$0m	-$13m	$49m
NPAT* (A$m)	-$14m	-$10m	-$1m
EPS ($c, bas)*	(3.2)	(2.3) -	0.20
P/E (basic)*	-8.0x	-11.1x	-129.9x
EV / EBIT	-4.2x	-6.0x	-31.8x
EV / EBITDA	-6.0x	-13.3x	15.1x
N.D. / equity	-16%	-12%	-60%
Net Cash End	$8.8m	$7.9m	$57.3m

*normalised
Source: Hartleys Research



Authors:
Aiden Bradley
Industrials and Energy Analyst
Ph: +61 8 9268 2876
E: aiden.bradley@hartleys.com.au

SUMMARY MODEL

Buru Energy Limited | **Share Price** | **12 November 2018**
BRU | **$0.260** | **Speculative Buy**

Key Market Information		
Share Price		**$0.260**
Market Capitalisation		$112m
Issued Capital		432m
Issued Capital (fully diluted inc. ITM options)		441m
Options		9.4m
EV		$55m
Net Debt		-$57m
Valuation		
12 Month Price Target	$ ps	0.48

P&L	Unit	2015A	2016A	2017A	2018F	2019F
Net Revenue		**3.5**	**0.2**	**7.9**	**23.6**	**27.2**
COGS		**(5.3)**	**(1.4)**	**(4.2)**	**(10.3)**	**(11.4)**
EBITDAX		(8.4)	(9.1)	(4.1)	3.7	10.3
Depreciation/Amort		(3.5)	(4.0)	(5.1)	(5.4)	(2.2)
EBIT		**(11.9)**	**(13.1)**	**(9.2)**	**(1.7)**	**8.1**
Net Interest		5.1	(1.2)	(1.1)	0.5	2.9
Pre-Tax Profit		**(6.8)**	**(14.3)**	**(10.3)**	**(1.3)**	**11.0**
Tax Expense		-	-	-	0.4	(3.3)
NPAT		**(6.8)**	**(14.3)**	**(10.3)**	**(0.9)**	**7.7**
Abnormal Items		(32.1)	(19.5)	4.1	32.0	-
Reported Profit		**(38.9)**	**(33.8)**	**(6.2)**	**31.1**	**7.7**

Balance Sheet	2015A	2016A	2017A	2018F	2019F
Cash	**33.9**	**21.1**	**16.9**	**63.5**	**58.4**
Other Current Assets	5.0	3.3	4.3	2.2	2.5
Total Current Assets	**38.9**	**24.3**	**21.2**	**65.7**	**60.9**
Property, Plant & Equip.	34.8	26.8	59.8	22.4	29.1
Exploration	48.2	22.0	6.4	22.5	26.2
Investments/other	0.1	0.1	0.0	0.0	0.0
Tot Non-Curr. Assets	**83.2**	**48.8**	**66.2**	**44.9**	**55.4**
Total Assets	**124.7**	**73.2**	**87.3**	**110.6**	**116.3**
Payables	7.7	0.6	8.8	3.6	3.9
ST Debt + other	1.4	1.3	6.7	3.9	3.9
Total Curr. Liabilities	**9.0**	**1.9**	**15.4**	**7.6**	**7.8**
Long Term Borrowings	21.5	11.0	2.3	2.3	-
Other	4.1	4.1	5.6	5.6	5.6
Total Non-Curr. Liabil.	**25.6**	**15.1**	**7.8**	**7.8**	**5.6**
Total Liabilities	**34.6**	**16.9**	**23.2**	**15.4**	**13.4**
Net Assets	**90.0**	**56.2**	**64.1**	**95.2**	**102.9**

Cashflow	2015A	2016A	2017A	2018F	2019F
EBITDA	(8.4)	(9.1)	(4.1)	3.7	10.3
Chg WC	2.7	(5.3)	7.1	(3.0)	0.0
Interest	5.1	(1.2)	(1.1)	0.5	2.9
Tax	-	-	-	0.4	(3.3)
Other	(7.2)	5.7	(5.8)	35.8	0.9
Gross Cash Flow	**(7.8)**	**(9.9)**	**(3.9)**	**37.3**	**10.8**
Capex	(21.6)	(5.8)	(10.4)	12.1	(13.6)
Other	(4.1)	15.5	1.5	-	-
Free Cash Flow	**(33.5)**	**(0.3)**	**(12.8)**	**49.4**	**(2.8)**
Share Issuance	0.0	0.0	13.6	0.0	0.0
Debt Issuance	7.4	(12.5)	(5.0)	(2.8)	(2.3)
Dividend	0.0	0.0	0.0	0.0	0.0
Other	0.1	(0.0)	0.0	0.0	0.0
Net Chang in Cash	**(26.0)**	**(12.8)**	**(4.2)**	**46.6**	**(5.1)**

Ratio Analysis	Unit	2015A	2016A	2017A	2018F	2019F
Free Cash Flow / share	A¢	(7.6)	(0.1)	(2.9)	11.2	(0.6)
Cashflow Multiple	X	(3.4)	(366.7)	(9.0)	2.3	(41.0)
Earnings Per Share	A¢	(1.5)	(3.2)	(2.3)	(0.2)	1.7
Price to Earnings Ratio	X	(16.8)	(8.0)	(11.1)	(129.9)	14.9
EV / EBIT	X	(4.6)	(4.2)	(6.0)	(31.8)	6.8
EV / EBITDA	X	(6.6)	(6.0)	(13.3)	15.1	5.3
Interest Cover	X	1.6	na	na	na	na
Net debt / Equity	%	na	na	na	na	na

Directors		Company Information
Eric Streitberg	Executive Chairman	Level 2
Eve Howell	NED	16 Ord Street
Robert Willes	NED	West Perth
Shane McDermott	Head of Finance & Company Secretary	WA 6872
		www.buruenergy.com

Substantial Shareholders	m shares	%
Birkdale Enterprises Pty Ltd	35.1	8.1%
Chemco Pty Ltd	33.3	7.7%
E C Streitberg	21.2	4.9%

Production Summary	Unit	Pre-16	2016A	2017A	2018F	2019F
Oil	'000 bbl	597	23	133	402	657

Price Assumptions	Unit	2015A	2016A	2017A	2018F	2019F
Oil	A$/bbl	69.60	58.56	66.67	89.74	89.74

Share Price Valuation (NAV)

A$ m	Un-risked	Risking	Risked	cps
Ungani	67.0	100%	67.0	15.2
Other Exploration	843.0	10%	84.2	19.1
Gas Option	875.0	3%	21.9	5.0
Net Debt & Corp.			37.1	8.4
Valuation				**48**

Petroleum Tenements

Permit	JV Partner	% Interest
L6*		100%
L8		100%
L17		100%
L20	Roc Oil	50%
L21	Roc Oil	50%
EP129*		100%
EP391	Roc Oil	50%
EP428	Roc Oil	50%
EP431		100%
EP436	Roc Oil	50%
EP457	Mitsubishi 37.5% Rey Resources 25%	37.5%
EP458	Mitsubishi 37.5% Rey Resources 25%	37.5%

**Excluding Backreef Area*

Analyst : Aiden Bradley
Phone: +61 8 9268 2876

Last updated November 12, 2018

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

The Ungani Oil Field continues to present numerous challenges. The JV* has been forced to undertake a number of additional workovers to boost production and the drilling of new wells to facilitate drainage. The JV are currently targeting production of 1,800 bopd with the longer-term goal of achieving 3,000bopd. However, total production with the recent well configuration with Ungani 4 offline, and Ungani 5 without artificial lift, was only circa 1,100 bopd. BRU expects this to increase substantially if the Ungani 4ST1 well is completed successfully and with artificial lift now installed at Ungani 5. A successful result at the Ungani West 1 exploration well could add further material production. An additional development well, Ungani 6, has been agreed by the JV to be drilled in the Eastern portion of the field (from the Ungani 3/5 pad). Ahead of these wells and to be conservative in our assumptions, we have lowered our peak annual production rate to 1,800bopd for the field overall as a consequence of the well results to this.

Carbonate reservoirs (such as Ungani) host more than 60% of the world's oil and 40% of the world's gas reserves. However, heterogeneous carbonate fields are notoriously challenging to produce. Carbonates can exhibit highly varying properties (e.g. porosity, permeability, flow mechanisms) within small sections of the reservoir, making them difficult to characterize.

*In May 2018, BRU sold a 50% interest in the Ungani production licences L20 and L21 (the Ungani Oilfield) to Roc Oil (the Fosun Group) for a total cash consideration of A$64 million. The final payment of $51 million was received by BRU in late September. Prior to the deal we had valued the Ungani Oilfield at $179m (or $89.5m for 50%), see our research 'Deal with Fosun Funds Ungani Trend Exploration' (23rd May 2018). Importantly the deal also included direct funding for up to four exploration wells.

Summary of Well Results to date in the Ungani Accelerated Development Program and Planned Wells.

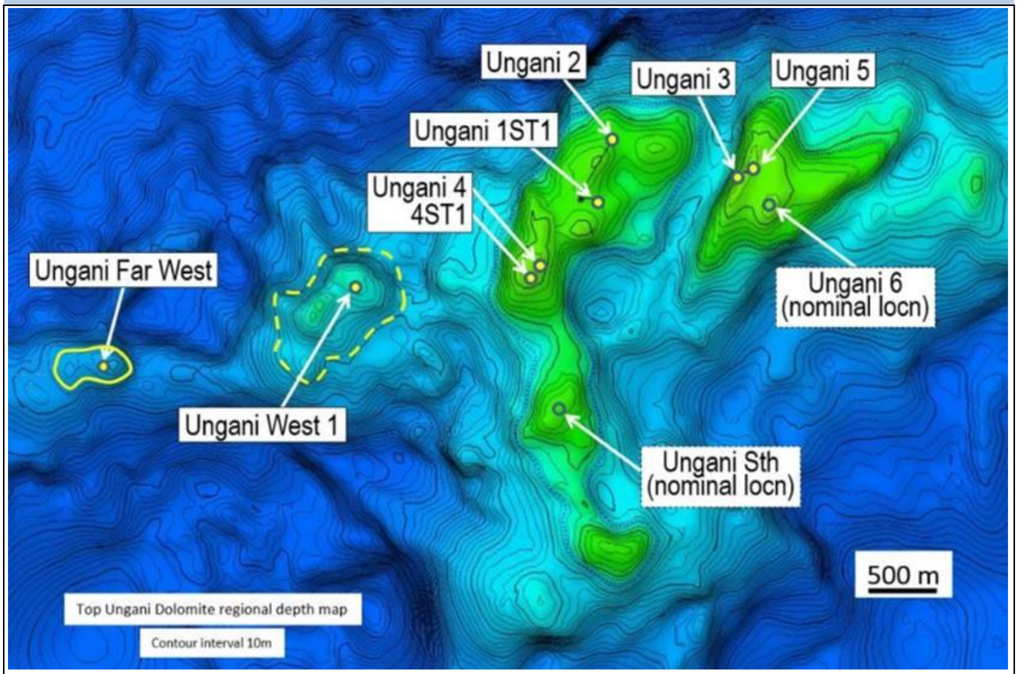
- Recent: Ungani Far West 1 was brought online as an additional oil producing well. Ungani 4ST1 suspended.
- Current: Ungani West 1 exploration well spudded the 16th October.
- November: Ungani 4ST1: Operations to be completed by late November.
- December to April: Wet season (cannot drill remote from current well pads)
- December: Drill Ungani 6 appraisal/production well on Eastern part of the Ungani Oilfield (drilled from existing Ungani 3/5 pad).
- January 2019 (subject to weather): Ungani South 1 exploration/appraisal well potentially targeting southern area of the field.
- Mid-April 2019 (depends on start of the dry season): Focused on wildcat exploration program (up to four wells) including a potential horizontal well at Ungani.
- April 2019+: Use NGD Rig 405 to potentially drill wells on Buru operated acreage outside the Roc Oil Joint Venture.

Ungani Oilfield Update

Oil production from the Ungani Oilfield for the 3rd quarter of 2018 totalled circa 117,000 bbls (gross), an average rate of circa 1,270bopd. Various well workovers, rate tests and productivity treatments which were required resulted in wells being offline for extended periods.

Ungani 1 and 2 wells: The Ungani 1 and Ungani 2 wells continue to be good performers and produce on artificial lift generally in line with predictions.

Fig. 1: Ungani Area Well Locations



Source: BRU

Ungani 4: Unfortunately, Ungani 4 has not been as successful. Initially Ungani 4 flowed at significantly lower rates than expected (up to 400 bopd) most likely according to the Company due to mechanical issues restricting production. The JV decided to sidetrack the well and this commenced in September. This Ungani 4ST1 sidetrack unfortunately has also had to be temporarily suspended for operational reasons.

Ungani 5: Ungani 5 drilled in the Ungani East area flowed at over 1,200bopd on initial test (produced strongly from both the middle and lower zones of the reservoir, the upper zone was not materially productive at this location) and is now on free flow production. Rates (undisclosed) are however currently lower than expected by the Company. Artificial lift (a beam pump) to aid production has been installed on this well. A further well Ungani 6 will be drilled in this area to test the reservoir quality. It will be drilled after Ungani West 1 and the completion of Ungani 4ST1.

Ungani Far West 1: The Ungani Far West 1 was brought online as an additional oil producing well late in the quarter with good initial flow rates which then declined as expected as water cuts increased. A beam pump has now been installed on that well and production is continuing.

Ungani North 1: The Ungani North 1 well was re-tested but commercial flow rates were not achieved and the well is currently under review. The Ungani North structure is well defined by the Ungani 3D seismic grid and with an established oil column is capable of holding substantial volumes of oil and the JV is still considering it for further evaluation during the upcoming operations program.

Further Development Wells: Given the results to date the JV now expects additional wells will be required to drain the reservoir. These may include horizontal wells if technically and commercially justified.

On the basis of the evidence from the producing wells to date and to be conservative we have downgraded our annual peak production rate to 1,800bopd (from 2,400bopd) and lowered our estimate of ultimate recoverable reserves to 4.9mmbbl/d from 6mmbbl.

The JV are currently targeting production of 1,800bopd with the longer-term goal of achieving 3,000bopd.

An uplift beyond our estimates could be achieved through;

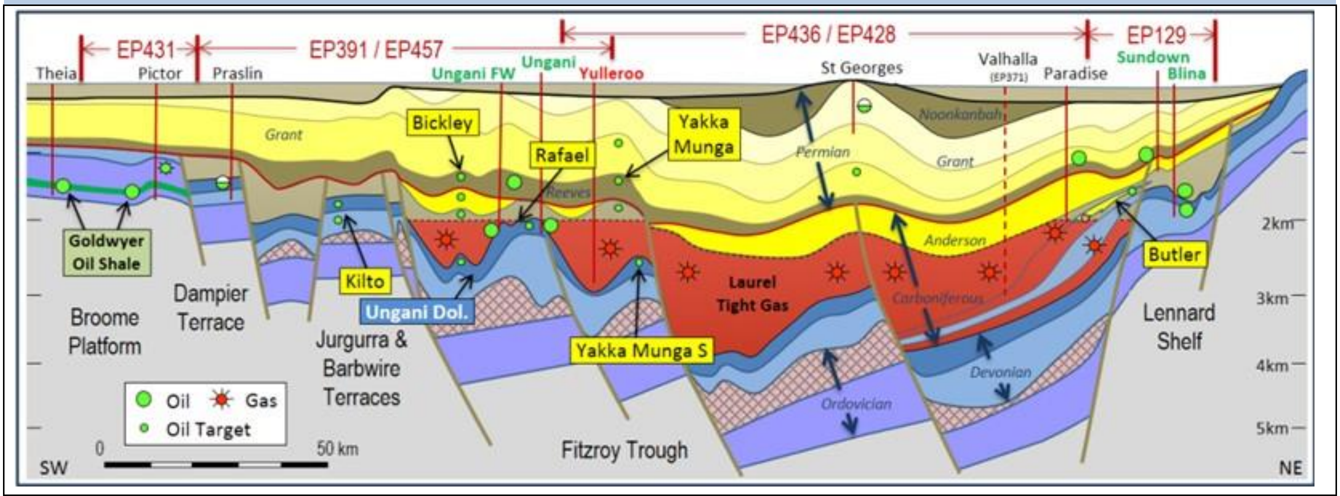
- The successful recompletion of the Ungani 4ST1 well.
- A boost from artificial lift at Ungani 5.
- Additional tie back opportunities could also add to overall production, such as a successful result at the Ungani West 1 exploration well (currently drilling), the Ungani 6 development well in the East and Ungani South 1 if drilled.
- Horizontal development wells if technically and commercially feasible.

Our Ungani field NPV10 is now A$67m (for 50% at US$75/bbl Brent) versus $89m previously This interestingly is now much more in line with the $64m which Roc Oil paid for their 50%.

Exploration Plans

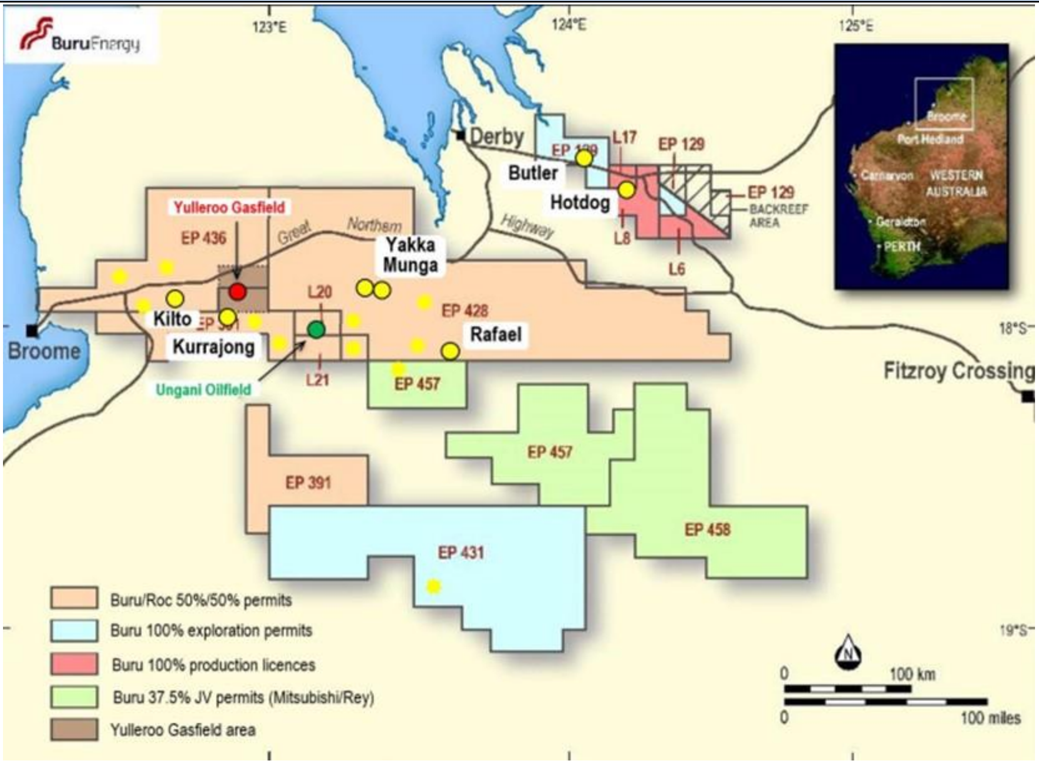
As part of the Roc Oil/Fosun deal, Roc Oil also acquired a 50% interest in exploration permits EP 391, EP 428 and EP 436 by agreeing to pay $20 million of a $25 million exploration program of up to four wells. The first well in the programme, Ungani West 1, is currently drilling. The next well could possibly be Ungani South 1 targeting the southern area of the field. The deeper Rafael oil prospect could be drilled in the 2019 drilling season.

Fig. 2: BRU Exploration Prospects – Cross Section



Source: BRU

Fig. 3: BRU Exploration Prospects - Location



Source: BRU

Ungani West 1: The Ungani West 1 well spudded in mid-October in Production License L20 about 1,600 metres to the west of the Ungani Production Facility. The well is being funded 80% by Roc Oil under the terms of the Farmin Agreement between the parties, with BRU contributing 20%. The Ungani West 1 well is being drilled by the DDGT1 rig to a total measured depth of circa 2,400 metres. If successful, the well will be tied back to the Ungani Production Facility (1,600m to the west) to allow for early production from the well.

In drilling to date, wireline logs and pressure data have indicated an oil column of up to five metres in a fair to good quality sandstone unit at the top of the Reeves Formation (1,625 metres to 1,640 metres), in the same stratigraphic position as the Reeves oil column in the Ungani Far West 1 well, circa 1.7km to the west of Ungani West 1. At Ungani Far West 1 there is a 5-metre oil bearing sand with an inferred 23 metre oil column in the Reeves section. This 'discovery' has to be further evaluated. The well is currently drilling into the primary Ungani Dolomite target. Once sufficient Ungani Dolomite reservoir section is penetrated, the well will be logged and the reservoir properties evaluated.

Ungani South 1: The JV are evaluating whether to drill an exploration well in the southern portion of the Ungani Field. This well could be drilled in January 2019, subject to weather.

Rafael 1: The JV have contracted the NGD Rig 405 (5,000m depth capacity) for the drill programme in 2019. This provides them with the capacity to drill the deeper Rafael 1 prospect, and to consider horizontal drilling on the Ungani field itself (it commercially and technically feasible). The 2019 exploration drilling program has a targeted start date of mid-April 2019.

Looking into 2019 the focus will turn more to the imminent exploration programme along the Ungani Trend. The difficulties with managing production at Ungani may somewhat dampen investor appetite for this programme (as generally similar structures are being targeted) however the risk/reward still looks exciting. The JV are targeting a now proven conventional oil play system over 150 kms. A range of prospect sizes and play types have been identified from proven Ungani Dolomite and Reeves discoveries to new high potential concepts for both oil and gas.

Fig. 4: Gross Prospective Resources

Recov. Oil mmbbls/TCF	Buru %	Low	Best	High
Rafael mmbbls	50%	34	75	142
Kurrajong mmbbls	50%	17	27	40
Yakka Munga mmbbls	50%	22	66	144
Kilto mmbbls	50%	11	17	25
Hotdog mmbbls	100%	10	22	45
Butler Convent. TCF	100%	0.3	1.5	3.0
Butler tight gas TCF	100%	0.5	2.1	6.6

Source: BRU

BRU and Roc Oil's exploration programme will be targeting 'best estimate' prospective resources in excess of 100mmbbls. We value BRU's 'risked' conventional and unconventional at just over 24c per share (unchanged). This compares to our updated base value for Ungani and Corporate of 24c per share (down from 31c per share). The latter continues to be roughly in line with the current share price, so as long as Ungani can deliver our updated assumptions (we note we have had to downgrade our valuation of Ungani by 34% over the past year), then the exploration upside is a 'free option' at the current share price based on our assumptions.

Rafael Prospect

Rafael is a very large well defined Ungani Dolomite prospect, located 50km to the east of Ungani. While it has a similar structural setting to Ungani it is estimated to be 16 times larger.

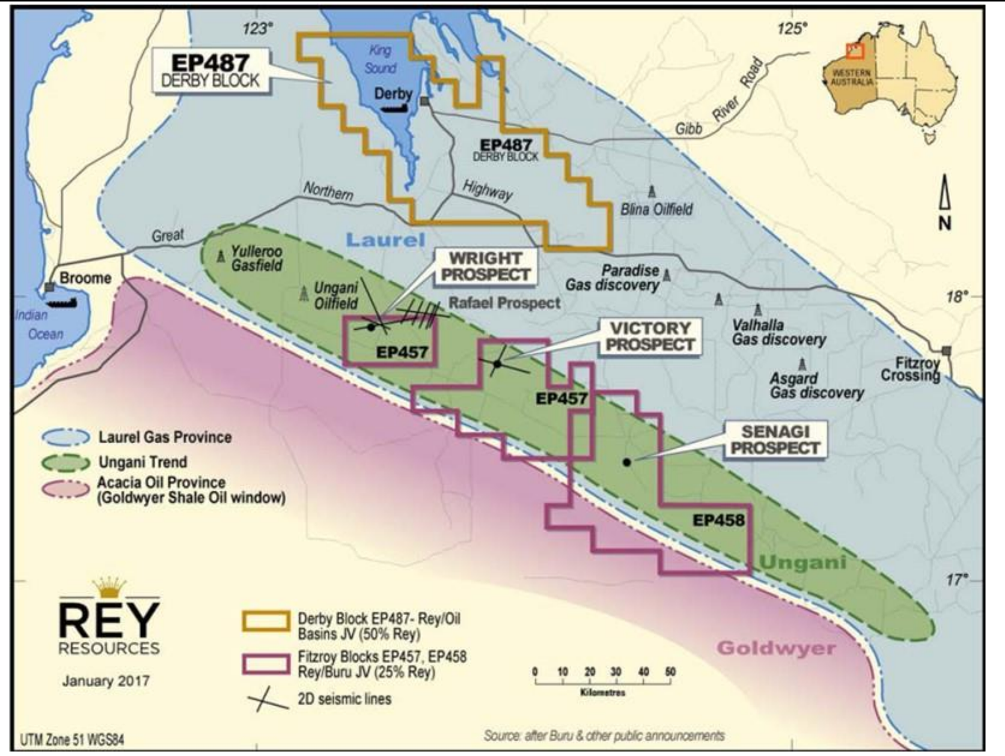
Fig. 5: Rafael Prospective Resources

Recov. Oil mmbbls	Low	Best	High
Rafael	36	75	138

Source: BRU

Importantly. the Laurel oil charge has been proven along the trend by the Victory-1 well. In 2015-2016, BRU and Rey Resources drilled the Victory and Senagi wells along the Eastern portion of the Ungani trend. *'The Senagi well encountered excellent reservoir in the Ungani Dolomite but was wet with minor shows. The Victory 1 well was drilled to test a mapped closure along trend from the Ungani oil field. Due to drilling difficulties, the primary target section of the well was not logged and no lithology samples were obtained. Although oil shows were encountered in the Grant Formation and traces in the deeper section, post well interpretation of the limited information obtained from the well suggests that the primary Laurel Formation target may not have been reached.'*

Fig. 6: Victory and Senagi Wells



Source: Rey Resources

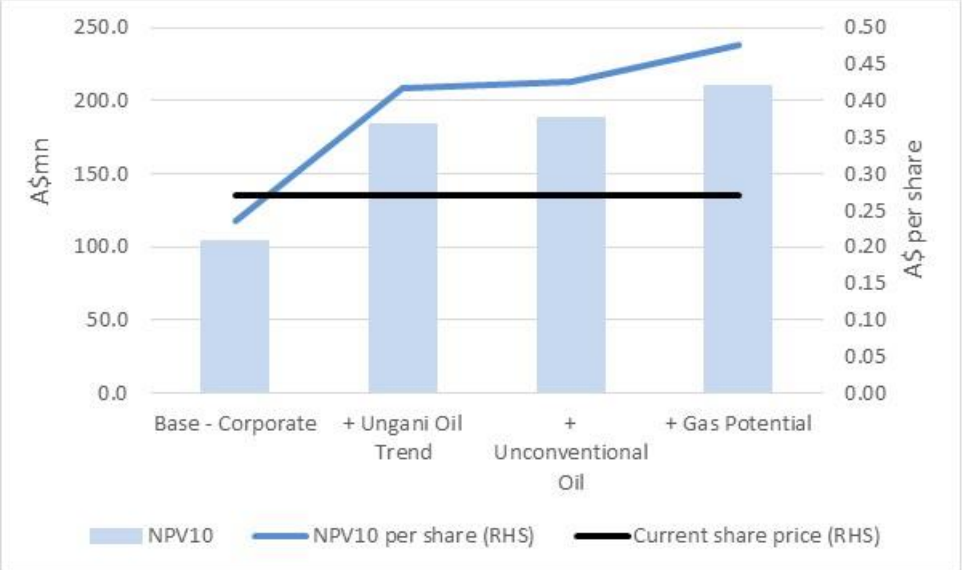
RECOMMENDATION, VALUATION & RISKS

INVESTMENT THESIS & RECOMMENDATION

Our 12-month forward valuation and target price has been downgraded to A$0.48 per share (from A$0.55 per share due to our more conservative assumptions on peak production rates and ultimate recoverable reserves). Our valuation contains a risked value (24c per share) for future oil potential along the Ungani Trend including a minimal value for the Goldwyer unconventional oil potential and Laurel Formation gas potential based on a peer value for similar early stage resource plays.

The key catalyst over the next 12 months that we expect will drive the current price up towards our target is now the fully funded Ungani trend exploration programme. On the basis of the upside to our 12-month target price and pipeline of catalysts we continue to rate BRU a Speculative Buy.

Fig. 7: BRU Valuation – Base Case



Source: Hartleys Research

RISKS

BRU is an oil and gas exploration and production company exclusively focused on the Canning Basin. The key risks for BRU (like most junior oil & gas companies) is a combination of exploration success and performance of the production assets (if any). Other risks are earnings disappointments given the industry is volatile and earnings can disappoint due to cost overruns, project delays, cost inflation, environmental regulations, resource estimate errors. Although some disappointments can be short term and are only a timing issue, other disappointments can be materially value destructive and can sometimes overhang stocks for a long period of time (for example over-estimating long-term flow rates). Such disappointments can be very difficult to predict and share price reactions can be severe and immediate upon disclosure by the company.

High financial leverage (if it exists at that time) would add to the problem. Investing in explorers is very risky given the value of the company (exploration value) in essence assumes that the market will recognise a portion of potential value before the results of an exploration program are known, conscious that the ultimate chance of success is low (typically 1%-20%) and that failure is much more likely, in most cases.

Fig. 8: Key assumptions and risks for valuation

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Ungani Production, Reserves and Exploration Upside.	Moderate to High	High	We assume that Ungani production averages 1,800bopd in CY19. This is reliant on a successful side-track of Ungani 4 and continued strong production at the other three wells. We also assume total recovery of circa 5.0mmbbl, below the circa 2C of 6m reported in 2016. While we feel (post farm out, Ungani drilling and recent rise in oil prices) that our exploration value is conservative, the repeatability of the success at Ungani remains untested.
Capital Commitments	Moderate	High	Drilling and completion costs have historically been very high in the Canning Basin but reduced in recent years due to the downturn in the industry and availability of lower cost services and equipment. The current cost of Ungani wells are A$4.5-6.0m to drill and complete (less than half what we estimate it would have cost at the peak of the last cycle). Going forward capital costs are likely to rise and fall with prevailing oil prices.
Oil Price and currency Forecasts	Moderate	High	From recent cyclical lows we had expected the Brent oil price to recover towards the top end of a US$40-60/bbl trading range in CY18 before breaking out to a higher US$60-75/bbl price band from CY19 as 'lower cost' onshore US production peaks. So, prices in our opinion obviously overshot in CY18, but the medium-term trend remains bullish and we retain a long run price forecast of US$75/bbl. The Ungani Oilfield and hence BRU is highly leveraged to the oil price. Our long run AUD / USD is US$0.75. A rising AUD would impact BRU negatively as they have a significant proportion of their cost base in AUD.
Western Australian drilling legislation	Moderate	High	BRU is currently exclusively focused on the Canning Basin in Western Australia. Hence it is at risk from changes to Petroleum Legislation and Title issues in the Canning Basin itself. Fracture stimulation is currently not allowed in WA, until a Government led review is complete. This will directly impact BRU's ability to explore its Goldwyer Unconventional Oil and Laurel Formation Gas potential.
Conclusion	*We have downgraded our production and reserve expectations for the Ungani Field post recent drilling results. The Company continues to drill new development, appraisal and near field exploration targets with the target of increasing production towards 3,000bopd. Compared to this our assumptions are conservative, but likely warranted given the results to date. We believe there is more upside when compared to downside risk to our Ungani field assumptions, however, performance to date has been below expectations. Looking forward the focus will shift to drilling some potential very high impact exploration targets, which the market does not seem to be valuing highly, offering potential material upside to the share price upon success.*		

Source: Hartleys Research

SIMPLE S.W.O.T. TABLE

Strengths	Extensive acreage position in the prospective Canning Basin. Production from the already discovered Ungani Oil Field. Experienced Management Team. Single Basin focus. Basin is relatively underexplored, providing a number of early stage prospective plays. Strong Balance Sheet.
Weaknesses	Basin is relatively underexplored with a number of uncertainties. Remains a relatively small player.
Opportunities	Leverage to rising oil prices. 4 fully funded wells targeting the large conventional oil targets on trend with the Ungani discovery. Unconventional oil potential looks promising in the Goldwyer Formation. Laurel Formation unconventional gas play still looks prospective, likely to get free kick from work undertaken by former JV partner. Given quality of gas source rocks in the Basin, we expect commercial scale conventional gas fields to exist (but given the size of the basin they will be difficult to find).
Threats	Highly leveraged to international oil prices. Exposure to the USD / AUD exchange rate. Western Australian drilling legislation (e.g. fracture stimulation ban) and land access issues (e.g. Native Title issues).

Source: Hartleys Research

HARTLEYS CORPORATE DIRECTORY

Research

Trent Barnett	Head of Research	+61 8 9268 3052
Mike Millikan	Resources Analyst	+61 8 9268 2805
John Macdonald	Resources Analyst	+61 8 9268 3020
Paul Howard	Resources Analyst	+61 8 9268 3045
Aiden Bradley	Research Analyst	+61 8 9268 2876
Oliver Stevens	Research Analyst	+61 8 9268 2879
Michael Scantlebury	Junior Analyst	+61 8 9268 2837
Janine Bell	Research Assistant	+61 8 9268 2831

Corporate Finance

Dale Bryan	Director & Head of Corp Fin.	+61 8 9268 2829
Richard Simpson	Director	+61 8 9268 2824
Ben Crossing	Director	+61 8 9268 3047
Ben Wale	Director	+61 8 9268 3055
Stephen Kite	Director	+61 8 9268 3050
Scott Weir	Director	+61 8 9268 2821
Scott Stephens	Associate Director	+61 8 9268 2819
Rhys Simpson	Associate Director	+61 8 9268 2851
Michael Brown	Executive	+61 8 9268 2822

Registered Office

Level 6, 141 St Georges Tce	**Postal Address:**
Perth WA 6000	GPO Box 2777
Australia	Perth WA 6001
PH:+61 8 9268 2888	FX: +61 8 9268 2800
www.hartleys.com.au	info@hartleys.com.au

Note: personal email addresses of company employees are structured in the following manner: firstname.lastname@hartleys.com.au

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 Buy	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.

Institutional Sales

Carrick Ryan	+61 8 9268 2864
Justin Stewart	+61 8 9268 3062
Simon van den Berg	+61 8 9268 2867
Digby Gilmour	+61 8 9268 2814
Jayme Walsh	+61 8 9268 2828
Veronika Tkacova	+61 8 9268 3053

Wealth Management

Nicola Bond	+61 8 9268 2840
Bradley Booth	+61 8 9268 2873
Adrian Brant	+61 8 9268 3065
Nathan Bray	+61 8 9268 2874
Sven Burrell	+61 8 9268 2847
Simon Casey	+61 8 9268 2875
Tony Chien	+61 8 9268 2850
Tim Cottee	+61 8 9268 3064
David Cross	+61 8 9268 2860
Nicholas Draper	+61 8 9268 2883
John Featherby	+61 8 9268 2811
Ben Fleay	+61 8 9268 2844
James Gatti	+61 8 9268 3025
John Goodlad	+61 8 9268 2890
Andrew Gribble	+61 8 9268 2842
David Hainsworth	+61 8 9268 3040
Murray Jacob	+61 8 9268 2892
Gavin Lehmann	+61 8 9268 2895
Shane Lehmann	+61 8 9268 2897
Steven Loxley	+61 8 9268 2857
Andrew Macnaughtan	+61 8 9268 2898
Scott Metcalf	+61 8 9268 2807
David Michael	+61 8 9268 2835
Jamie Moullin	+61 8 9268 2856
Chris Munro	+61 8 9268 2858
Michael Munro	+61 8 9268 2820
Ian Parker	+61 8 9268 2810
Matthew Parker	+61 8 9268 2826
Charlie Ransom	+61 8 9268 2868
David Smyth	+61 8 9268 2839
Greg Soudure	+61 8 9268 2834
Sonya Soudure	+61 8 9268 2865
Dirk Vanderstruyf	+61 8 9268 2855
Samuel Williams	+61 8 9268 3041

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