



SUN RESOURCES NL

ABN 69 009 196 810
(INCORPORATED IN WESTERN AUSTRALIA)

25 Prowse Street
WEST PERTH WA 6005 Australia
PO Box 1786, WEST PERTH WA 6872 Australia

Email: admin@sunres.com.au
Telephone: 61 8 9481 3638
Facsimile: 61 8 9481 3528

QUARTERLY REPORT FOR THE PERIOD **ENDING 30 SEPTEMBER 2006**

27 October 2006

HIGHLIGHTS

➤ Carnarvon Basin, WA, Joint Ventures

Series of joint venture meetings expected on all permits early December with 2007 well proposals on Apache Energy operated WA-254-P (Duomonte 1 - upside to 44 mmbo recoverable), WA-257-P (Sextent 1 – upside to 120 mmbo recoverable) and WA-261-P (Hestia 1 – upside to 23 mmbo recoverable)

➤ Project Margarita, Wandoo Joint Venture, Onshore Gulf Coast, Texas, USA (37.5% interest)

Land acquisition by leasing continued and further interpretation commenced on received reprocessed 3D seismic to high grade the current deep prospect inventory. Farmout of a proposed six well back-to-back drilling program of shallow gas prospects commencing late in the December quarter 2006 was well advanced at the end of the reporting period. This program will run over 3 months and will be a precursor to commencement of a drilling program on the more substantial individual deep 60 to 200 BCF potential prospects from mid 2007.

➤ Eagle North #1, Eagle Oil/Gas Development Project, California, USA (10% interest)

Activity on Eagle North #1 well at the end of the June 2006 quarter was awaiting the arrival of a deep work over rig with necessary equipment to extract the completion string in the hole and run a new completion to test the indicated 177 metres of oil bearing lower Gatchell sand. The work over rig arrived mid September and was unable to pass through the production valve and retrieve it and the associated production plug at 3,963 metres depth and thence the completion string below it. Post quarter the well was suspended for a future re-entry and new side track to drill, complete and test the lower Gatchell oil sand zone. The Eagle Oil Pool remains a tantalising target as its target potential of 34 million barrels of oil and 58 billion cubic feet of gas (P₁₀ recoverable estimate) has not been downgraded.

➤ Flour Bluff Gas Development Project , Texas, USA (20.000 to 24.167% interest)

The Phase 2 development program, involving an 8 to 9 well program over 16 -18 months, targeting 40.9 BCFe of 3P recoverable reserves was further delayed post quarter as a consequence of a continuing back up in the drilling contractor's deep rig scheduling. Drilling of the FB #1 well on West Flour Bluff Gas Field is due to commence January 2007 with possible back-to-back drilling of scheduled D-26 on East Flour Bluff Gas Field to regain momentum of development program.

➤ Malta Joint Venture

Joint venture farminee, Anadarko has been actively monitoring the border situation with the Government of Malta and is keen to commence seismic. Anadarko has been proactive in the matter by seeking tenders for the seismic survey on a seismic boat passing by to other work basis and / or integrating the seismic with seismic to be carried out on permits held in adjacent Tunisian waters. Hopefully, matters between all parties, ie Malta and Tunisia and Malta and Libya, can be resolved and concluded by February 2007 as seismic activity will be curtailed until that date because of the winter season in the Mediterranean Sea.

➤ Drilling Activity December Quarter 2006

Project Margarita - 6 well shallow gas program to commence December 2006 to run March 2007

A. OIL AND GAS EXPLORATION

Sun Resources NL (“Sun Resources”) continued its active exploration/development programs during the quarter in mainly USA and Australia, with activity accelerating on the South Texas, USA projects as a consequence of new exploration on Project Margarita and its cornerstone production investment in the Flour Bluff Gas Project which should generate significant cash flow in the future to fund the Company’s activities once the next development phase has been completed.

1. USA

Sun Resources increasing presence in the USA is due to excellent investment opportunities offered to small companies by virtue of the country’s voracious and ever increasing energy consumption, infrastructure, prolific hydrocarbon bearing basins and importantly energy pricing. Notwithstanding oil is priced at prevailing world prices (~US\$60 per barrel), gas prices per unit to the producer have been up to four to five fold flat Australian prices (US\$11 to 12 compared with \$US2.00 to 2.25) over the last year. Gas prices have come off considerably since that time to around the present \$6 to 7 level reflecting seasonal demand. Notwithstanding this, it is expected future gas prices will continue to hold at high levels probably in the range US\$7 to 8 rather than at the extreme highs seen in December quarter 2005. Gas price is a reflection of the current (and growing) 4 trillion cubic feet pa gas imports over 19 trillion cubic feet pa gas production (23 trillion cubic feet pa gas consumption). Gas price is also being underpinned by the prospect of increased importation of liquefied natural gas (“LNG”) to satisfy demand.

Sun Resources current exploration and production emphasis is on both oil and gas in conventional geological settings, principally located in South Texas (Flour Bluff Gas Project and Project Margarita on the Gulf Coast) and California (Eagle Oil/Gas Development Project in the San Joaquin Basin).

1.1 FLOUR BLUFF GAS PROJECT, GULF COAST, TEXAS – 20.00 to 24.1667%

The Flour Bluff Gas Project is a substantial gas project involving the redevelopment of a near depleted giant gas field complex at Flour Bluff, on the outskirts of Corpus Christi, Gulf Coast Texas on 10,400 acres of leasehold land. This field has seen 1.3 trillion cubic feet of gas (“TCF”) production with 64 million barrels of oil (“MMBO”) over the last 65 years with past production coming from 40 separate reservoirs at shallow and moderate depths above 2,400 metres. These shallow reservoirs are now largely depleted, but significant reserves are present (to 210 billion cubic feet of gas equivalent (“BCFe)) in virtually undeveloped deeper reservoirs between 2,750 to 3,600 metres depth. It is these reserves that are being targeted in the redevelopment of Flour Bluff. Any produced hydrocarbons can be fed into the existing extensive project infrastructure for immediate delivery to customers under the prevailing high oil and gas price market existing in the USA. Sun Resources’ interests in the various fields are; West Flour Bluff Gas Field and Pita Island Gas Field 20.0000% and East Flour Bluff Gas Field 24.1667%.

Phase 1 of the Development Program

Phase 1 of the development program was completed mid March quarter 2006 and comprised a proof of concept, three well exploration drilling programme, to principally assess multiple sand reservoirs at depth for future production. The overall outcome of this Phase 1 program was mixed. Two of the wells, BG Webb #1 and EFB E-24 proved the potential of the mid deep Frio J and upper K sand potential in both the East and West Flour Bluff Fields, but had poor production performance on initial reservoir completions with production reaching 5.233 million standard cubic feet of gas per day equivalent at the end of the program. Production during the quarter approximated 2.522 million standard cubic feet of gas per day equivalent. The reason for this poor production performance has been actively pursued by Sun Resources and the Operator (refer below under Phase 2 of the Development Program). Notwithstanding this the important outcome from the Phase 1 program was the new reserve position at 1 December 2005 where a significant reclassification within 3P (Proved, Possible, Probable) reserves had occurred. Some 54% of total project 3P reserves (53.2 billion cubic feet of recoverable gas equivalent) is now in the overall Proved (1P) category as against 38% in October 2004.

Phase 2 of the Development Program

Phase 2 of the development program was scheduled to commence in February 2006 with focus on where the reserves lie in the fields; ie in the deep Frio J and K sands in both the East and West Flour Bluff Gas Fields. This program involves 8 new wells and a work over of a well over a 16 to 18 month period, targeting 40.9 BCFe of 3P recoverable reserves (36.5 BCF gas and 723,700 barrels of oil). Regrettably Phase 2 has been delayed due to deep rig availability as a consequence of a back up in the Contractor's well scheduling. The start date was given as late September 2006 on FB #1, the first well in the program on the West Flour Bluff Gas Field, with late March quarter 2006 on D-26, the second well in the program on the East Flour Bluff Gas Field. The Operator advised post September quarter that there was now a serious back up in their favoured Contractor's well scheduling such that the drilling of the FB #1 well is now scheduled to commence January 2007 with possible back-to-back drilling of D-26 on East Flour Bluff Gas Field originally scheduled for late March 2007 quarter to regain momentum of the development program. The Phase 2 program is within the 3P (Proved, Probable, Possible) reserve envelopes for both fields as verified by the independent expert Ryder Scott. Expected individual well reserve outcomes range from 4 to 7 BCFe. As per the outcome of the first development phase, success on the program will see an upward movement of Possible and Probable reserve categories into Proved and those in Proved Undeveloped into Proved Producing and Proved Behind Pipe.

A review of the Phase 1 well engineering and completion program on the BG Webb #1, Petty #2 and D-24 wells has been commissioned and undertaken by Sun Resources and continued by the Operator during the current drilling hiatus. Results of independent expert studies during the quarter have shown the production performance of reservoirs completed in BG Webb #1 and EFB D-24 is not due to problems of reservoir per se. These reservoirs are capable of production at high rates (2 to 5 million cubic feet per day) with a high recovery of measured reserves when completed correctly. The poor production performance is derived from the fact that the well bores are rugose and are over gauge due to formation caving into the bore hole. This leads to poor and incomplete cement bonding between drilled formations and the subsequent casing run and cemented into place in the wells for production. This can be exacerbated by subsequent stimulation of the formation by fracking. A poor cement bond allows migration of water from formation aquifers at differing depths to hydrocarbon bearing sands; this can substantially suppress and in some cases curtail hydrocarbon flow from the reservoir into the production casing. Often the water source is a considerable distance below the productive reservoir as is the case with the producing Frio K15 sand in the BG Webb #1 well. The problem of cement bond and poor casing seal should be overcome in future programs through use of synthetic based drilling mud and not water based drilling mud to drill in gauge well bores.

Besides better well engineering the aim of the review program is to substantially improve flow outcomes from improved fracture stimulations of reservoirs in uncompleted reserves in these wells and future step out development wells, ie obtaining sustained 2 to 3 fold increases in flow outcomes (3 to 5 million cubic feet per day) from single and multiple completions of reservoirs. The Operator has suggested gross project production may get to 18 to 20,000,000 million cubic feet /day at end of Phase 2 with considerable upside to these projections if this program is successful.

1.2 PROJECT MARGARITA, ONSHORE GULF COAST, TEXAS (37.5%)

Sun Resources strengthened its exploration activities in Texas, USA, on the highly prolific oil and gas prospective onshore Texas Gulf Coast through a ground floor Joint Venture with Wandoo Energy, LLC ("Wandoo") on an extensive 2D and 3D seismic data base covering portions of four main producing trends on the onshore Texas Gulf Coast in the December 2005 quarter. Interests in the Joint Venture are Sun Resources 37.5%, Victoria Petroleum NL ("Victoria Petroleum") 37.5% and Wandoo 25%.

The first specific project in the Wandoo Joint Venture is Project Margarita where > 45 leads and prospects have been recognised over the last 9 months in prospective stratigraphic/structural settings at various depths ranging from 1,000 to 4,000 metres in 530 km² of 3D seismic. Historic production and plays in the project area and environs are Frio and Vicksburg sands at <1,800 meters depth. Deeper Yegua and Wilcox sands between 1,800 and 4,000 metres are under explored and only 5 wells >2,400 metres have been drilled within the 530 km² 3D seismic area and 4 of these were drilled prior to the 3D seismic. A number of the deeper

high impact Wilcox targets to 208 BCF gas potential have been recognised with significant new discoveries lying on trend.

During the September 2006 quarter land acquisition by leasing continued and further interpretation commenced on received reprocessed 3D seismic to high grade the current deep prospect inventory. Farmout of a proposed six well back to back drilling program of shallow gas prospects was underway at the end of the reporting period.

Current emphasis is on commencement of a six well back to back drilling program of shallow gas prospects with an 8 to 10 BCF outcome commencing late in the December quarter 2006. This program will run over 3 months and will be a precursor to commencement of a drilling program on the more substantial individual deep 60 to 200 BCF potential prospects from mid 2007.

1.3 SAN JOAQUIN BASIN, CALIFORNIA

1.3.1 EAGLE OIL/GAS DEVELOPMENT – 10.0% INTEREST

The Eagle Oil/Gas Development Project is targeting a stratigraphic trap containing 34 million barrels of oil and 58 billion cubic feet of gas (P₁₀ recoverable estimate) in the Eocene age Upper and Lower Gatchell Sandstone through the drilling and testing of Eagle North #1.

Activity on Eagle North #1 at the end of the June 2006 quarter was awaiting the arrival of a deep work over rig with necessary equipment to extract the completion string in the hole and run a new completion to test the indicated 177 metres of oil bearing sand from 4,209 to 4,386 metres measured depth (“MD”); ie 72 metres behind a 4 ½” liner from 4,209 to 4,281 metres MD and 105 metres of open hole lower Gatchell oil sand from 4,281 to 4,386 metres MD which will be tested as a barefoot completion out of the base of the 4 ½” liner at 4,281 metres MD. Mechanical problems occurred resulting in the TCP guns not firing to perforate the casing for testing and a decision was made to curtail operations with the large drilling rig and continue operations in a more cost effective and technically efficient manner with a work over rig.

The deep work over rig arrived on site on 18th September 2006 and operations were completed post quarter on 19th October 2006. Prior to the arrival of the work over rig a coil tubing rig carried out some work over a 36 hour period and confirmed by retrieving the firing bar that the perforating guns had not been fired.

Operations via the work over rig cleared the hole of production tubing to the production plug and valve at 3,963 metres depth. Regrettably after considerable effort it was not possible to pass through the production valve and retrieve it and the associated production plug and below it the tubing and tubing conveyed guns in the horizontal well bore to 4,281 metres depth and, thence to clean out the well bore in preparation for the running of new casing perforating guns to perforate casing and test the as yet untested 72 metres of oil pay behind casing in the lower Mary Bellocchi Gatchell sand.

The joint venture partners decided that the money spent continuing the work over with uncertain outcome (the production valve being too damaged now to retrieve with certainty) would best be spent on a future re-entry and side track from the current cased Eagle North-1 well bore to target the good oil shows seen in the 177 metres of horizontal well in the lower Gatchell sand; ie from 4,209 to 4,386 metres measured depth.

The Eagle Oil Pool remains a tantalising target as its potential has as yet not been downgraded from its original target potential of a mean of 13.5 million barrels of oil with 25 billion cubic feet of gas to the P₁₀ case of 34 million barrels of oil with 58 billion cubic feet of gas. There is the now established presence of oil in the target zone over a 177 metres of horizontal extent, coupled with the known ability to flow oil and gas to surface from this zone from the nearby Mary Bellocchi-1 vertical well (223 barrels of oil per day and 0.7 million cubic feet per day flow from a 12 metre interval of lower Mary Bellocchi sand which should be considerably enhanced by a flow from a 177 metre interval); and the current high oil price provide encouragement to continue to achieve a successful production well and eventually the development of the Eagle Oil Pool through a horizontal well development.

Planning has commenced for this future operation with the exact timing of the operation subject to the availability of the required deep drilling rig, equipment and personnel. A new operator and partner will be sought for this project with the opportunity for an incoming partner to farm in to the interests currently held by some of the parties. At this stage Sun Resources requires a full independent evaluation of the proposed forward program and past operations before making a decision on whether it will continue at its current level of interest in the joint venture or farm down and be carried on a farm in on the further evaluation of the Eagle Oil Pool, which as outlined above still remains a tantalising target, but to date has been technically challenging.

On completion of the Eagle North #1 well equities in the project development are Empyreum Energy PLC (38.5%), Victoria Petroleum (20%), First Australian Resources Ltd ("First Australian") (15%), Lakes Oil NL (15%), Sun Resources (10%) and a USA private investor (1.5%).

2. OFFSHORE MALTA, SOUTHERN MEDITERRANEAN SEA – 20% INTEREST

Anadarko International Energy Company ("Anadarko"), a subsidiary of Anadarko Petroleum Corporation (NYSE:APC), concluded a Participation (Farm in) Agreement in June 2005 with the then Malta Joint Venture comprising Sun Resources (20%) and Pancontinental Oil & Gas NL ("Pancontinental") (80%). This agreement provides for Anadarko to earn an interest in the Malta Project by funding agreed activities on two contiguous permit areas (ESA Area 4, Block 3 and ESA Area 5) totalling 14,800 square kilometres on the Pelagian Platform in southern Maltese waters abutting Tunisia and Libya. These activities are further infill 2D seismic on ESA Area 5 leading to Anadarko at its option to enter into a Production Sharing Contract with Sun Resources, Pancontinental and the Government of Malta to drill up to two wells on either or both the very large Chianti and Limoncello Prospects. These prospects, delineated in 2004 by Sun Resources and Pancontinental in ESA Area 5, have large speculative reserve potential, ranging from a mean 455 million barrels recoverable oil potential (Chianti) to a mean 968 million barrels recoverable oil potential (Limoncello). The potential estimates are based on current seismic mapping and using representative reservoir parameters from neighbouring commercial field analogues in Libyan and Tunisian waters. Anadarko, under the Agreement, has options to earn a 65% interest in the Production Sharing Contract on completion of one well, and to increase its interest to 75% by again drilling a further well at no cost to Sun Resources and Pancontinental.

At the end of June 2005 Anadarko was tendering for a seismic vessel for the 2D infill seismic program in ESA Area 5 that was expected to take four weeks in September 2005. However, at the Maltese Government's request, the Joint Venture suspended the seismic survey to assist the government in facilitating the resolution of the maritime border issues it has with both Tunisia and Libya. These border issues affect the western and southern boundaries of ESA Area 5. The 2004 seismic survey was conducted within undisputed Maltese waters away from these unresolved border areas and it was this seismic survey that revealed a number of significant world class prospects and leads in undisputed Maltese waters which motivated Anadarko to conclude a Participation (Farm in) Agreement with Sun Resources and Pancontinental.

Significant progress continues to be made on resolution of the maritime borders, particularly between Malta and Tunisia. An Agreement between Malta and Tunisia was signed on 27th February 2006 for joint oil and gas exploration and exploitation in zones of the Continental Shelf located between Malta and Tunisia which in part encompasses the western area of the ESA in Area 5. Since the agreement, Malta and Tunisia, through a joint expert committee reporting to the two country's Ministers of Foreign Affairs, Dr Frenzo (Malta) and H.E. Abdallah (Tunisia), have been working on the determination of the exact coverage of the joint exploration and exploitation zone between the two countries. A report on this determination was due to be presented by the joint committee to the two country's Ministers of Foreign Affairs, Dr Frenzo (Malta) and H.E. Abdallah (Tunisia), in June 2006. Similar discussions between Malta and Libya are current on resolving the southern boundary issue in the southern area of the ESA, and it is hoped that a similar agreement will be forthcoming in the very near future.

Anadarko has been actively monitoring the border situation with the Government of Malta and is keen to commence seismic. It has been proactive in the matter by seeking tenders for the seismic survey on a seismic

boat passing by to other work basis and / or integrating the seismic with seismic to be carried out on permits held in adjacent Tunisian waters. Hopefully, matters between all parties, ie Malta and Tunisia and Malta and Libya, can be resolved and concluded by February 2007 as seismic activity will be curtailed until that date because of the winter season in the Mediterranean Sea.

3. CARNARVON BASIN, WESTERN AUSTRALIA

Sun Resources is part of various consortiums of companies exploring at quarter end four permits in the Dampier Sub-Basin (WA-254-P, WA-257-P, WA-261-P and WA-340-P). The greater Carnarvon Basin has become Australia's richest oil and gas province since Bass Strait, with reserves in excess of nine billion barrels of oil equivalent. It is probable from developments outlined below that 4 to 6 wells will be drilled on these permits in the next few years commencing second half 2007.

3.1 WA-254-P – 7.86% TO 9.25% INTEREST

The permit prospect and lead inventory is Duomonte, Dr Zeus, Janus revisited, Helly Belly, Jayasuriya and Little Joe. On going work by Operator, Apache Energy ("Apache") in 2006 is being directed towards maturing the first three mentioned prospects for drilling particularly as new deeper levels of interest in structures are indicated in new seismic reprocessing (Panaeus refresh data) received in December quarter 2005. From developments outlined below 2 to 3 wells will be drilled in 2007 and onwards in the last term of the permit which was granted renewal in the March quarter 2006.

An Apache peer group prognosis on the Duomonte Prospect has confirmed progression to drilling, but now in 2007 rather than in 2006 because of the now recognised potential of deeper formations from the recently acquired Panaeus refresh data and the need to integrate this information into the prospect data base. The Duomonte Prospect consists of two similar sized lobes, one in WA-254-P the other in adjacent WA-1-P. WA-254-P potential ranges from 20 (mean) to 44 million barrels of oil recoverable (P_{10}) with primary target formation (pre recent seismic developments) being shallower Legendre Formation sands at approximately 2,500 metres depth. A nearby well Janus #1 targeted Legendre sands at a shallower depth than Duomonte and these sands were found to be water wet with oil shows. A re-look at the seismic data suggests the younger and shallower Calypso Formation sands are also a secondary target, but could be gas prone. New (Panaeus refresh) seismic data deeper seismic events in structure now also need assessment at North Rankin and Mungaroo levels for a Caribou gas (oil) target before Duomonte can be drilled.

A new prospect Dr Zeus (formerly Lead Z) is now a highlight of the prospect and lead inventory. The prospect is a mid *M Australis* (Saffron Sand equivalent) stratigraphic trap with some structural closure outlined by a prominent amplitude anomaly. Prospect potential ranges from 23 (mean recovered) to 52 million barrels of oil recoverable (P_{10}). An internal Apache peer group has also reviewed and approved the prospect for drilling. However, again from the Operator's scan of new Panaeus refresh data, deeper events, particularly at Angel Formation level, need assessment in the light of the reassessment of the Janus #1 well (refer below) as it is in faulted juxta position to Eliassen Formation sands with probable by passed oil pay.

The Janus #1 well was drilled by the joint venture in late 1997 and the target Legendre Formation sands in a structure were found to be water wet with oil shows. The higher Eliassen sands in the well had some shows which were unexpected at the time and were not followed up. The target potential of the Eliassen sands has recently been recognised by the January 2005 discovery of a 76 metre gas condensate column in the Hurricane 1 well in northern adjacent WA-208-P. This gas condensate discovery was of note as a gas – water contact was not encountered and suggests the possibility of a down dip oil leg. As a result Janus #1 has been re-examined through a detailed petro-physical study. The results of this study suggest the presence of by passed pay in the well. It has been estimated that 11.5 metres of net pay is present from 39.5 metres of gross pay with an oil-water contact at 1,926 metres MDRT in the well. The size of the accumulation has not yet been estimated, but depends on mapping the down dip leg of the inferred accumulation in ongoing work this calendar year.

Miscellaneous prospects Little Joe, Helly Belly (Lower Cretaceous / Angel Formation sands in structural closure in a buttress trap) and leads, Jayasuriya and Kleopatra (Eliassen sands stratigraphic pinch out on the

basin slope) require more interpretative work, especially as the new Panaeus refresh seismic data is now available to determine if they are drilling candidate. A joint venture meeting is scheduled late in the December 2006 quarter to update joint venture participants on the status of the prospect and lead inventory and confirm the 2007 exploration program, ie the possible drilling of one of the advanced prospects (Duomonte, Dr Zeus or Janus revisited).

Participants in WA-254-P are Sun Resources (7.86% to 9.25%), Operator Apache (47.89% to 47.90%), Woodside Energy Limited (17.06% to 24.38%), First Australian (10.71% to 11.25%), Victoria Petroleum (6.17% to 9.30%) and New Zealand Oil and Gas NL (2.99% to 5.23%). The latter larger interests of the junior participants reflect the interests of the junior participants in the graticular block containing the stranded Sage Oilfield. Sage is currently waiting for a nearby discovery to be made to move forward by sharing development costs.

3.2 WA-257-P – 9.64% INTEREST

Operator, Apache, has focused on bringing two structural – stratigraphic traps to drill status in the last 12 months. These are the previously known up to 100 (P₁₀) million barrels of oil recoverable *W Spectabilis* sands Hekla Prospect, and the new *P iehiense* (Angel Formation) sands Sextant Prospect.

The Sextant Prospect is a truncation sub crop play at the *P iehiense* (Angel Formation) level and is an extrapolated analogue to the Mutineer / Exeter oil discoveries in the southern Carnarvon Basin off Exmouth which are being brought into production. It overlaps into eastern adjacent WA-246-P and the prospect style is repeated along strike as another prospect called Windlass. Target potential for Sextant ranges from 50 (mean) to 130 (P₁₀) million barrels of oil recoverable with two thirds of the potential falling in WA-257-P. Sextant #1 is now a conditional well on the Operator's drilling schedule for 2007 as the prospect has been shown to have less structural risk than the Hekla Prospect. However, a firm well recommendation from the Operator is pending the analysis of the Libris 1 well drilled in early September 2006 in eastern adjacent WA-246-P held by Apache, Kufpec Australia Pty Ltd ("Kufpec") and Pan Pacific Petroleum NL. The Libris 1 well was plugged and abandoned after wireline log results indicated sub-economic oil discoveries in the Upper and Lower Angel Formation objectives. A joint venture meeting is scheduled late in the December 2006 quarter to now confirm the 2007 exploration program, ie the probable drilling of Sextant.

Participants in WA-257-P are Sun Resources (9.64%), Operator Apache (51.78%) and Kufpec (38.58%).

3.3 WA-261-P – 6.15% INTEREST

On going work with Operator, Apache, in the 2006 year is being directed towards fully maturing the Hestia prospect for drilling in 2007 particular interpretation of deeper stratigraphic levels in structure indicated in new seismic reprocessing.

The Hestia Prospect is a result of the observations of excellent oil shows in good reservoir sands in principally the *C halosa* and *N gracilus* of the Athol Formation in Ceres 1. The buttress-stratigraphic trap lies southward of the Ceres 1 and south westwards of the Gats 1 locations. The *C halosa* sand only is targeted in the prospect at 780 meters MDRT. Prospect size ranges from 11.5 (mean) to 23.2 (P₁₀) million barrels of oil recoverable. If drilling of the Hestia Prospect is successful the Chamois oil accumulation 2.4 (mean) to 3.9 (P₁₀) million barrels of oil recoverable 8 kilometres to the southwest could also be developed to tie back to the nearby Stag Oilfield.

The largest risk for the Hestia Prospect is seal at the reservoir sub crop interface with the basal Cretaceous unconformity. However tight indurated sand is now prognosticated from nearby Gats 1 drilled in August 2005. Induration (2-4m) was present in the sandy facies on the basal Cretaceous unconformity in the Gats well and was so tight it could not be cored and hence should be an effective seal to the reservoir.

The results of the interpretation of the new seismic over the new deeper target in structure was received from the Operator during the September quarter. The target, Mungaroo Formation sands below the main Athol Formations target sands in the buttress trap, was considered to be analogous in setting to the Tusk oil

accumulation to the northwest in nearby WA-246-P. However, the interpretation has downgraded the target leaving the *C halosa* sands in the buttress-stratigraphic trap as the main targeted to be drilled in 2007. A joint venture meeting is scheduled late in the December 2006 quarter to confirm the 2007 exploration program.

Participants in WA-261-P are Sun Resources (6.15%), Apache (Operator) (45.12%), Strike Oil NL (“Strike”) (16.22%), Tap Oil Limited (10.00%), Victoria Petroleum (12.50%) and Bow Energy NL (10.0%).

3.4 WA-340-P – 20% INTEREST

Operator Strike finalised seismic studies on the permit to upgrade four Jurassic to Cretaceous age structural stratigraphic leads. Reprocessed old seismic data received during June quarter 2006 was integrated with the seismic carried out in November-December 2005 over the adjacent Sherlock 28 (mean) million barrels of oil recoverable) and Peawah 12 (mean) million barrels of oil recoverable) prospects. Interpretation of the merged data set was completed in the September 2006 quarter to allow a decision at a scheduled joint venture meeting in the December 2006 quarter on possible drilling in the year 2007.

Permit participants are Strike as Operator (40.00%), Victoria Petroleum (20.00%), Pancontinental (20.00%) and Sun Resources (20.00%).

4 SYDNEY BASIN, ILLAWARRA CSM/CMM PROJECTS

Sun Resources 20% and unlisted Apex Energy NL (‘Apex Energy’) as Operator 80% are joint venture partners in the Wollongong CSM and CMM project comprising granted Petroleum Exploration Licences PEL 442 and PEL 444 and access to Helensburgh Coal Pty Ltd’s Metropolitan Mine Coal Concession Leases CCL 703 and CCL 379 (“Metropolitan”) and the Burrangong Project PSPA-10 (currently being transitioned to PEL78). Significant CSM and CMM resources are being targeted in the project licences to feed small scale energy projects such as local “green” power generation, mini CNG and LNG schemes. The projects have two main attributes for success; the presence of large amounts of gas above the water table and a doorstep market of large population bases at Wollongong – Port Kembla and Sydney.

Work on the project during the September 2006 quarter was again extremely limited and is still waiting on Apex Energy’s flotation on the ASX and in particular finalisation of a Development Agreement to supply gas to a generator and separately the grant of PELA 78 to conduct drilling to ascertain the presence of significant methane gas accumulations in sealed stope targets in abandoned coal mines in the Burrangong Valley.

4.1 WOLLONGONG COAL SEAM METHANE/COAL MINE METHANE - 20% INTEREST

The Wollongong CSM and CMM project, comprising granted Petroleum Exploration Licences PEL 442 and PEL 444 and access to Helensburgh Coal Pty Ltd’s Metropolitan Mine Coal Concession Leases CCL 703 and CCL 379 (“Metropolitan”), lies between Port Kembla and Helensburgh .

The joint venture is investigating the economic potential of both CSM and CMM in the licences, especially CSM of all Permian age gassy coal seams. Data from current programs is being used to increase confidence in present Most Likely P₅₀ (128 billion cubic feet) in place gas estimates for all the leases and to advance local power generation schemes within the leases using both CSM and in particular CMM, as per the February 2004 Darkes Forest 1 discovery made by the joint venture in PEL 444 which flowed 1.2 million cubic feet of gas per day. The first of these power schemes is being planned on the Metropolitan Mine site using initially part of the 4.7 million cubic feet of gas per day currently being drained from the Bulli Seam ahead of mining. The concept of supplying both CMM and CSM to a local at or near site power generator is well proven locally on a far larger scale than what is currently contemplated by the Sun Resources-Apex Energy study. Abutting to the west of the joint venture’s leases lies the Westcliff-Appin-Tower colliery complex of BHP-Billiton Limited. Some 7 billion cubic feet of CSM gas per annum drained from the Bulli Coal Seam ahead of long wall mining is supplied to two local power stations owned by Energy Developments Limited having a total 96.8 MW of generating capacity.

4.2 BURRAGONG PROJECT PELA 78 (FORMERLY PSPA 10) – 14.00% INTEREST

Following an assessment of PSPA 10 held by the joint venture, comprising Apex Energy (56%) as Operator, Australian Coalbed Methane Pty Ltd (30%) and Sun Resources (14%), an application was made in December 2005 over the more prospective portion of the former PSPA 10 area for a PEL (PELA 78) to test sealed stope targets in abandoned coal mines in the Burragorang Valley by keyhole drilling to ascertain the presence of significant methane gas accumulations. An offer of grant for PEL 78 was received by joint venture at the end of the September quarter.

PELA 78 lies in the south western margins of the Sydney Basin, inland from Wollongong in the Illawarra. Very little work has been done on CSM in this part of the Sydney Basin as it now lies within the Sydney Water Catchment, and all activities are subject to authorisation by the Catchment Authority.

Part of the former area of PSAP 10, now PELA 78, offers potential for shallow biogenic methane resources generated by bacteria which have entered both the coal seams with groundwater and the abandoned coal mine workings (goaf) within the licence area. The deeply incised topography of much of this region results in extensive exposure of coal seams which in turn facilitates the entry of water and bacteria. It is quite possible for methane gas generated by biogenic activity to attain potentially commercial accumulations in the goafs in the decade or so since the cessation of all mining activities in the region. Based on recent carbon isotope determinations by CSIRO, methane gas from the Burragorang Valley mines in PELA 78 have an extremely strong biogenic signature. The detailed 12 months assessment of former PSPA 10 in 2005 showed that there is little opportunity to monitor mine gas accumulation without resort to drilling which can only be done under a PEL.

B. MINERAL EXPLORATION/INVESTMENT

The Joint Venture on the vestigial mineral interest of the Butterfly gold tenement in the North Coolgardie Mineral Field, Western Australia in which the Company has a 5% NPI interest remains current with Barmenco Limited a successful underground mining contractor and Atlantic Gold Limited.

C. NEW PROJECT DEVELOPMENT

During the quarter Sun Resources continued its involvement in new project generation and development to the benefit of its Shareholders as outlined above.

BY ORDER OF THE BOARD



B L FARRELL
EXECUTIVE CHAIRMAN

This quarterly report is lodged on the Company's website, www.sunres.com.au.

Information contained in this report was compiled by the Executive Chairman of Sun Resources, Dr B. L. Farrell, PhD, MSc, BSc (Hons Eco.Geol), FAIMM, MIMM, MPESA, who has had 37 years experience in the practice of geology and more than 5 years experience in petroleum geology.