



SUN RESOURCES NL

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QUARTERLY REPORT FOR THE PERIOD **ENDING MARCH 2007**

27 April 2007

HIGHLIGHTS

➤ **Sydney Basin, Illawarra CSM/CMM Projects**

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 18 to 24 months has passed and little positive project activity and outcomes from the Operator have occurred. 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. Post quarter, on the 23 April 2007, the Company received the \$1 million consideration for the sale.

➤ **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. Lake Long #9 well, commencing mid May 2007, will test the low risk Hollywood Prospect targeting multi-pay Hollywood Sandstone with cumulative potential unrisks recoverable volumes of 21 bcf gas with 760,000 boc. Target has good 3D seismic attribute support which is interpreted as 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 Sandstone. Further Hollywood Sandstone potential of 30 bcf gas with 1,085,000 boc exists in the lease area as follow up. Conditional on success, follow up under the lease terms is scheduled by drilling in June quarter 2008.

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

- Shallow Wells Program

During the March 2007 quarter, the Initial Three Wells program was completed with El Viejito #1 and Dos Dedos #1 being gas discoveries and Milagro #1 being an oil discovery. Dos Dedos #1 and Milagro #1 have been connected to sales lines and have been brought into production at a cumulative rate of 600,000 scfd.

Commercial success has triggered the Final Three Wells program under the farmin agreement with Emyrean Energy PLC and is due to commence in mid May 2007. The Agavero, Dona Carlota and Climaco Prospects are scheduled for drilling and are again analogues of Frio and Vicksburg sand production in the immediate area at depths of less than 2,000 metres.

- Deep Wells Program

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

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

The Company is currently awaiting an independent report commissioned by the Operator evaluating past operations and the proposed forward program on the Eagle Oil Pool 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 farmin. The Eagle Oil Pool remains a valid target and the likelihood of the presence of the potential of 34 mmbo and 58 bcf (P₁₀ recoverable estimate) has been improved by the results of the Eagle North #1 well.

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

Commencement of drilling activities on Flour Bluff was a subject of a technical meeting in Houston in early February 2007. The Joint Venture in attendance was advised by the Operator that the FB #1 well on West Flour Bluff would not be drilled until at least the latter half of 2007. In the interim a workover and completion of new gas reserves in the EFB D-24 and EFB D-19 wells is to be carried out in June quarter 2007.

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 post quarter a start on development drilling on a new project in Louisiana (Lake Long). Drilling if successful 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\$6 - 7 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 and Project Margarita on the South Texas Gulf Coast), Louisiana (Lake Long Project) 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%

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 billion cubic feet of gas equivalent ("bcfe") gross, are prognosed to be reservoirised 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 ("mmscf").

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 determined by 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 and undertaken by Sun Resources during the period 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 Flour Bluff #1 well. 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 collective 49% vote presently block a joint venture operation as these parties have elected not to fund the Flour Bluff #1 well until at least the latter half of 2007.

Current Reporting Period Activity

Phase 1 of the Development Program

Production during March quarter 2007 averaged 1.66 mmscfd equivalent compared with 2.36 mmscfd equivalent during December quarter 2006. This is a result of a decline within the producing wells, due to the impact of water being produced in increasing quantities and also natural decline. Remedial measures such as workovers and re-completions need to be taken to enhance production within the existing wells and these have been actively pursued by Sun Resources with a recommendation to the Operator to workover at least 2 wells. These workovers were considered at a technical meeting in Houston in early February 2007 and the Operator has sought approval from all Joint Venture participants to workover and complete new gas reserves in EFB D-24 and EFB D-19 with a most likely start date of this operation being early in the June quarter 2007.

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 was a subject of a technical meeting in Houston in early February 2007. The Joint Venture in attendance was advised by the Operator that the FB #1 well on West Flour Bluff would not be drilled until at least the latter half of 2007. Commencement of Phase 2 during 2007 is a priority for Sun Resources and this was communicated to the Operator. Post the conclusion of the reporting period, Sun Resources commenced examining other alternatives to enable the well to be drilled with some certainty during 2007; this includes a non joint venture operation that could be managed by Sun Resources.

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 km² 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 to date on the 530 km² of 3D seismic 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 <1,800 metres depth
- Deeper Yegua and Wilcox sands between 1,800 and 4,000 metres

The Yegua and Wilcox are under explored with only 5 wells >2,400 metres drilled within the 530 km² 3D seismic area, with 4 of these drilled prior to the 3D seismic. A significant number of high impact Wilcox gas targets have been recognised and these lie along trend from significant recent discoveries.

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 Empyrean Energy PLC (“Empyrean”). Empyrean 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). Empyrean 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 tabulated below.

Participant	Final Working Interest %
Sun Resources NL	20.0000
Victoria Petroleum NL	20.0000
Wandoo Energy LLC	16.0000
Empyrean Energy PLC	44.0000
Total	100.0000

At the end of the December 2006 quarter drilling of the Initial Wells commenced on the tabled prospects below. At the close of the reporting period the first well, El Viejito #1, had not reached the objective depth

Prospect Name	Mean Reserves (BCF)	Total Depth (meters)
El Viejito	1.6	1,920
Dos Dedos	1.2	975
Milagro	2.0	1.585

Current Reporting Period Activity

Initial Wells Program

The Initial Wells program was successfully completed in the quarter with El Viejito #1 and Dos Dedos #1 being gas discoveries and Milagro #1 being an oil discovery. Well testing was prolonged due to the large number of potentially productive zones tested (up to four per well), the frequent cleanup of unconsolidated sands flowing into the well bore and site access problems caused by flooding due to heavy winter rains.

The El Viejito #1 well 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.

Milagro #1 was connected to a gas sales line on April 3, 2007 and is currently producing at 451,000 scfd with 0.5 bod (26th April) up from its initial rate of 350,000 scfd. The prognosis from log analysis and side wall cores is that the interval is oil bearing with a high gas ratio. This is based on a nearby analogue that produced 213,000 bo and 0.3 bcf. Initial flow from the analogue was almost entirely gas before oil flowed. At this time further production and pressure data is required to more accurately predict potential reserves. Prior to commencement of production, reservoir engineering analysis calculated potential reserves within the structure at 150,000 bo with two wells required to recover this volume.

Dos Dedos #1 was connected to the gas sales line on 26th April and commenced production from the uppermost gas bearing sand at 150,000 scfd. Further production and pressure data is required to predict reserves, but probable gross reserves pertaining to this sand are of the order of 0.35 bcf.

Final Wells Program

As advised above, a commercial success in any of the Initial Wells triggers the funding by Emyrean 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. This drilling program is scheduled to commence mid May 2007 and run until end of July 2007. Details of the three chosen prospect, Agavero, Dona Carlota and Climaco #1 are tabled below. These prospects are analogues of Frio and Vicksburg sand production in the immediate area at depths of less than 2,000 metres.

Prospect Name	Mean Reserves (bcf)	Total Well Depth (meters)
Agavero	0.7	1,340
Dona Carlota	0.8	1,525
Climaco	1.6	1,980

Deep Wells Program

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

1.3 SAN JOAQUIN BASIN, CALIFORNIA

1.3.1 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 mmo and 58 bcf of gas (P₁₀ 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 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 bo 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 Empyrean 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%).

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 being 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 not expected until end of May 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 mmbbl for Chianti to 968 mmbbl 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 continues to be made on resolution of the maritime borders, particularly between Malta and Tunisia. 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.

Current Reporting Period Activity

Anadarko continues to actively monitor and lobby on the border situation with the Government of Malta and is keen to commence seismic. Anadarko 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.

A meeting between the government of Malta and Libya occurred in early February 2007 with both parties agreeing experts from both countries meeting in Malta in April 2007 in an attempt to identify opportunities for co-operation on maritime boundaries. The meeting reported in a Maltese newspaper ("The Times") went on to say that discussions would include determining territorial boundaries for oil and gas exploration.

3. CARNARVON BASIN, WESTERN AUSTRALIA

Sun Resources is part of various consortiums of companies exploring four permits in the Dampier Sub-Basin (WA-254-P, WA-257-P, WA-261-P and WA-340-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 second half 2007.

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

History/Background

On going work with Operator, Apache, in the 2006 year was directed towards fully maturing the prospect and lead inventory (Duomonte, Dr Zeus, Janus revisited, Helly Belly, Jayasuriya and Little Joe) for drilling in 2007. In particular, interpretation of deeper stratigraphic levels indicated from new reprocessed seismic data acquired late in 2005. 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 was granted renewal in March quarter 2006 for a further five years.

Current Reporting Period Activity

A joint venture meeting originally scheduled late in the December 2006 quarter to review the 2006 work carried out by the Operator and to confirm the 2007 exploration program was held in February 2007. Duomonte (44 mmbbl recoverable (P₁₀)) was nominated for drilling by the Operator in late 2007 but this is conditional on the Operator's drilling schedule. An updated economic analysis of the Sage Oil field was given at the meeting and its status as a stranded oil discovery remains and its development is dependent on new discoveries being made nearby to share development costs.

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 mmb (P_{10}) of oil recoverable *W Spectabilis* sands Hekla Prospect and a *P ihiense* (Angel Formation) sands Sextant Prospect.

The Sextant Prospect is a truncation sub crop play at the *P ihiense* (Angel Formation) level and is an extrapolated analogue to the producing Mutineer / Exeter oil discoveries in the northern Carnarvon Basin. It overlaps into eastern adjacent WA-246-P with target potential for Sextant ranging from 50 (mean) to 130 (P_{10}) mmbo of oil recoverable, with two thirds of the potential falling in WA-257-P.

Consideration for the drilling of the Sextant #1 well was waiting on a pending analysis of the Libris 1 well drilled in early September 2006 in adjacent permit 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 within the Upper and Lower Angel Formation objectives.

Current Reporting Period Activity

A joint venture meeting scheduled late in the December 2006 quarter to confirm the 2007 exploration program, i.e. possible drilling, and to discuss the results of the 2006 year program was held in January 2007. The joint venture was advised Sextant is no longer on the drilling schedule because of perceived high reservoir risk. The nearby Libris 1 well reservoir 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. However, drilling this is somewhat dictated by developments on WA-246-P with the Corvus Gasfield (Apache-Kufpec-Pan Pacific). The joint venture actioned a 3D survey commencing March 2007 to cover the western 2/3 of the permit area where previous 2D seismic coverage was poor 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, in the 2006 year was directed towards fully maturing the Hestia Prospect for drilling in 2007 and interpretation of deeper stratigraphic levels indicated from new reprocessed seismic data acquired late in 2005.

The Hestia Prospect is a result of the observations of excellent oil shows in good reservoir sands within the Athol Formation in Ceres 1. The buttress-stratigraphic trap of Hestia lies southward of the Ceres 1 well and south westwards of the Gats 1 well. The Athol Formation is the only target level for the prospect (at depth of 780 meters) as the prospectivity of the deeper Mungaroo Formation sands were downgraded by the new seismic reprocessing. For the Athol Formation alone, the potential reserves range in size from 11.5 (mean) to 23.2 (P_{10}) mmbo. Hestia is relatively closely located to the nearby Stag Oilfield infrastructure for a potential tie-in. The largest risk for the Hestia Prospect is top seal at the reservoir sub crop interface with the basal Cretaceous unconformity. Examination of a tight sand (a potential seal) at the Gats #1 well at the basal Cretaceous unconformity is awaiting a final report and assessment by the operator.

Current Reporting Period Activity

A joint venture meeting, scheduled late in the December 2006 quarter to confirm the 2007 exploration program and to discuss the results of the 2006 year program occurred in early January 2007.

Work performed during the latter part of 2006 has resulted in a substantial increase in drilling risk for the Hestia prospect, i.e. the probability of drill success being reduced from 25% to a marginal 10%. Due to the revised risk assessment Hestia is no longer on the Operator’s proposed drilling list in 2007.

At the joint venture meeting the Operator 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 is proposed to be carried out as an extension to the Operator's OBC 3D seismic survey over the Stag Oilfield after WA-261-P has been renewed by the federal authority. This renewal is currently in progress. The OBC 3D seismic survey provides the best opportunity to find additional prospects by improving seismic data quality in the area adjacent to the Chamois oil accumulation. Chamois has reserve potential of approximately 2.4 (mean) to 3.9 (P₁₀) mmbo. The minimum economic field size (estimated by Apache Energy) for a small FPSO development is now 5 mmbo under a >\$US50 per barrel oil price regime.

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

History/Background

As previously advised last quarter new infill seismic has resulted in prospects becoming considerably smaller with generally high drilling risk. The joint venture's consensus was to add the permit with its prospect inventory to Operator's Strike Oil's farm out of surrounding permits and if no interest occurs by January 2207 drop the permit rather than enter into a drilling commitment with the Federal Authority at end of March quarter 2007.

Current Reporting Period Activity

As no farm in interest to the permit was generated from the Operator's general farm out effort the joint venture decided to drop the permit rather than enter into a drilling commitment with the Federal Authority. This was actioned by the Operator in late January.

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

4 SYDNEY BASIN, ILLAWARRA CSM/CMM PROJECTS

History/Background

Sun Resources and unlisted Apex Energy NL ('Apex Energy') as Operator are joint venture partners in

- Wollongong CSM and 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 Project PEL78.

Significant Coal Seam Methane (CSM) and Coal Mine Methane (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 over the last 12 to 18 months has been 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.

Current Reporting Period Activity

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. 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. Post quarter, on the 23 April 2007, the Company received \$1 million for the sale of Sun Resources (NSW) Pty Ltd.

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 Barmingo 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. Post quarter the Company entered into a new joint venture on a development project in Louisiana which was fully outlined in an ASX announcement of 26 April 2007 and is summarised below.

1. HOLLYWOOD PROSPECT, LAKE LONG, LOUISIANA, USA

Post quarter the Company farmed into a development project in the Lake Long Field area in Lafourche Parish, Louisiana, USA. The Company will earn a 10% Working Interest ("WI") from farmee and local operator, Kriti Exploration, Inc ("Kriti") via participation in the test of the Hollywood Prospect that lies within the Lake Long Field area, which has been held by production ("HBP") since the field was discovered in 1938.

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. Cumulative production to date from the Palace #1 well is 3.8 bcf gas plus 114,916 barrels of condensate ("boc"). The well is still producing at a daily rate of 3.6 mmscfd gas with 60 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 Lake Long #9 well on the prospect targets a faulted structural high with Lower, Middle and Upper Hollywood Sands objectives with cumulative unrisksed potential of 21 bcf and 760,000 boc. The Hollywood Sands objectives lie between 11,550 feet (3,520 metres) and the total well depth of 13,500 feet (4,115 metres). The prospect is 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.

Drilling is scheduled to start in mid May 2007 with completion by late July 2007. The lease has a 12 monthly continuous drilling option, and conditional on drilling success, the follow up potential of a further 30 bcf and 1,085,000 boc in the Hollywood objectives within the 1,325 acre lease will be the subject of further drilling in June quarter 2008.

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.