

GICS: Energy/Oil & Gas Exploration & Production

Business Summary: Interra Resources is an oil exploration & production company, listed on the SGX and the ASX. Its assets include stakes in two onshore fields in Myanmar (Yenangyaung & Chauk), two onshore fields in Indonesia (Tanjung Miring Timur and Linda Sele) and an exploration block (PEP 167) in onshore Otway Basin, Australia.

Country of Incorporation: Singapore

Head Office Location: 1 Grange Road, #05-04 Orchard Building, Singapore 239693

Place of Operations: Singapore

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Analyst: Lorraine Tan, CFA / Ahmad Halim, CFA

**Investment Highlights**

- **E&P company with regional assets.** Interra's main business is the exploration of potential petroleum reserves, field development and the production of crude petroleum. Its main producing assets are located in Central Myanmar, and South Sumatra and West Papua in Indonesia. Interra also owns an exploration block in onshore Southeast Australia.
- **Growing production with upside potential.** Continuing production growth from its Myanmar assets, as well as contribution from the Linda Sele field, should drive earnings growth for 2011. Longer-term growth could be driven by a successful deeper drilling program at Myanmar in 2012, and also the successful development of PEP167.
- **Crude oil prices to remain volatile.** Oil demand & supply should remain tight in 2011-12, and inventory drawdowns should continue, on Libyan supply disruptions. There is downside risk to our WTI crude assumptions (average USD101/bbl in 2011 and USD104/bbl in 2012), if current market weakness continues.
- **Reported profit to fall 9.2% YoY.** This is due to net one-off gains in 2010. Stripping these out, we expect Interra's bottomline to rebound by close to 55.2% YoY in 2011, on a 13.3% increase in Interra's portion of shareable production and a 26.7% increase in crude ASPs.

Key Investment Risks

- **Declining Indonesian assets.** The TMT TAC is facing substantial decline rates, but this may be arrested by Interra's acquisition of the remaining 30% stake and the assumption of operatorship.
- **Net production is sensitive to total field growth/decline.** The structure of its production contracts reward Interra for production growth over decline rates scheduled by the contract. Conversely, if Interra fails to push production growth above the pre-defined decline rates for the field, its portion of shareable production will decline at a faster proportionate rate than the total production decline rate. This is a risk shared by E&P contractors worldwide.
- **Volatile earnings.** Interra's earnings are highly leveraged to crude oil prices, which in itself may be subject to significant volatility. Further sources of earnings volatility can come from write-offs of exploration costs and write-offs of concessions if explorations fail to reveal commercial reserves.
- **Payment risk.** The counterparty to Interra's production contracts in Myanmar is the Myanmar Oil & Gas Enterprise (MOGE). MOGE had a poor payment track record, but has improved significantly since 2008. A return to its previous form would have a negative impact on Interra's cashflow, earnings and working capital requirements.

Key Stock Statistics

52-week Share Price Range (SGD)	0.11 - 0.19
Avg Vol - 12 months ('000 shares)	829.2
Price Performance (%)	
- 1 month	-19.2
- 3 month	-21.3
- 12 month	-18.6
No. of Outstanding Shares (mln)	295.4
Free Float (%)	62.0
Market Cap (SGD mln)	34.9
Enterprise Value (SGD mln)	12.1
Major Shareholders (%)	
E. Soeryadjaya and S. Salahuddin Uno	17.9
Supianto Arpan Sumodikoro	11.8

Per Share Data

	2009	2010	2011E	2012E
FY Dec.				
Book Value (US cents)	13.74	14.26	15.08	15.19
Cash Flow (US cents)	0.8	0.7	0.6	1.1
Reported Earnings (US cents)	0.6	0.7	0.5	0.6
Dividend (US cents)	0.0	0.0	0.0	0.0
Payout Ratio (%)	0.0	0.0	0.0	0.0
PER (x)	16.9	14.6	17.8	15.7
P/Cash Flow (x)	11.6	14.9	15.0	8.9
P/Book Value (x)	0.7	0.7	0.6	0.6
Dividend Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0.7	2.8	3.9	4.1
Net Gearing (%)	0.0	0.0	0.0	0.0

All required disclosures and analyst certification appear on the last two pages of this report. Additional information is available upon request.

Background

Interra Resources Limited (Interra) was originally founded in August 1994 as Goldwater Company Ltd (Goldwater), whose business purpose was the exploration and production of crude oil and gas.

The company was listed on the SGX Sesdaq in July 2003 as Interra Resources Limited, via a reverse takeover of Van der Horst Limited. In June 2008, Interra was listed on the ASX. In January 2010, Interra transitioned to the SGX Catalist, which is a sponsor-supervised regime.

Its assets were acquired over a number of years. In October 1996 Goldwater acquired its first operating contracts, which were 100% operating stakes in two Improved Petroleum Recovery Contracts (IPRC), the Yenangyaung and Chauk IPRCs in Myanmar (later reduced to 60% via a farm-out to Geopetrol Singu Inc).

In April 2004, Interra acquired a 70% non-operating stake in the Tanjung Miring Timur (TMT) Technical Assistance Contract (TAC) in South Sumatra. Interra recently announced in June 2011 the proposed acquisition of the remaining 30% stake in the venture, subject to approval from government agencies, and will assume operatorship on completion.

In December 2009, Interra acquired a 50% participating interest in the Petroleum Exploration Permit (PEP) 167, located in the Otway Basin in Western Victoria, Australia. Finally, in January 2011, Interra acquired a 100% participating and operating interest in the Linda Sele TAC, West Papua.

Interra's main business is the exploration of potential petroleum reserves, field development and the production of crude petroleum. A portion of the oil produced from its fields in Myanmar and Indonesia (called the "non-shareable" production) is first taken up by Myanmar Oil & Gas Enterprise (MOGE) and Pertamina respectively, according to respective contracts. The balance is shared between the parties, after netting off certain amounts according to terms and conditions of each contract. Interra's share of the oil produced is sold on the international markets, with prices benchmarked to the Sumatran Light Crude price (with the exception of Linda Sele production, which is sold at Walio Mix price).

Interra's board of directors is headed by major shareholders Mr Edwin Soeryadjaya and Mr Sandiaga Salahuddin Uno, who are two of the founding partners of Interra. Another major shareholder, Mr Subianto Arpan Sumodikoro, also sits on the board of directors as a non-executive director. Interra's chief executive officer, Mr Marcel Han Liong Tjia, holds a seat on the board of directors as an executive director. The balance of Interra's board of directors is drawn from a diverse background, from diversified mining, legal and accounting.

Board of Directors

Name	Title	Appointment Date
Edwin Soeryadjaya	Chairman	1 July 2005
Sandiaga Salahuddin Uno	Deputy Chairman	1 July 2005
Subianto Arpan Sumodikoro	Non-executive Director	14 December 2004
Marcel Han Liong Tjia	Executive Director, CEO	20 June 2009
Allan Charles Buckler	Independent, non-executive director	14 December 2004
Ng Soon Kai	Independent, non-executive director	1 November 2005
Low Siew Sie Bob	Independent, non-executive director	18 February 2011
Pepen Handianto Danuatmadja	Alternate director to Subianto Arpan Sumodikoro	18 February 2011

Source: Company data

Board Independence

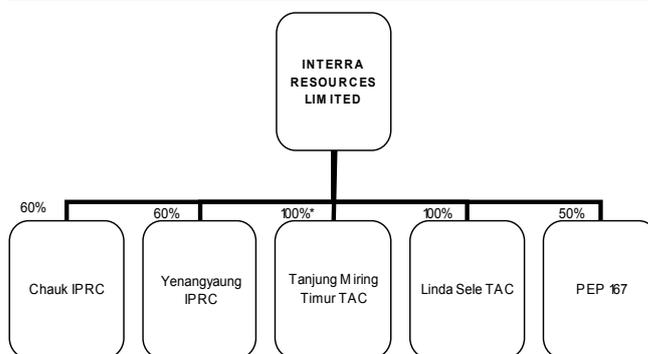
The board of directors consists of seven members, three of whom are independent directors. The chairman and the CEO's role is split between Mr Edwin Soeryadjaya (who is also a major shareholder in the company, via his deemed 17.91 % stake in the company) and Mr Marcel Han Liong Tjia respectively. The independent directors are fairly represented in the Audit Committee (two of three), Nominating Committee (three of four) and Remuneration Committee (three of four).

Key Management

Name	Title	Date of Appointment
Marcel Han Liong Tjia	Chief Executive Officer	June 2009
Frank Overall Hollinger	Chief Technical Officer	July 2006
Foo Say Tain	Chief Financial Officer	November 2007

Source: Company data

Corporate Structure



Source: Company data. *Subject to approval from government agencies

Key Subsidiaries & Associates

100%-owned Goldwater Company Limited owns Interra's interests in the Chauk and Yenangyaung Myanmar IPRCs, which are operated by its 60%-owned Goldpetrol Joint Operating Company Inc.

100%-owned Goldwater TMT Pte Ltd owns Interra's 70% stake in TMT TAC (in the process of being increased to 100%).

100%-owned Goldwater LS Pte Ltd owns Interra's 100% stake in the Linda Sele TAC, via its subsidiary IBN Oil Holdico Ltd.

100%-owned Interra Resources (Australia) Pte Ltd owns Interra's 50% stake in PEP 167.

Business Segments / Key Revenue Streams

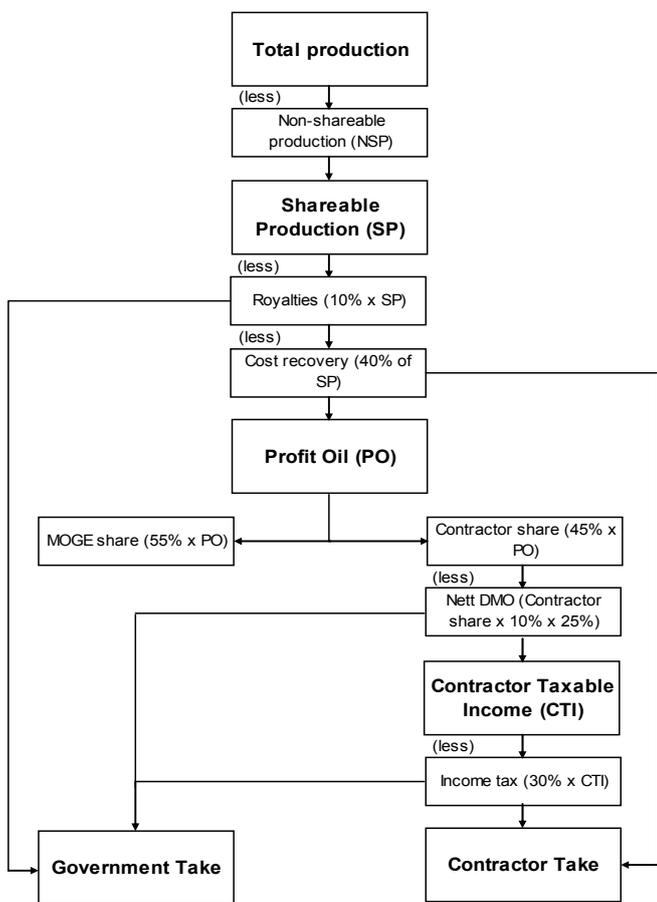
Interra's revenue is driven by the sales of crude oil from its four producing fields. Under the contracts signed with the respective national oil company (NOC), a portion of the oil produced from its fields in Myanmar and Indonesia (called the "non-shareable" production, or NSP) is first taken up by the relevant NOC, according to predefined schedules in the respective production contract. Production in excess of the NSP is called shareable production (SP).

The structure of Interra's production contracts, and especially the obligation to give up the NSP portion of production (which is imposed on all contractors working in Myanmar and Indonesia) is such that it rewards the contractor for growth in excess of the scheduled decline rates, and vice versa.

Hence, any production growth over and above the projected decline rates will have a larger proportionate impact on Interra's portion of shareable production, and this explains the strong growth recorded at the Myanmar IPRCs since 2007 (3-year compound average growth rate - or CAGR - of 20.6%, vs. total field production growth of 2.5% over the same period). Similarly, if actual production declines faster than projected decline rates, this will have a greater proportionate impact on Interra's portion of shareable production (e.g. TMT TAC, where total production declined by 33.6% and 38.1% YoY in 2009 and 2010 respectively, which led to Interra's portion of shareable production declining by 34.1% and 39.3%).

The chart below details the contract structure for Interra's Myanmar production:

Myanmar IPRC structure



Source: Company data

Amounts netted off for Myanmar production include:

- Royalties for Myanmar production (10% of Myanmar SP)
- Cost recovery – 40% of SP. This amount is added back to the eventual contractor take as compensation for costs incurred in developing the fields.
- Domestic Market Obligations (DMO) nett of DMO fees – 10% x contractor share x 25%
- Income tax – 30% x CTI

Indonesian production is subject to a similar structure, with amounts netted off including:

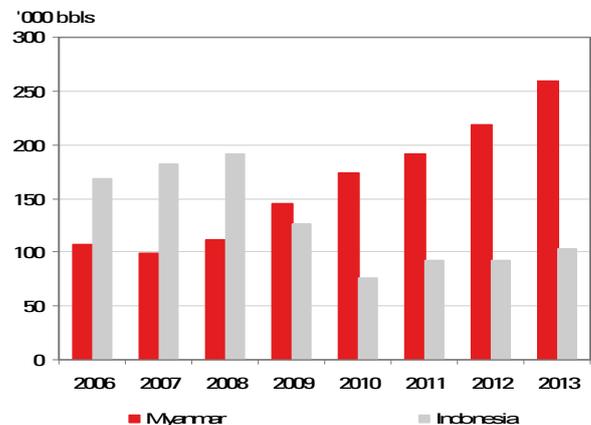
- Cost recovery – 65% of shareable production

- DMO – 25% x 26.8% x shareable production. This kicks in only when the unrecovered cost pool is zero.
- DMO fees due to contractor – add back DMO x 15%.
- Income tax – 44% x CTI

Interra's share of the oil produced for both Myanmar and Indonesia (with the exception of Linda Sele TAC) is sold on the international markets, with prices benchmarked to the Sumatran Light Crude price. Linda Sele production is benchmarked to Walio Mix crude price. Interra has a policy of not hedging its exposure to oil prices.

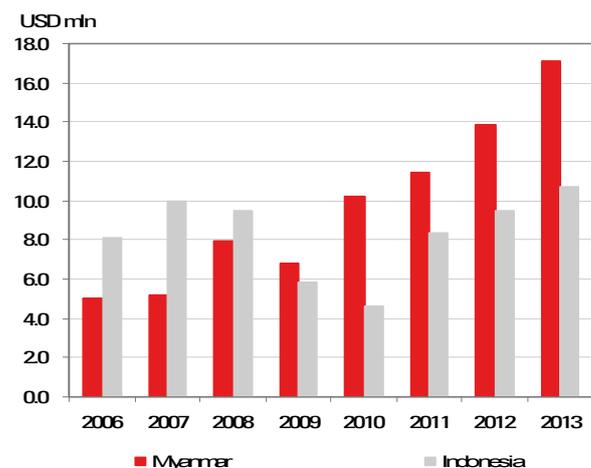
Indonesian production used to command the bigger share of Interra's total crude oil production. However, rapid decline rates at TMT in 2009 and 2010, combined with strong growth from Myanmar meant that in 2010, Myanmar production accounted for 70% of total shareable production, vs. just 39% in 2006. Accordingly, revenue contribution from Indonesia also declined by 22.5% p.a. from the peak in 2007 to 2010.

Shareable production by country



Source: Company data, S&P Equity Research

Revenue by country



Source: Company data

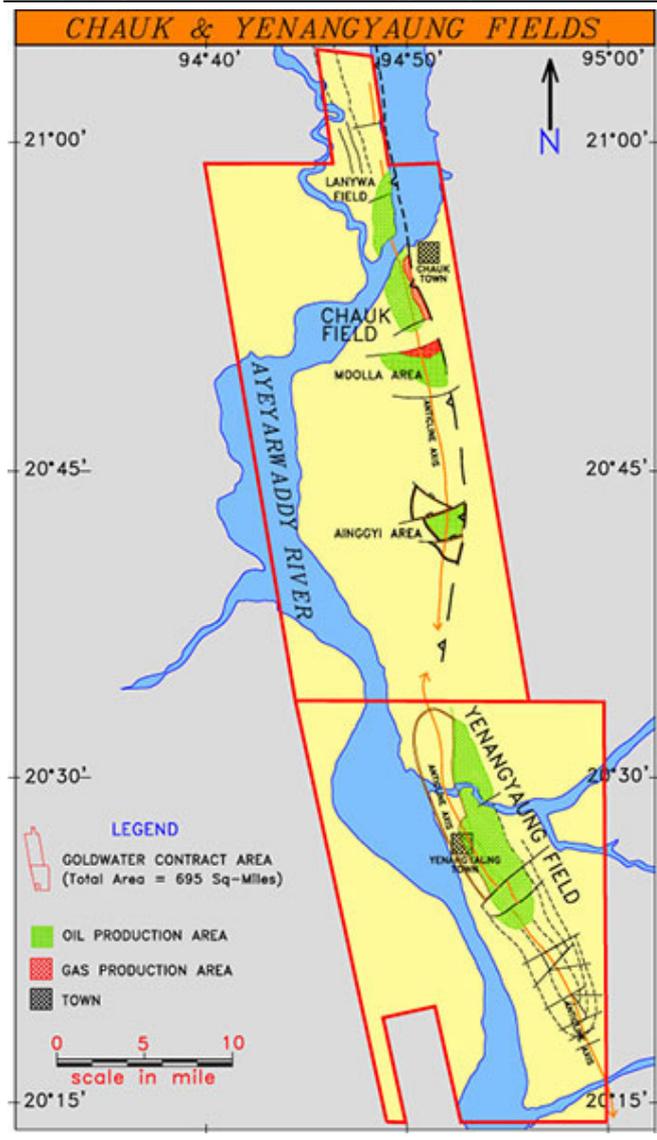
Myanmar: Yenangyaung and Chauk IPRC

The Myanmar IPRCs commenced on October 1996, and will run until April 2017. Interra holds 60% of the rights and interests under the two IPRCs.

The Yenangaung and Chauk fields, located along the Ayeyarwaddy River some 580 km north of Yangon, are considered two of the largest onshore fields in Myanmar, and are managed and operated jointly with Interra's JV partner via Goldpetrol Joint Operating Company Inc. The fields are next to each other, and cover a combined total area of about 1,800 sq km.

As of 2010, total production from Yenangaung stood at 607,457 bbls of oil, while Chauk production was 181,420 bbls. Interra's portion of the shareable production from the two Myanmar IPRCs, meanwhile, amounted to 174,372 bbls in 2010, up 20.5% YoY.

Geography of the Chauk & Yenangaung Fields



Source: Company data

Since 2007, the Myanmar IPRCs have yielded a 20.6% CAGR to 2010, based on Interra's portion of the shareable production. The strong growth recorded so far was due to Interra's successful strategy of shallow development well drillings and the re-opening of old, shut-in wells, as well as its ability to grow actual production faster than projected decline rates, as explained above.

1H11 total production from the Myanmar IPRCs stood at 395,467 bbls (-0.5% YoY). Interra's portion of the shareable production was 93,577 bbls (+5.9% YoY).

Indonesia: TMT TAC

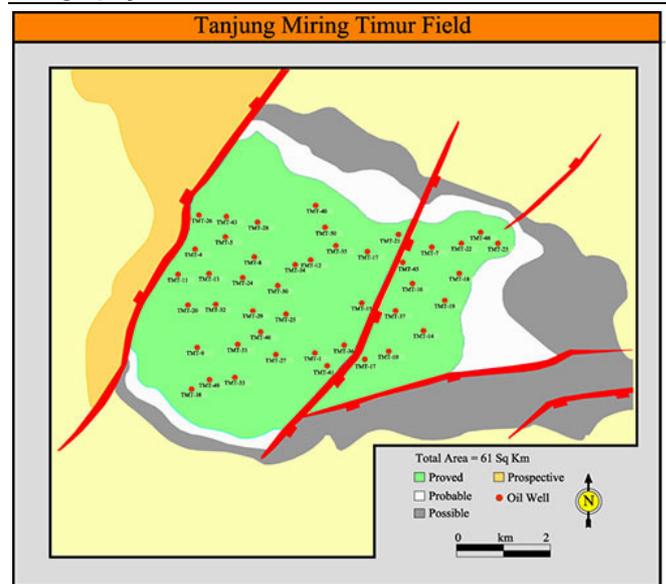
Interra currently owns a 70% participating interest in the Tanjung Miring Timur TAC. The contract commenced in December 1996 for a period of 20 years, and is currently operated by PT Retco Prima Energy. In June 2011, Interra announced the proposed acquisition of the remaining 30% stake in the venture for USD6.9 mln, and the company will assume operatorship of the TAC upon completion of the deal.

The onshore TMT field, discovered in 1951, is located in South Sumatra, about 120 km southwest of Palembang and covers an area of approximately 61 sq km. During 2010, gross production from the field amounted to 118,402 bbls of oil, while Interra's portion of the shareable production from TMT was 76,606 bbls.

Total production from TMT has dropped by 34% and 38% over 2009 and 2010. The drop in 2009 was due to: (i) mechanical and equipment difficulties encountered by the operator throughout the year; (ii) delays in the completion of a development well (drilling commenced in 2008, but was only completed in early 2009) which had a negative effect on maintaining production levels; and (iii) activity levels were also kept at a minimum. In 2010 no new drillings were undertaken (which meant there was no additional production to offset rapid decline rates at existing wells), pending the interpretation of 3D seismic data acquired in 1Q11.

1H11 total production from the TMT TAC stood at 49,059 bbls (-24.6% YoY). Interra's portion of the shareable production was 32,208 bbls (-23.8% YoY).

Geography of the TMT Field



Source: Company data

Indonesia: Linda Sele TAC

Interra acquired a 100% participating and operating interest in the Linda Sele TAC on 24 January 2011. Its 100%-owned subsidiary, IBN Holdico Oil Ltd (IOH) is the operator of the onshore field, which is located about 60 km south of Sorong City in West Papua.

The field covers an area of approximately 15 sq km, and the TAC with Pertamina commenced on 16 November 1998, for a total period of 20 years.

As of 1H11, total production from Linda Sele was 19,879 bbls, while Interra's portion of shareable production stood at 16,031 bbls.

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Total 1P reserves from Linda Sele stands at 9.6 mln bbls as of 2007, while 3P reserves (defined as proved + possible + probable reserves) stand at 10.1 mln bbls. Production from Linda Sele TAC is sold and benchmarked to Walio Mix crude prices.

Geography of the Linda Sele Fields



Source: Company data

Australia: PEP 167

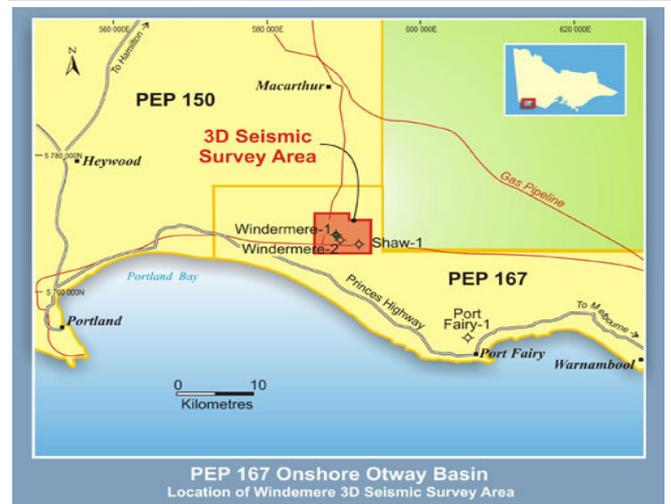
Located in Southeast Australia in the onshore Otway Basin, PEP 167 commenced on 2 July, 2007, with an initial exploration work program of five years. Interra acquired a 50% participating interest in the permit via a farm-in with its joint venture partner Bass Strait Oil Company Ltd (BSO) in November 2009. BSO remains the operator of the permit. Under the farm-in deal, Interra agreed to pay AUD0.3 mln (USD0.2 mln) for the 50% participating stake, plus a commitment to fund total seismic survey costs up to AUD1.8 mln (USD1.5 mln), with any seismic costs in excess of the cap to be charged equally to both parties.

The PEP 167 block covers an area of 833 sq km and is located near Portland in Western Victoria. It contains two discovery wells, the 2002 Port Fairy-1 and the 1987 Windermere-1 oil wells. The current focus for the venture is to appraise the Windermere-1 discovery, as this discovery, located within low permeability Heathfield sands of the Early Cretaceous mid Eumeralla Formation, is now considered a clear candidate for commercial development using horizontal drilling technology.

Studies completed for the block include 3D seismic acquisition (completed following the farm-in), seismic processing, interpretation and mapping, reservoir engineering studies, and petrophysical evaluations for key wells. According to BSO presentations to ASX, and based on data obtained from the recent 3D survey, the Greater Windermere oil zone (with three mapped closures A, B and C) has an area of 6 sq km and estimated P10 prospective resource (i.e. there is at least a 10% probability that the quantities actually recovered will equal or exceed – this is similar to a 3P classification under the Society of Petroleum Engineers guidelines) of 35.5 mln bbls of oil.

A drill site has already been selected in the Windermere A closure, which is targeted to contain a P50 (similar to a 2P classification) reserve size of 3.36 mln bbls oil-in-place, or about 0.95 mln bbls of recoverable oil. This new appraisal well will be drilled in 4Q11.

Geography of the PEP 167 Block



Source: Company data

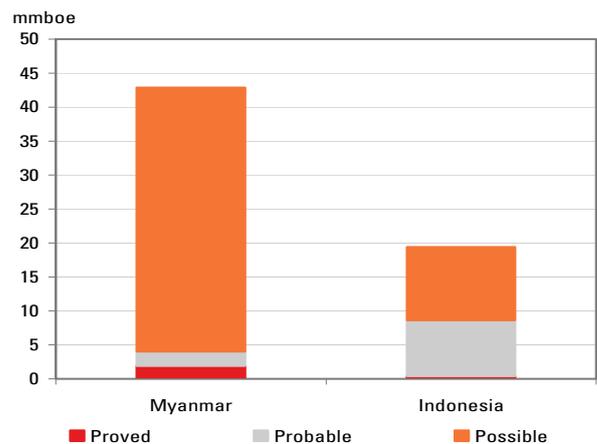
Total reserves

Interra's total gross reserves on a 3P basis as of 31 December 2010 stand at 42.9 mmboe and 19.4 mmboe for Myanmar and Indonesia respectively. Disclosed 2P (proved + probable) gross reserves as of 31 December 2010 stand at 4.0 mmboe and 8.6 mmboe respectively.

This figure refers to estimated oil & gas reserves in the ground before the application of the contractual arrangements with the relevant host governments with regards to produced hydrocarbons. This figure also excludes the reserves from the Linda Sele TAC, whose acquisition was only completed in January 2011. If we include total 3P reserves from Linda Sele of some 10.1 mln bbls, total gross reserves on a 3P basis would be 42.9 mmboe for Myanmar and 29.5 mmboe for Indonesia.

In addition, no reserves have been booked from PEP167, given that the appraisal well has yet to be drilled.

Interra's gross reserves as of 31 December 2010



Source: Company data. Excluding Linda Sele TAC, acquisition of which was completed in January 2011.

Industry Landscape

Interra's revenue and profits are driven by two main factors: production and crude oil prices. Interra's share of the oil produced for both Myanmar and Indonesia (with the exception of output from the Linda Sele TAC) is sold on the international markets, with prices benchmarked to the Sumatran Light crude price. Linda Sele TAC production is sold at Wallo Mix crude price.

Our 2011 crude price assumption for WTI currently stands at USD101/bbl for 2011 and USD104/bbl for 2012. Given the recent fall in crude oil prices to about USD85/bbl for WTI, there is downside risk to our assumptions, as well as Interra's forecast earnings.

Despite concerns over the pace of the global economic recovery, sovereign debt issues in the Eurozone, and the political brinkmanship over the debt ceiling in the United States, we continue to see relatively strong consumption growth for 2011 and 2012. Based on a combination of August data from EIA and S&P Equity Research estimates, we expect 2011 oil consumption growth to average about 1.4 mbpd (+2.0% YoY), while 2012 oil consumption is expected to increase by 1.59 mbpd (+1.8% YoY). In 2010, much of the growth was accounted for by non-OECD countries, while the U.S. was the only OECD country that saw significant growth.

We expect this trend to continue into 2011-2012, as non-OECD countries, including China, Brazil and countries in the Middle East region, are expected to lead world economic growth, albeit at a slower pace vs. 2010. Asia Pacific ex-Japan countries are likely to record GDP growth rates double that of the U.S. and Eurozone, which will remain hampered by slow consumption growth and high unemployment. OECD countries are not expected to show any significant growth in oil demand between now and 2012.

Oil supply is expected to increase 0.76 mbpd (+1.0% YoY) in 2011, vs. a 2.12 mbpd growth in 2010. The slow production growth is due to a decline in OPEC crude production on the Libyan oilfield shutdowns. OECD production is expected to be flat, as growth in Canadian and U.S. production is expected to be offset by declines in Mexican and North Sea output. U.S. production is expected to see only a slight YoY growth vs. a 5.6% YoY growth in 2010, due to the lingering effects of the GoM drilling moratorium.

OPEC production is expected to grow by 0.27 mbpd in 2011, but this is driven by unregulated non-crude production (+0.52 mbpd). OPEC crude production is expected to decline by 0.36 mbpd, on lost Libyan capacity offset by increased Saudi production. Our earlier expectation of an inventory drawdown to offset the OPEC tightness was met by the IEA's recent release of 60 mln bbls of oil from strategic inventories. We expect the global crude oil market will continue to tighten in 2012, with OPEC crude oil production increasing by 0.49 mbpd, and accentuated by OPEC non-crude production growing by 0.41 mbpd.

While crude oil price volatility has increased following the broad market sell-down in early August, we note that fundamentals continue to point toward a tight oil market, at least until 2012. Inventory drawdowns should be fairly high during the year, on Libyan production cuts and higher demand from quake-afflicted Japan. OPEC spare capacity is expected to decline to about 3.6 mbpd on average in 2011 and 3.4 mbpd in 2012, vs. 3.9 mbpd-4 mbpd in 2009-2010, indicating a significantly tighter market. Barring any further geopolitical disruptions, the situation should ease beyond 2012 as lost Libyan production comes back online and/or other OPEC countries boost supply.

Growth Strategy

For its Myanmar IPRCs, Interra aims to continue its strategy of drilling shallow to intermediate depth wells using in-house rig to develop producing reservoirs that are not currently drained by existing wells. This infill drilling strategy will be augmented by selective re-entry and reactivation of old wells that have been identified from geologic and reservoir studies. Further, Interra has acquired approximately 278 km of 2D seismic data in 2010, and interpretation was completed in 2Q11. Thus far, Interra has already identified drillsites for deeper drilling; subject to local authority approvals, this new phase of its drilling program could begin in 2012.

For TMT TAC, Interra is in the process of acquiring the balance of the 30% interest currently held by the operator. A 40 sq km 3D seismic survey was completed in 1Q11, and data interpretation is underway to better understand the subsurface geometry and reservoir characteristics. TMT's declining production continues to be under review, and no new drillings are planned until after the completion of the 3D data interpretation.

For Linda Sele TAC, Interra is planning to repair or replace the existing equipment in the field in order to increase production from existing wells in the near-term. Over the longer term, Interra is undertaking reservoir engineering and petrophysical studies in order to maximise production potential.

For PEP 167, a firm appraisal well drilling site, called Windermere-3, has been chosen, following the completion of the seismic data acquisition and interpretation. However, plans to drill the appraisal well in 2Q11 have been pushed back to 4Q11 due to inclement weather. Well design and planning with respect to materials and services have been either completed or are at an advanced stage.

In terms of new acreage, Interra will continue to look out for opportunities in Southeast Asia and Australia, with particular focus on Myanmar and Indonesia.

SWOT Analysis

Strengths

- Dedicated management and operational team. For instance, its chief technical officer, Mr Frank Overall Hollinger, has spent the last 13 years in the Myanmar E&P business, and has a total of 35 years experience in the oil industry.
- Strong working relationship with the host countries.

Weaknesses

- Exposed to oil price volatility. Earnings volatility is also increased by write-offs of exploration costs and concession costs in cases of unsuccessful exploration.
- Rapidly declining TMT production could crimp Interra's share of the production from the field, but this could be arrested by Interra's assumption of operatorship for the field.
- Low ROEs due to unleveraged balance sheets

Opportunities

- Net cash position allows for M&A possibilities
- Potential for deeper drilling in Myanmar to boost production

Threats

- The structure of its production contracts rewards Interra for production growth over that scheduled by the contract.

Conversely, if Interra fails to push production growth above the pre-defined decline rates for the field, its portion of shareable production will decline at a faster proportionate rate than the total production decline rate. This is a risk shared by E&P contractors worldwide.

- While the payment track record from MOGE has improved, a return to previous late payments could increase Interra's working capital requirements and/or increase receivable write-offs.

Recent Key Developments

August 2011: Interra announces 1H11 net profit of SGD0.8 mln (+57% YoY), driven by a 41% YoY increase in revenue to SGD10.8 mln. Interra's portion of total shareable production increased to 141,816 bbls (+8.5% YoY), driven by a 5.9% YoY increase in its share of Myanmar production, as well as maiden contribution from the Linda Sele TAC. Production from TMT continued to decline, down 23.8% YoY.

June 2011: Interra announces the proposed acquisition of the remaining 30% stake in the TMT TAC for USD6.9 mln.

April 2011: Interra announces the delay of Windermere-3 drilling to 4Q11 due to wet weather conditions.

April 2011: Completes placement of 38.5 mln shares at a placement price of SGD0.126 per share.

March 2011: Announces proposed placement of 38.5 mln shares to raise net proceeds of SGD4.8 mln, for the purposes of future acquisitions of oil and gas concessions.

January 2011: Completes the acquisition of 100% of IOH.

January 2011: Relinquishes its concession rights in the Thai onshore petroleum exploration block L9/48. Interra now no longer holds any rights, benefits or obligations with respect to any concessions in Thailand.

December 2010: Relinquishes its concession rights in the Thai onshore petroleum exploration block L17/48, but retains block L9/48 for assessment.

August 2010: Announces the proposed acquisition of 100% of IOH from Merona Capital Ltd for USD6.25 mln cash. IOH owns a 100% participating interest in the Linda Sele TAC with Pertamina.

Management Guidance

Management expects to see continued production growth from the Myanmar IPRCs, on both infill drilling and reactivation of old wells. The upside could come from deeper drilling in Myanmar, especially once the 2D data acquired in 2010 is fully interpreted. Management is confident that following the completion of the acquisition of the remaining 30% stake in the TMT TAC, and the assumption of operatorship of the field, production levels at TMT TAC will improve, despite the declining trend of recent years. Further, Linda Sele TAC will also contribute to production growth for 2011.

In terms of capex, Interra is guiding for about USD4 mln in capex for 2011, mainly from seismic data acquisition for TMT TAC (USD2 mln), and the drilling of one well in PEP 167 (USD1.9 mln).

Earnings Outlook

We expect 2011 net profit to slip to USD1.6 mln (-9.2% YoY), but mainly due to the lack of exceptional gains in 2011. 2010 net profit was boosted by gains on the writeback of exploration, evaluation and development (EED) costs (USD3.0 mln), writeback of impaired receivables (USD2.0 mln) and forex gain (USD0.6 mln), offset by impairment of EED costs (-USD2.2 mln) and impairment of concession rights (-USD2.3 mln), for a net gain of USD1.1 mln.

On an adjusted basis (net of the effective tax rate), we expect 2011 net profit to grow by 55.2% YoY, vs. 2010's adjusted net profit of USD1.0 mln.

2011 growth will be driven by a 33.5% growth in revenue, which in turn is driven by higher portion of shareable production (+13.3% YoY in our assumptions to 284,302 bbls in 2011) as well as higher average crude prices (our assumption for 2011 stands at USD103/bbl – 26.7% higher YoY). Higher production is mainly driven by higher Myanmar production, maiden contribution from Linda Sele TAC as well as a greater share of TMT production post completion of the acquisition of the remaining 30% stake in the TAC.

Peer Comparison

We have compared Interra to two other oil and gas E&P companies, Strike Energy and Amadeus Energy, both of which are listed in Australia. Strike operates mainly in Australia and onshore Texas, while Amadeus' acreage is mainly located in onshore Louisiana, Texas and Oklahoma. While these companies are bigger in terms of revenue and market capitalization, other companies which are closer to Interra's size are not covered by any analysts, and hence earnings estimates are not available.

	Interra Resources	Strike Energy	Amadeus Energy
Share Price @ 16 August 2011	SGD0.116	AUD0.15	AUD0.215
Mkt. Cap (USD mln)	28.5	69.1	63.4
PER Historical (x)	14.0	n/m	n/m
PER Current Year (x)	17.1	15.0	21.5
P/NTA Historical (x)	0.91	1.07	0.60
Latest FY (mln)			
Revenue	USD14.9	AUD14.4	AUD44.3
Pre-Tax Profit, as reported	USD2.9	-AUD6.1	-AUD2.1
Net Profit, as reported	USD1.7	-AUD6.1	-AUD0.4
Pre-Tax Profit Margin (%)	19.6%	-42.4%	-4.7%
Net Profit Margin (%)	11.5%	-42.4%	-0.9%

Source: Bloomberg, Company Data

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Profit & Loss

FY Dec. / USD mln	2009	2010	2011E	2012E
Reported Revenue	12.6	14.9	19.8	23.3
Reported Operating Profit	0.4	1.7	2.5	2.9
Depreciation & Amortization	-2.1	-2.9	-4.3	-5.4
Net Interest Income / (Expense)	0.0	0.0	0.0	0.0
Reported Pre-tax Profit	2.3	2.9	2.5	2.9
Effective Tax Rate (%)	34.5	41.2	37.0	37.0
Reported Net Profit	1.5	1.7	1.6	1.8
Reported Operating Margin (%)	2.9	11.5	12.4	12.4
Reported Pre-tax Margin (%)	17.9	19.6	12.4	12.4
Reported Net Margin (%)	11.7	11.5	7.8	7.8

Source: Company data, S&P Equity Research

Auditors' History

2007 – 2010: Nexia TS Public Accounting Corporation (formerly practicing as Nexia Tan & Sitoh)

2005 – 2006: Nexia Tan & Sitoh.

Balance Sheet

FY Dec. / USD mln	2009	2010
Total Assets	39.1	42.8
Fixed Assets	1.7	1.2
Current Assets	24.8	26.7
Other LT Assets	12.7	14.9
Current Liabilities	9.3	9.1
LT Liabilities	0.7	0.8
Share Capital	40.1	40.1
Shareholders' Funds	35.3	36.6

Source: Company data, S&P Equity Research

Cash Flow

FY Dec. / USD mln	2009	2010	2011E	2012E
Operating Cash Flow	3.4	2.6	2.9	4.9
Investing Cash Flow	-3.1	-0.6	-3.9	-2.9
Financing Cash Flow	0.0	0.0	5.2	1.2
Net Cash Flow	0.2	2.0	4.2	3.1
Ending Cash	-5.1	-3.0	1.1	4.3
Capex	-3.6	-3.5	-4.0	-3.0

Source: Company data, S&P Equity Research

Material Disclosures Including Interested Party Transactions

There were no interested person transactions entered into during the financial year ended 31 December 2010.

New Issues & Placements

In April 2011, Interra completed the placement of 38.5 mln new shares at a placement price of SGD0.126 per share.

Dividend Policy

Interra does not have a formal dividend policy. Interra declared its first ever dividend of SGD0.5 cents in 2007, but has not declared a dividend since then.

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