

QUARTERLY REPORT FOR THE PERIOD

ENDING 31 DECEMBER 2011

HIGHLIGHTS

Delta Oil Project, USA

- Sun Resources NL (“Sun” or “Sun Resources”) is acquiring the Delta Oil Project, consisting of up to 10,000 acres of oil and gas leases in the emerging ‘Eaglebine’ oil play within the shallow oil zone of the Eagle Ford Shale trend.
- During the quarter Sun announced that it had secured the first four tranches of acreage along trend of the Eagle Ford Shale Fairway, with a significant holding of 6,053 net acres in the Delta Oil Project as of 6 December 2011.
- Subsequent to the end of the Quarter, on 23 January 2012, Sun announced its expanded acreage holding in the Delta Oil Project to 6,803 net acres. Sun will acquire 100% Net Working Interests (minimum 75% Net Revenue Interest) in all leases as Sun considers the Delta Oil Project represents a relatively low risk acquisition, which has potential for attractive economics in the ‘Eaglebine’ target, with significant upside.
- Independent petroleum engineering and geological consulting firm Ralph E. Davis estimates unrisks 10 million barrels of net Prospective Oil Resources in one sand unit of the Delta Oil Project and potential upside of a further unrisks 10 to 20 million barrels of Prospective Oil Resources in other sand units in the 450 feet thick prospective sequence.
- The Delta Oil Project also includes 5 secondary oil and gas target horizons, including the deep, Jurassic Bossier sands, where several major gas discoveries have been made in close proximity to the Delta Oil Project.
- Leasing continues towards the target 10,000 acres in this highly prospective oil play.

CORPORATE

- Delta Oil Project acquisition and funding were approved by shareholders.
- The Loan arrangement with Dr Farrell was fully repaid on 3 November 2011.
- Non-executive Board member, Mr Peter Woods retired from the Board, and the Board announced that Mr Damian Kestel will join the Board as a non-executive director, effective 1 February 2012.
- Subsequent to the end of the quarter, the Board has announced that Mr John Kenny will also join the Board as a non-executive director, effective 1 March 2012.

1. UNITED STATES OF AMERICA

1.1 OIL AND GAS EXPLORATION

Delta Oil Project, Onshore, East Texas (Sun Resources – 100%WI)

Update

Sun Resources has increased its holding in the Delta Oil Project during the Quarter, from 4,482 acres to 6,053 acres. As of 23 January 2012 this holding was further increased to 6,803 acres, and Sun continues to work with the Vendor to progress towards the acquisition target of 10,000 acres.

The acquisition of future tranches of oil and gas leases is fully funded from existing cash reserves, through Sun's recently completed equity raising of A\$10.8 million (before costs). Further lease tranches will be purchased from the Vendor, subject to completion of due diligence.

Background

The Delta Oil Project leases are located in the rapidly expanding new 'Eaglebine' play within the overall Eagle Ford Shale trend in Houston, Madison, Leon and Robertson Counties, Texas. In this new resource play, horizontal fraced wells have obtained significant oil production from brittle, sandy units (**Woodbine Sands**) near the base of the Eagle Ford Shale at relatively shallow depths.

On 26 August 2011, Sun Resources announced that it had entered into a binding term sheet with a Houston based private oil and gas company to acquire up to 10,000 net acres of oil and gas leases¹ (**Delta Oil Project**), all located within the oil zone of the Eagle Ford Shale trend in Texas, USA. Sun will acquire a 100% working interest in all of the leases, each with a minimum 75% net revenue interest, a three year lease term, and in most instances, also have a 2 years option to extend the lease term. Sun will work with the Vendor to acquire up to 10,000 acres; however less than 10,000 acres may ultimately be acquired. The numbers throughout this quarterly report are based on the acquisition of 10,000 acres.

Recent horizontal wells within 35 miles of the Delta Oil Project have obtained initial flow rates of 900 to 1,200 barrels of oil per day from multi-staged fraced laterals of 6,000 to 7,000 feet in sandstone units and operators are reporting Estimated Ultimate Recoveries (**EUR**) of 300,000 to 600,000 barrels of oil per well. These results are comparable to wells in the Eagle Ford Shale oil zone in the well-known producing areas. In addition, the Eaglebine target reservoir depths of 5,000 to 8,000 feet are shallower than typical Eagle Ford Shale wells resulting in materially lower well costs which should materially improve the net present value (**NPV**) of individual wells.

Early recognition of the potential of the emerging Eaglebine play has enabled Sun to acquire a substantial lease holding at lease costs significantly lower than those in the well-known areas of the Eagle Ford Shale oil trend. Utilising information from old vertical wells situated within the boundaries of the leases and recent horizontal well production history from nearby Eaglebine producing wells, independent Houston based petroleum engineering and geological consultants, Ralph E Davis Associates Inc. (**Ralph E. Davis**) has estimated ***unrisked net Prospective Resources within the Delta Oil Project of 10 million barrels of oil from one sand unit and potential upside of a further unrisked 10 to 20 million barrels of oil from other sand units within the 400 feet thick target zone.***

The Ralph E. Davis net Prospective Resource estimate uses the following assumptions:

- a total of 30 wells spaced at 320 acres (i.e. 30 wells across 10,000 acres);
- each well with an Initial Production (**IP**) rate of 700 barrels of oil per day (**Bopd**);
- each well with an EUR of 452,000 barrels of oil (**bo**) per well from one 20 feet thick sand unit located over all of the Delta Oil Project area;
- oil at US\$90 per barrel and gas at US\$4 per thousand cubic feet (**Mcf**) held flat for the well life of 30 years;
- each well with a productive life of 30 years;

¹ Sun will work with the Vendor to acquire up to 10,000 acres, however, less than 10,000 acres may ultimately be acquired. The numbers throughout this announcement are based on the acquisition of 10,000 acres.

- capital cost of US\$6 million per well; and
- operating costs of US\$10,000 per month per well.

Assuming production of the 10 million barrels of Prospective Resources, Ralph E. Davis estimated the NPV of the Delta Oil Project of **US\$310 million²** which equates to:

- NPV of **US\$10,333,333 per well**; and
- NPV of US\$31 per barrel of oil for 10 million barrels of oil from one 20 feet thick sand unit, and
- Discounted at 10%, net of royalties, capital costs, operating costs and state taxes but excluding company income taxes

Margarita & Redback Projects, Onshore, South Texas (Sun Resources 20-37.5%WI)

Sun Resources will have a material equity position in the following exploration prospects, subject to ongoing farm-out marketing and future leasing:

Project	Prospect	Gross Potential	Comments
Margarita	TB#18	1.7bcfe	Frio Fm.
	TBF1.64	0.5mmbbl	Lower Frio
	Cazadores	20 to 61 bcf	Upper Wilcox
	W2A	100 to 200 bcf	Wilcox
	Agave	67 to 208 bcf	Cook Mountain
Redback*	R-1.95	58 bcfe	Middle Vicksburg

1.2 OIL AND GAS PRODUCTION

The table below summarises Sun Resources' actual net working interest ("WI%") production for the quarter and compares it with the previous quarter. Oil and gas production for the quarter is now restricted to only the Flour Bluff gas plant in Corpus Christie in South Texas. Only an estimate for December production was available at the time of preparing this report. Net revenue received during the quarter was slightly positive due to the receipt of an insurance payout from the Lake Long #9 well in Louisiana. USA gas prices for the quarter remained seasonally low and averaged approximately US\$3.00 per 1,000 cubic feet for gas (mcf).

PRODUCTION (Sun WI% share)	December 2011 Quarter	September 2011 Quarter	Variance
Gas (mmscfd)	6.7	12.96	-47%
Oil (bo)	130	208	-38%
Net Revenue (US\$)	+3,568	-42,980	+108%

Units: mmscfd – million cubic feet gas; bo – barrels of oil

2. THAILAND

L20/50 Block, Onshore Phitsanulok Basin (Sun Resources – 45%WI)

Update

During the December 2011 quarter, L20/50 Operator Carnarvon Petroleum advised that post-drill re-mapping of all the available seismic data in L2050 was completed, incorporating the results of Tapao Kaew-1 and Krai Thong-1, drilled in the first half of 2011. The revised seismic interpretation, and geochemical and temperature data from old and new wells, have been integrated into an updated basin model, the results of which are favourable for hydrocarbon generation in the Nong Bua Graben. Carnarvon has identified several structural leads in the basin on the new mapping, with potential to contain significant hydrocarbons.

The joint venture has entered the '2nd Obligation Period' and has applied to relinquish 50% of the concession area in accordance with concession commitment. Under the application, the joint venture will retain the most prospective acreage. Commitments during the second obligation period include a 3D survey and two exploration wells. The joint venture continues to carry forward a credit for one commitment well after exceeding the commitments of the '1st Obligation Period', thus effectively leaving only one exploration well to be drilled in the remainder of the second obligation period.

The joint venture is continuing to review options for the acquisition of 3D seismic data over the most prospective areas of the basin. A 3D survey will be acquired to improve understanding of the complex faulting and structure of the basin, and to better define and de-risk identified leads.

3. MALTA

ESA Area 4, Block 3 and ESA Area 5, Offshore Malta (Sun Resources 20%WI)

Update

Operator, Pancontinental Oil & Gas NL ("Pancontinental") advised that during the December quarter it made application to the Court of Malta to serve an injunction on the Government of Malta and was appointed a hearing date of 9 December 2011. An interim injunction was received on 1 December, pending the hearing. Pancontinental advised on 12 December that a decision was reserved by the Judge and on 16 December was advised by the Judge that the injunction was not acceded to. At the end of the Quarter, Pancontinental, as Operator of the permit, was considering the next course of action in relation to this matter.

4. AUSTRALIA

WA-254-P, Offshore Carnarvon Basin, W. Australia (Sun Resources 7.86% to 9.25%WI)

The Operator of WA-254-P, Apache Northwest ("Apache"), awaits a response to its Retention Lease (RL) application, covering the Sage-1 oil discovery, from the Designated Authority. The remainder of the block's exploration commitments have been suspended pending the RL application. Sun Resources and two other joint venture parties are continuing a divestment process of their combined 24.8% to 29.8% working interest in the permit that contains the Sage-1 well.

5. NEW PROJECT DEVELOPMENT – NW Europe

Update

Negotiations by the Operator were continuing at the end of the quarter with local government on the approval process of the well. A further extension to the end of February 2012 has been agreed between Sun Resources and the Operator to allow the Operator time to complete the well approval process with the local authorities. This is an important condition precedent in the executed Term Sheet. Further details relating to this farm-in will be announced to the market following the receipt of necessary local government approvals and the execution of a definitive Farm-in Agreement.

Background

Sun Resources announced on 10 November 2010 that a non-binding Term Sheet with an as yet undisclosed party (due to commercial sensitivities) had been executed for Sun Resources to participate in the drilling of a high impact well onshore North-West Europe which will test a 720 bcf conventional gas target. Sun Resources will fund €1.645m (A\$2.3m) of past and future drilling costs to earn a 15% working interest ("WI") in the farm-in concession. The planned well and equity assignment in the permit to Sun Resources is subject to approval by local authorities.

The primary play is Triassic sandstone reservoirs charged with gas (and/or oil) from older Permian-Carboniferous shale and coal, which is the principal play in the offshore Southern Gas Basin of the North Sea. Geological modeling, based on 2D seismic and recent interpretation, indicates that gas (with gas liquids) is the most likely hydrocarbon to be found within the prospect, which has a gross target of 720 billion cubic feet of gas (bcf) (Operator's estimate), with upside in excess of 1tcf. The prospect lies on trend with oil and gas fields and adjacent to old wells with oil and gas shows, around oil seeps.

The farm-in concession is also considered to have potential to offer an unconventional gas play within the older Permian-Carboniferous source rocks. Permitting of the well is ongoing and was hoped to be completed in Quarter 4 of 2011, allowing drilling to commence three to six months later. The non-binding Term Sheet is subject to the completion of due diligence, the execution of a Definitive Farm-in Agreement, and receipt of relevant statutory approvals and governmental consents.

6. CORPORATE

During the Quarter Sun raised approximately A\$10.8 million by way of a share placement for approximately A\$8.9 million ("**Placement**") and an Entitlement Issue for approximately A\$1.9 million ("**Entitlement Issue**"). Hartleys Limited acted as Broker to the Offer. The placement was approved at a general meeting of shareholders on 20 October 2011.

In addition to the Placement and Entitlement Issue, Sun Resources borrowed funds from Dr Farrell through a A\$2 million short term loan facility to manage the purchase of early tranches of leases in the Delta Oil Project. That loan facility was repaid in full on 3 November 2011. As at 31 December 2011, Sun Resources had a cash bank balance of A\$5.5 million with no debt.

During the Quarter, the Board announced the retirement of long standing non-executive director, Mr Peter Woods, effective 31 December 2011. The Board also announced the appointment of Mr Damian Kestel as a non-executive director, effective 1 February 2012. Subsequent to the end of the Quarter, the Board announced the appointment of Mr John Kenny as a non-executive director, effective 1 March 2012.

BY ORDER OF THE BOARD



MATTHEW A BATTRICK, MANAGING DIRECTOR

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

Information contained in this report was sourced from the Operators of various Joint Ventures in which the Company has interests and was compiled by the Managing Director of Sun Resources, Matthew Battrick, BSc (Geol), MPESA, MPESGB, MAAPG, GAICD who has had more than 30 years' experience in the practice of geology and 30 years' experience in petroleum geology.