



# SUN RESOURCES NL

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## **QUARTERLY REPORT FOR THE PERIOD** **ENDING 30 JUNE 2007**

11 July 2007

## HIGHLIGHTS

➤ **Significant exploration success in the USA in the June 2007 Quarter**  
**Hollywood Prospect, Lake Long Field, Louisiana, USA (10% interest)**

Post March 2007 quarter, a farmin to a development project in the Lake Long Field area, Louisiana, USA was effected through participation in the drilling of the SL328 #9 well, a low risk test of the Hollywood Prospect. The well targeted multi-pay Hollywood Sandstone which had good 3D seismic attribute support indicating gas with cumulative potential, unrisks recoverable, volumes estimated as 21 billion cubic feet of gas with 760,000 barrels of associated condensate.

The well commenced mid May 2007 and at the beginning of July the well had reached total depth of 13,284 feet (4,049 meters). Electric logs confirmed the presence of reported hydrocarbons in drilling, particularly from the Middle and Upper Hollywood Sandstones where 42 feet (13 meters) of net log pay was indicated.

Completion of the SL328 #9 well for gas sales is in progress. It is expected from nearby production analogues that a gas flow rate of 3 to 4 million cubic feet of day with 50 to 60 barrels of associated condensate is probable. Tie into sales will be rapid through the Operator's nearby gas processing plant.

**Project Margarita, Onshore Gulf Coast, South Texas, USA (20% to 37.5% interest)**

**- Shallow Wells Program**

Under the farmin agreement with Empyrean Energy PLC, commercial success on 2 out of 3 prospects on the Initials Three Wells Program triggered the Final Three Wells program on the Agavero, Dona Carlota and Climaco Prospects.

The Agavero and Dona Carlota Prospects were successfully drilled and completed for production late in the quarter with gas on rock outcomes and a start is pending on drilling Climaco.

Dona Carlota flowed 1+ million cubic feet of gas per day on completion cleanup testing. Testing is pending at Agavero. Ties into a pipeline for gas sales in both cases will be rapid as open access pipelines cross the leases.

**- Deep Wells Program**

Following the completion of the Final Wells Program, and conditional on Empyrean Energy PLC exercising its option on the deep gas program, the first well of a deep drilling program is expected to commence early December quarter 2007. Prospects in the deep gas prospect inventory have potential unrisks recoverable volumes of 30 to 200 bcf.

➤ **Project Redback, South Texas, USA (37.5% interest)**

Significant new project based on 3D seismic. Seven good prospects recognised from initial first pass work with upside of one to 116 billion cubic feet of gas with 6 million barrels of oil as condensate (ie up to 152 billion cubic feet of gas equivalent).

On trend well production analogues of the recognised prospects from the target depth stratigraphy have produced up to 10 billion cubic feet of gas plus 250,000 barrels of oil at high initial daily well production rates of up to 10 million cubic feet of gas with 300 barrels of oil.

The joint venture aims to fast track Project Redback to drilling a high graded prospect in late December quarter 2007.

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

Workover program on East Flour Bluff Field wells (D-18, D-19 and D-24) commenced mid quarter with D-24. The aim of the program is to carry out completions on up hole reserves behind pipe in these wells to double current production.

## A. OIL AND GAS EXPLORATION

Sun Resources NL (“Sun Resources”) continued its active exploration/development programs during the quarter in USA, Malta and Australia, with activity accelerating in the USA as a consequence of the ongoing exploration drilling on Project Margarita, South Texas and development drilling on a new project in Louisiana (Lake Long). Drilling was successful on USA projects and should generate significant cash flow and assist in funding the Company’s exploration activities.

### 1. USA

Sun Resources increasing presence in the USA is due to excellent investment opportunities offered to small companies namely:

- An extremely large market for energy, with a demand supply imbalance that drives costs
- Ready access to infrastructure, even for smaller discoveries
- Lower technical risk within prolific hydrocarbon bearing basins
- Low exploration and development costs by world standards for onshore projects
- High energy pricing in particular for gas.

Gas prices have a seasonable demand that reflects the use of gas for heating, at the close of this report period gas prices are approximately US\$7 - 8 per thousand standard cubic feet (“mscf”), which is some 3+ times the price received for gas within Australia. It is expected that future gas prices will continue to hold at levels probably in the range of US\$6 to 8 per mscf. Gas price is a reflection of the current (and growing) 4 trillion cubic feet (“tcf”) pa gas imports over 19 tcf pa gas production (23 tcf 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 and within conventional reservoirs, principally located in Texas (Flour Bluff Gas Project, Project Margarita and Project Redback on the South Texas Gulf Coast), Louisiana (Lake Long Project) and California (Eagle Oil/Gas Development Project in the San Joaquin Basin).

#### 1.1 HOLLYWOOD PROSPECT, LAKE LONG, LOUISIANA, USA

In early April 2007, Sun Resources, through its USA subsidiary, Sun Delta Inc, farmed into a development project on State Lease SL238 in the Lake Long Field area in Lafourche Parish, Louisiana, USA to earn a 10% Working Interest (“WI”) from farmee and local operator, Kriti Exploration, Inc (“Kriti”). The farmin involved participation in the test of the Hollywood Prospect that lies within the 1,325 acre lease that has been held by production (“HBP”) since the field was discovered in 1938.

Sun Resources entered the project on USA standard industry promoted terms of one third for one quarter on the drilling cost of the well to the casing point, with well completion costs at earned WI%. ie Sun paid 13.3235% to casing point of the estimated US\$7.762 million dry hole costs of the well and 10% of the estimated US\$2.71 million completion costs of the well to earn in all the productive objective intervals within a 160 acre producing unit around the initial well. Participation on further wells in the 1,325 acre lease is on a non promoted basis at Sun’s 10% WI. Any resulting production can be run through Kriti’s nearby production facilities based on a mutually agreeable Production Handling Agreement. Currently there is spare capacity for 6 million standard cubic feet of gas (“mmscf”) per day with associated condensate.

Historically the deepest production in the Lake Long Field was from the Upper Hollywood Sands. In 2004, the Middle Hollywood Sands was found to be productive in the Palace #1 well which came on production at a daily rate of 6.8 mmscf of gas with 363 barrels of condensate (“boc”). Cumulative production to date from the Palace #1 well is 3.8 billion cubic feet of gas (“bcf”) plus 114,916 boc. The well is still producing at a daily rate of 3.6 mmscf with 56 boc. The deeper Lower Hollywood Sands were also found to be gas productive in the field. Arco tested the Lower Hollywood sand in an off structure well to the prospect, but did not make a completion due to a thin pay column and sand production on test.

The Hollywood Prospect is a faulted structural high with Lower, Middle and Upper Hollywood Sands objectives with cumulative unrisks potential of 21 bcf and 760,000 boc in the three objectives. The prospect was considered relatively low risk as there is good 3D seismic amplitude support of the multi-play targets which are interpreted as indicating gas. There are also nearby Hollywood Sandstone productive pay analogues and the well location is located up dip from wells that have produced up to 6.8 bcf from the Upper Hollywood Sands.

The SL328 #9 well on the prospect commenced on May 15 and reached total depth of 13,284 feet (4,049 meters) on July 4. Electric logs confirmed the presence of reported hydrocarbons in drilling, particularly from the Middle and Upper Hollywood Sandstones where 42 feet (13 meters) of net log pay was indicated. Completion of the well for gas sales is in progress. From nearby production analogues a daily flow rate of 3 to 4 mmscf of gas with 50 to 60 boc is probable. Tie into sales will be rapid and through the Operator's nearby gas processing plant.

The lease has a 12 monthly continuous drilling option. The follow up potential of up to a further 30 bcf and 1,085,000 boc in the Hollywood objectives within the 1,325 acre lease will be the subject of probable further drilling in June quarter 2008 when all the SL328 #9 well geological information is added to the project database and analysed.

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

### **History/Background**

Sun Resources is participating in the exploration of a prolific oil and gas prospective portion of the onshore Texas Gulf Coast through a ground floor Joint Venture with Wandoo Energy, LLC ("Wandoo") – Project Margarita. Wandoo is the project operator. This opportunity, which commenced in December 2005, has a 530 km<sup>2</sup> 3D seismic data base covering portions of four main producing trends. Sun Resources holds a 37.5% working interest in the overall project and will farm down to a carried 20.00% working interest in the drilling of high graded prospects.

Technical work by the joint venture on the 3D seismic data has identified > 45 leads and prospects in prospective stratigraphic/structural settings at depths ranging from 1,000 to 4,000 metres. Historic production and plays in the project area and environs are Frio and Vicksburg sands at <2,000 metres depth and deeper Yegua and Wilcox sands between 2,000 and 4,000 metres depth.

The Yegua and Wilcox are under explored with only 5 wells >2,400 metres drilled within the 530 km<sup>2</sup> 3D seismic area, with 4 of these drilled prior to the 3D seismic. A significant number of high impact Wilcox gas prospects have been recognised and these lie along trend from significant recent discoveries. These prospects are the high upside of the project.

During the December 2006 quarter a farmout on a six well drilling program of shallow gas prospects at <2,000 metres depth was agreed with AIM listed Emyrean Energy PLC ("Emyrean"). Emyrean committed to drilling back to back three of six wells from the inventory of shallow gas prospects. These three wells are called the Initial Wells program. A commercial success in any of the Initial Wells triggers the drilling of a further three wells back to back on prospects from the shallow prospect inventory (the Final Wells program). Emyrean can also elect to participate in further shallow wells in addition to the Initial and Final Wells and also to farm into the drilling of three of the deep prospects (>2,000 metres depth) on the same promoted terms and conditions. Final Working Interests on well completions on individual prospects are Sun Resources 20%, Victoria Petroleum (Victoria") 20%, Wandoo 16% and Emyrean 44%.

The Initial Wells program on the El Viejito, Dos Dedos and Milagro Prospects was successfully completed in March quarter 2007 with gas discoveries on all prospects. From log analysis and side wall core data Milagro was also deemed to be an oil discovery, ie oil bearing with a high gas ratio. Reservoir engineering analysis calculated potential reserves within the structure at 150,000 bo, but production and pressure data is required to more accurately predict potential reserves

## **Current Reporting Period Activity**

### **Initial Wells Program**

Milagro #1 was connected to a gas sales line on April 3, 2007 and is currently producing at 532,000 scfd with 2 bod up from its initial rate of 350,000 scfd. As yet production as not “flipped” to become oil dominant.

Dos Dedos #1 was connected to the gas sales line on 26<sup>th</sup> April and commenced production from the uppermost gas bearing sand at 150,000 scfd. Towards the end of May production choked off due to water production. The well will be abandoned and the facility recycled to Dona Carlota.

El Viejito #1 was not connected to a sales line because further testing resulted in water coning of the thin gas reservoir due to excellent, though atypical vertical permeability of the reservoir. Based on the analysis of reservoir data, the gas bearing interval would have been an excellent producer producing at a rate >1 mmscfd if a base seal was present separating the gas from the water.

### **Final Wells Program**

As advised above, a commercial success in any of the Initial Wells triggers the funding by Emphyrean of the drilling of a further three wells, back to back, on prospects from the shallow prospect inventory under the same terms and conditions as the Initial Wells. The three chosen prospects, Agavero, Dona Carlota and Climaco, are also analogues of Frio and Vicksburg fields in the immediate area. Depths of the prospects are less than 2,000 metres and they collectively have estimated total mean reserve potential of 3.1 bcf gas.

The Final Wells drilling program, scheduled to commence mid May 2007, was delayed by record unseasonal rains and associated flooding which isolated the drilling rig on a nearby location. Eventually on the June 5 the rig was able to move to the Dona Carlota Prospect location on higher ground and commenced the final wells program which should run until end of July 2007. At the end of June two wells (Dona Carlota and Agavero) had been successfully drilled and completions for production were underway. Spudding of the Climaco well was awaiting access to the site after recent heavy rains.

### ***Results***

Interpretation of wire line logs on Dona Carlota #1 indicated the target Frio 1.33 sand had net gas pay of 5.6 metres (gross gas zone of 13.9 metres from 1,423.2 metre depth) with gas on rock and no water. This gas pay was successfully perforated over a 5.48 metre interval from 1,426.5 metres on July 3 and gas flowed on completion cleanup at 1.024 mmscf per day with no water as predicted. The well is currently awaiting being tied into a nearby pipeline that crosses the lease to commence gas sales.

Interpretation of wire line logs on Agavero #1 indicated the target Frio V sand had 5.5 metres (18 feet) of gross gas pay on rock with no water from 889.4 meters (2,918 feet) depth. The well is currently awaiting completion. The Operator has recommended perforation of the whole gross pay zone; the upper 4.0 metre laminated sand first to evaluate its reserve potential and then adding perforations to the base 1.5 metre sand interval to evaluate overall reserve potential. As with Dona Carlota #1 the well on a successful flow will be tied into a nearby pipeline that crosses the lease to commence gas sales.

### **Deep Wells Program**

Following the completion of the Final Wells Program, and conditional on Emphyrean exercising its option on the deep gas program, the first well of deep drilling program is expected to commence early December quarter 2007. Prospects in the deeps gas prospect inventory have potential unrisks recoverable volumes of 30 to 200 bcf.

## **1.3 PROJECT REDBACK, ONSHORE GULF COAST, TEXAS (37.5%)**

### **History/Background**

Following the successful outcome of the start of the initial ongoing drilling program on the Margarita Project area, onshore Gulf Coast, South Texas, Sun Resources further strengthened its exploration activities through a further joint venture with Wandoo. The new joint venture, called “*Redback*”, is on a 393 km<sup>2</sup> 3D seismic data base covering a small portion of a highly productive, onshore Gulf Coast, oil and gas trend in South

Texas. This regional trend to date has produced some 1.2 billion barrels of oil and 6 trillion cubic feet of gas from near surface to 10,000 feet depth.

The objective of the joint venture is to target the very under explored prospective stratigraphy below 10,000 feet depth in the Redback 3D seismic data base. A pilot “skimming” program on the Redback 3D seismic data, in part funded by Sun Resources, has already recognised at least 7 good prospects in the 12,000 to 15,000 feet depth range with accompanying seismic attributes thought to reflect the presence of significant hydrocarbons.

A number of these prospects have multiple targets with high upside potential for both gas and oil as accompanying condensate. One in particular has an upside to 116 bcf of gas with 6 million boc (ie up to 152 billion cubic feet of gas equivalent (“bcfe)). On trend to the Redback area are production analogues of the recognised prospects from the same targeted stratigraphic level. Individual wells from these analogues have produced up to 10 bcf of gas plus 250,000 boc at high initial daily well production rates of up to 10 mmscfd of gas with 300 boc.

Interests in the Joint Venture are Sun Resources 37.5%, Victoria 37.5% and Wandoo 25%. The basic terms of the Joint Venture are similar to the Margarita Project whereby Sun Resources and Victoria will fund a six months evaluation of the seismic data for a first right of refusal to earn a 75% Working Interest in any individual prospects generated within the Redback area by drilling a well on individual prospects on a non promoted “ground floor” basis. With respect to completing successful wells, Sun Resources and Victoria will only carry part of Wandoo’s 25% Working Interest (ie a 10% Working Interest) in the first well on any prospect to completion.

The joint venture aims to fast track Project Redback to drilling a high graded prospect in late December quarter 2007. The joint venture will expose Sun Resources to a choice of quality drillable prospects of various risked size potential on a ground floor basis. The Company will mitigate drilling risk and offset the cost of any drilling by farming portion of its current 37.5% Working Interest in individual prospects to a 20.0% Working Interest level.

#### **1.4 FLOUR BLUFF GAS PROJECT, ONSHORE GULF COAST, TEXAS – 20.00 to 24.1667%**

##### **History/Background**

The Flour Bluff Gas Project involves the redevelopment of three semi depleted gas fields on the outskirts of Corpus Christi Texas. These fields have produced 1.3 tcf of gas with 64 million barrels of oil (“mmbo”) over a 65 year period with production coming from 40 separate reservoirs at shallow to moderate depths (above 2,400 metres). These shallow-moderate depth reservoirs are now largely depleted, but significant potential reserves, up to 210 bcfe gross, are prognosed to be reservoired within the under developed deeper section between 2,750 to 3,600 metres depth. It is these reserves that are being targeted in the redevelopment of Flour Bluff.

Due to the operation of the field over a long period of time, existing gas production infrastructure is extensive and allows for immediate gas sales after wells have been drilled and or re-completed.

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 consisted of a three well exploration program principally designed to test the prospectivity of the deep Frio K sands and to prove up the remaining potential, within the drainage areas of the wells, of the Frio J and upper K sands. This work was completed in mid March quarter 2006. Well performance did not meet expectations; however production did improve to a total over the fields of 5.2 million standard cubic feet per day (“mmscfd”).

Further outcomes of the drilling program and in conjunction with work overs on existing wells, showed that the deep K sands below the K15 level had sub economic minor gas saturations and that potential Miocene

sands (above 2,400 meters) had been effectively drained by prior production. With the above wells and workover results a new reserve position was independently determined by consultants Ryder Scott effective 1 December 2005. The reserve review had a significant increase in the Proved (1P) category (the higher degree of certainty category), with this component as a percentage of 3P reserves (Proved, Possible and Probable) increasing to 54% versus 38% from the prior review in October 2004.

A review of the Phase 1 well engineering and completion program on the BG Webb #1, Petty #2 and D-24 wells was commissioned (in part undertaken by Sun Resources) and is currently ongoing. Results to date, including an independent study, have shown the less than expected performance of reservoirs completed in BG Webb #1 and EFB D-24 is not due to problems of reservoir per se but is most likely due to inappropriate drilling and completion practices (over gauge hole when drilling and fracture stimulation procedure).

### **Phase 2 of the Development Program**

Phase 2 of the development program involves drilling up to 8 new wells targeting 40.9 bcfe of 3P recoverable reserves in the Frio J and K sands in both the East and West Flour Bluff Gas Fields. The initial well planned in Phase 2 is the FB #1 well in the West Flour Bluff Gas Field. Workovers of existing wells will also be conducted to optimise production and reserves.

To date commencement of the Phase 2 program has been delayed due to the lack of deep rigs (a consequence of a back up in well schedule of the Operator's favoured drilling contractor) and then in December 2006 the rescheduling of drilling by the Operator and another member of the Joint Venture. These two parties have collectively a 49% vote and can block a joint venture operation. These parties have elected not to fund the Flour Bluff #1 well until at least the June half of 2008.

### **Current Reporting Period Activity**

#### **Phase 1 of the Development Program**

The operator commenced a workover program on East Flour Bluff Field wells (D-18, D-19 and D-24) mid quarter. The aim of the program is to carry out completions on up hole reserves in these wells to arrest declining production and bring production to above 3 mmscfd from the current 1.60 mmscfd level. These workovers are the result of Sun Resources' active lobbying of the Operator and were considered and passed at a technical meeting in Houston in early February 2007

The first workover commenced on the D-24 well and is still current. The wet J-77 sand has been isolated from the new J-64 sand and producing J-90 sand. Completion of the J-64 sand for production is in progress. It's production will be commingled with production from the J-90 sand that was previously being suppressed by "wet" production from the J-77 sand. The J-64 sand has 3.68 bcf and 92,000 bo proved reserves assigned to it in the last independent Ryder Scott report update.

The ongoing Phase 1 well engineering and completion program study independent of the operator and spearheaded by Sun Resources continues to make progress. The problem of over gauge holes is planned to be addressed primarily by the use of synthetic based drilling mud with other additional minor changes to drilling procedures. Studies to improve fracture stimulation procedures are the subject of ongoing work. It is Sun Resources' opinion that the individual reservoirs when properly drilled and completed remain capable of production rates as high as 2 to 5 mmscfd with a high recovery of in place volumes.

### **Phase 2 of the Development Program**

Commencement of drilling activities on Flour Bluff (the FB #1 well in the West Flour Bluff Gas Field) will not occur until at least the June half of 2008. Commencement of Phase 2 is a priority for Sun Resources and this has been communicated to the Operator. During the reporting period, Sun Resources continued examining other alternatives to enable the well to be drilled with some certainty; this includes a non joint venture operation that could be managed by Sun Resources.

## **1.5 SAN JOAQUIN BASIN, CALIFORNIA**

### **1.5.1 EAGLE OIL/GAS DEVELOPMENT – 10.0% INTEREST**

#### **History/Background**

The Eagle Oil/Gas Development Project is a stratigraphic trap prognosed to contain gross recoverable volumes up to 34 mmbbl and 58 bcf of gas (P<sub>10</sub> estimate) in the Eocene age Upper and Lower Gatchell Sandstone. These volumes and reservoir were the target of the drilling and testing of the Eagle North #1 well in 2006. Eagle North #1 established the presence of moveable oil in the target Gatchell sand zone over 177 metres of horizontal extent, ie from 4,209 to 4,386 metres measured depth (“MD”) in the well.

Regrettably Eagle North #1 could not be tested due to completion assembly mechanical failures. In particular, the production valve in the completion string was assessed to be too damaged to allow a successful retrieval and replacement of the completion string, and therefore on a risk assessed basis, continuing operations were not justified. Further funds, with a higher probability of successfully testing the Gatchell sands, would be better spent on a potential future re-entry and side track from the current Eagle North #1 well bore.

The Eagle Oil Pool, now geologically derisked by the well results, remains a valid target. It is considered that a horizontal well such as Eagle North #1 should have a significantly enhanced flow rate to that seen within the Mary Bellocchi-1 well – a flow of 223 bbl and 0.7 mmscf per day flow over a 12 metre interval of lower Mary Bellocchi sand. This also provides sufficient encouragement to attempt to achieve a successful flow test of a well on the Eagle Oil Pool and hopefully eventually its development through a multi horizontal well development.

Project equities on completion of the Eagle North #1 well are Emphyrean Energy PLC (38.5%), Operator Victoria (20%), First Australian Resources Ltd (“First Australian”) (15%), Lakes Oil NL (15%), Sun Resources (10%) and a USA private investor (1.5%).

At the end of the December 2006 reporting period, planning had commenced for a potential future operation on the Eagle Oil Pool with an independent examination and report into the operations carried out within the Eagle North #1 well. This review will critically examine past operations with the objective to significantly improve the drilling, evaluation and completion performance of any future well. The exact timing of any further operations is dependent upon the completion of the above report and is then subject to rig availability and personnel. A new Operator and partner will also be sought for this new program.

#### **Current Reporting Period Activity**

The independent report (scheduled April 2007) and the current Operator’s proposed forward program report are still outstanding. The Operator in the quarter advised the Joint Venture that the project leases were renewed and it was searching for a new drilling consultant and rig. At this stage a new well to target the good oil shows seen in the 177 metres of horizontal well in the lower Gatchell sand of Eagle North #1 is favoured rather than a re-entry because of size limitations with the Eagle North #1 bore hole for down hole equipment. Generation of a new drilling program and AFE is now not expected until August 2007. When all reports are to hand a decision will be required from JV partners on their level of participation.

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

#### **History/Background**

Anadarko International Energy Company (“Anadarko”), a subsidiary of Anadarko Petroleum Corporation (NYSE:APC), concluded a Participation (Farmin) 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 by funding agreed activities on two contiguous permit areas - ESA Area 4, Block 3 and ESA Area 5. These ESA’s total 14,800 square kilometres and are located on the Pelagian Platform in southern Maltese waters abutting Tunisia and Libya.

These farmin activities to be carried out by Anadarko are further infill 2D seismic on ESA Area 5 and for 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 with the areas. 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.

Large prospects such as Chianti and Limoncello were delineated in 2004 by Sun Resources and Pancontinental in ESA Area 5, and these have speculative reserve potential, ranging from a mean recoverable oil potential of 455 mmbo for Chianti to 968 mmbo for Limoncello. The potential estimates are based on neighbouring commercial field analogues in Libyan and Tunisian waters.

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 (Farmin) Agreement with Sun Resources and Pancontinental.

Progress, albeit slow, continues to be made on resolution of the maritime borders, particularly between Malta and Tunisia and Malta and Libya. An Agreement between Malta and Tunisia was signed on 27 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 Frendo (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.

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 between Malta and Libya will be forthcoming in the very near future. Meetings between the two governments occurred in February 2007 with both parties agreeing to identify opportunities for co-operation on maritime boundaries, including determining territorial boundaries for oil and gas exploration.

### **Current Reporting Period Activity**

Follow on meetings between the governments of Malta and Libya occurred in April and June 2007 and Anadarko continued to actively monitor and lobby on the border situation with the Government of Malta. Anadarko is keen to commence seismic and has been proactive by seeking tenders and or seeking to align seismic surveys that they have, or with third parties in adjacent Tunisian waters, with potential seismic operations within the Malta ESA's. This objective has been communicated to the Maltese government officials. Seismic activity in the Mediterranean Sea has now resumed following the passing of the inclement weather associated with the winter season in the Mediterranean Sea.

## **3. CARNARVON BASIN, WESTERN AUSTRALIA**

Sun Resources is part of various consortiums of companies exploring three permits in the Dampier Sub-Basin (WA-254-P, WA-257-P and WA-261-P). It is probable from developments outlined below that 2 to 4 wells will be drilled on these permits in the next few years commencing first half 2008.

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

#### **History/Background**

On going work with Operator, Apache Energy ("Apache") has been directed towards fully maturing the prospect and lead inventory (Duomonte, Dr Zeus, Janus revisited, Helly Belly, Jayasuriya and Little Joe) for drilling by interpretation of better imaged deeper stratigraphic levels from new reprocessing of the 3D

seismic data base. Hopefully 2 to 3 prospects will be sufficiently worked up with suitable risks to enable the same number of wells to be drilled in the last term of the permit which expires on 11 June 2011. Duomonte (44 mmbo recoverable (P<sub>10</sub>)) has been nominated for drilling by the Operator in the permit year ending 11 June 2008, but this is conditional on the Operator's drilling schedule. Notwithstanding high oil prices, an updated economic analysis of the Sage Oilfield, given to the joint venture at the February 2007 technical meeting, still has Sage's status as being a stranded oil discovery with its development being dependent on new discoveries being made nearby to share development costs.

### **Current Reporting Period Activity**

The Operator continues interpretation of the deeper stratigraphic levels in the permit from reprocessed 3D seismic data.

Participants in WA-254-P are Sun Resources (7.86% to 9.25%), Operator Apache (64.95% to 72.28%), 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%).

## **3.2 WA-257-P – 9.64% INTEREST**

### **History/Background**

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 mmbo (P<sub>10</sub>) recoverable *W Spectabilis* sands, Hekla Prospect; and, the up to 130 mmbo (P<sub>10</sub>) recoverable *P inhiense* (Angel Formation) sands, Sextant Prospect.

Both now have high geological risk; Hekla – high structural risk and Sextant – high reservoir risk. The joint venture was advised in January 2007 that the target reservoir in the nearby Libris 1 well in eastern adjacent permit WA-246-P held by Apache, Kufpec Australia Pty Ltd (“Kufpec”) and Pan Pacific Petroleum NL was poor notwithstanding oil was present in the reservoir. A well on the Sextant Prospect could be reconsidered if the new Corvus West Prospect under Sextant became a drilling candidate. This is a new small Jurassic structural prospect that is related to the Corvus gas field on trend in eastern adjacent WA-246-P.

### **Current Reporting Period Activity**

A 3D seismic survey covering the western two thirds of the permit area where previous 2D seismic coverage is poor was completed in the quarter. Processing of this data is underway with interpretation scheduled in the December 2007 quarter in an endeavour to add more leads to the prospect inventory.

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**

### **History/Background**

On going work with Operator, Apache, has been directed towards fully maturing the Hestia Prospect (potential reserves 11.5 (mean) to 23.2 (P<sub>10</sub>) mmbo) for drilling, and interpretation of better imaged deeper stratigraphic levels from new reprocessed seismic data. The largest risk for the Hestia Prospect is top seal at the Athol Formation reservoir sub crop interface with the basal Cretaceous unconformity. At a January 2007 joint venture meeting the Operator confirmed the seal risk and showed as a consequence the probability of drill success on the prospect being reduced from 25% to a marginal 10%. Based on this risk outcome Hestia is no longer on the Operator's proposed drilling list.

At the January 2007 joint venture meeting, the Operator had run out of obvious prospectivity in the permit and recommended to the joint venture (subject to final costing) an Ocean Bottom Cable (OBC) 3D seismic survey over the area of the North Chamois Prospect to delineate a possible *M australis* (Stag oilfield reservoir) stratigraphic play. This survey was proposed as part of the renewal work program for the permit with the federal authority. It would be carried out in the June 2007 quarter as an extension to the Operator's OBC 3D seismic survey over the adjacent Stag Oilfield after the WA-261-P licence has been renewed by the federal authority. The OBC 3D seismic survey was thought to provide the best opportunity to find additional

*M australis* prospects by improving seismic data quality in the area adjacent to the Chamois oil accumulation.

#### **Current Reporting Period Activity**

Some of the members of the joint venture (Sun Resources being one) declined to participate in the permit renewal and withdrew from the permit on May 11 before statutory renewal date. The reason being was the renewal work program involved the acquisition of an OBC 3D seismic survey that was both expensive and, importantly from Sun Resources' perspective, the area to be surveyed from work carried out to date had little remaining hydrocarbon prospectivity.

## **4 SYDNEY BASIN, ILLAWARRA CSM/CMM PROJECTS**

#### **History/Background**

On the 14 February 2007 the Company signed a commercial in confidence contract for the sale of its subsidiary Sun Resources (NSW) Pty Ltd which holds all of the project assets for a good profit. These project assets were the;

- Wollongong Coal Seam Methane ("CSM") and Coal Mine Methane ("CMM") project comprising granted Petroleum Exploration Licences PEL 442 and PEL 444
- Access to Helensburgh Coal Pty Ltd's Metropolitan Mine Coal Concession Leases CCL 703 and CCL 379 ("Metropolitan")
- The Burrangong CSM and CMM Project PEL78.

Significant CSM and CMM resources were being targeted and had been indicated 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.

Notwithstanding the projects have attributes for success, Sun Resources made a decision to dispose of its interests due to the fact that an inordinate time period of 12 to 18 months has passed and little positive project activity and outcomes from the Operator has occurred. Money received from a disposal and invested in a well researched new project activity could effect an outcome of major consequence for a similar present equity position of the Company in the Illawarra Projects.

#### **Current Reporting Period Activity**

On the 23 April 2007, the Company received \$1 million for the sale of Sun Resources (NSW) Pty Ltd bringing its interest to a close in the Illawarra Projects.

## **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.

### **BY ORDER OF THE BOARD**



**B L FARRELL**  
**EXECUTIVE CHAIRMAN**

This quarterly report is lodged on the Company's website, [www.sunres.com.au](http://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.