

# **QUARTERLY REPORT FOR THE PERIOD**

## **ENDING 30 SEPTEMBER 2011**

### **HIGHLIGHTS**

#### **USA**

- Sun Resources NL (“Sun” or “Sun Resources”) announced the acquisition of 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.
- Sun will acquire 100% Net Working Interests (minimum 75% Net Revenue Interest) in all leases.
- To date, Sun has secured three tranches of acreage along trend of the Eagle Ford Shale Fairway, with a significant holding of 4,482 acres in the Delta Oil Project on 27<sup>th</sup> October 2011.
- 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 Bossier sands, where several major gas discoveries have been made in close proximity to the Delta Oil Project.
- 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.
- Leasing continues towards the target 10,000 acres in this highly prospective oil play.
- Production continued at the Flour Bluff Gas Field in Texas.

#### **CORPORATE**

- Delta Oil Project acquisition is fully funded by the completion of Sun’s Placement and Entitlements Issue which recently raised \$10.8m.
- Principal shareholders of the Vendor of the Delta Oil Project subscribed for \$550,000 in Sun Resources’ recent capital raising, demonstrating strong support for Sun and the Delta Oil Project.

## **1. UNITED STATES OF AMERICA**

### **1.1 OIL AND GAS EXPLORATION**

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

##### ***Update***

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 leases (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.

Sun Resources currently controls a 100% working interest in total of 4,482 acres (as of 27<sup>th</sup> October 2011) of the Delta Oil Project, which is situated along trend of the prolific Eagle Ford Shale oil and gas fairway in Texas, USA, and will continue to progress towards the acquisition target of 10,000 acres.

The acquisition of the first 3 tranches of oil and gas leases have been funded through a combination of the loan arrangement with Dr Brad Farrell (also announced on 26 August 2011), from existing cash reserves, and Sun's recently completed equity raising of \$10.8 million (before costs). Further lease tranches will be purchased from the vendor, subject to completion 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.

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 unrisks net Prospective Resources within the Delta Oil Project of 10 million barrels of oil from one sand unit and potential upside of a further unrisks 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; and
- capital cost of US\$6 million per well; plus 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 million which equates to:

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

### Acquisition Consideration: Shares and Options

Sun Resources will, subject to shareholder approval, and all other regulatory approvals, including from the ASX where necessary, issue to the Vendor or its nominees, the following securities as consideration for Sun's purchase of the Vendor's property rights to the Delta Oil Project:

- up to 58.824 million ordinary shares;
- up to 50 million options, each having an exercise price of \$0.025 and expiry date of 31 March 2014; and
- up to 320 performance options which shall vest in the event that certain successful performance is attained. These hurdles are detailed below:

#### Performance Options and Delta Oil Project Milestones

- up to 75 million performance options in Sun, in the event that the Vendor secures a farmout of the Delta Oil Project to a reputable third party operator (which farm-out will include drilling obligations and be on terms acceptable to Sun, acting reasonably) within 12 months of the purchase of the Tranche 1 leases;
- up to 40 million performance options in Sun, in the event that the Vendor secures a farmout of the leases below the 10,000 foot horizon (i.e. Travis Peak or Cotton Valley or Bossier horizon) of the Delta Oil Project to a reputable third party operator (which farm-out will include shooting 3D seismic and/or drilling obligations and be on terms acceptable to Sun, acting reasonably) within 12 months of the purchase of the Tranche 1 leases;
- up to 65 million performance options in Sun, in the event that Sun acquires at least 5,000 net acres of additional leases (which have been introduced to Sun by the Vendor and which have purchase terms acceptable to Sun, acting reasonably) within 18 months of the purchase of the Tranche 1 leases;
- up to 65 million performance options in Sun, in the event that Sun attains 2P Reserves (Net to Sun) of 10,000,000 barrels of oil and average daily oil production (Net to Sun) of 500 barrels of oil per day (from assets introduced to Sun by the Vendor) within 60 months of the purchase of the Tranche 1 leases; and
- up to 75 million performance options in Sun, in the event that Sun attains 2P Reserves (Net to Sun) of 20,000,000 barrels of oil and average daily oil production (Net to Sun) of 1,000 barrels of oil per day (from assets introduced to Sun by the Vendor) within 60 months of the purchase of the Tranche 1 leases.

The number of securities to be issued to the Vendor will reduce proportionately to the number of acres acquired by Sun as part of the acquisition of the Delta Oil Project if less than 10,000 acres

are acquired. All securities issued to Vendor pursuant to the acquisition of the Delta Oil Project will be escrowed for that period deemed mandatory by ASX. At a minimum, however, the securities will be subject to a voluntary escrow period expiring 12 months after receipt of Sun shareholder approval for the issue of the securities to the Vendor.

For a period of 24 months, the Vendor and its associates will grant Sun a right of first refusal over any additional oil and gas projects acquired or sourced by those parties in certain areas within Texas and Louisiana. In addition, the Vendor and its associates will assist Sun in the farm-out of the Delta Oil Project as well as any additional acreage that Sun acquires.

The performance options will provide significant incentive for the Vendor to assist Sun in the achievement of important project milestones, such as securing an appropriate operator and farminee for early drilling of the Delta Oil Project, developing reserves and production at the Delta Oil Project, and expanding Sun's holdings in the Delta Oil Project and in other areas in the Eagle Ford trend. The terms of the performance options are subject to approval by Sun shareholders.

In addition to the securities issued to the Vendor, a cash payment will be made to the Vendor in respect of each acre acquired from the proceeds of the Capital Raising. The identity of the Vendor cannot be disclosed at this point due to commercial sensitivities, however the Board of Sun does not believe the identity of the vendor is material or price sensitive. Once the acquisition is secured by Sun for its shareholders, further details will be provided which will provide shareholders with all details they require to vote on the issue of performance options and other securities proposed to be issued to the Vendor.

#### **Margarita Project, Onshore, South Texas (Sun Resources - 20% to 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:

<b>Project</b>	<b>Prospect</b>	<b>Interest</b>	<b>Potential</b>	<b>Comments</b>
Margarita	TB#18	37.5%	1.7bcfe	Frio Fm.
Redback*	R-1.95	20.0%*	58 bcfe	Middle Vicksburg

\* Subject to successful farm-out negotiations

The TB #18 shallow prospect remains the subject of a leasing process. This prospect has the potential to replace declining production from the existing Frio fields in the "Margarita Shallow" inventory. The "Deep Wells Programme" will test a number of deeper, larger volume, but higher risk, Wilcox prospects in the deep gas prospect inventory having potential un-risked recoverable volumes of 15 to 200 billion cubic feet of gas ("bcfg") (refer table below).

<b>Prospect</b>	<b>Gross Potential</b>	<b>Target Formation</b>
Cazadores	20 to 61 bcf	Upper Wilcox
W2A	100 to 200 bcf	Wilcox
Agave	67 to 208 bcf	Cook Mountain

#### **Project Redback, Onshore, South Texas (Sun Resources - 20% to 37.5%WI)**

Farm-out marketing of Redback R-1.95 prospect continued during the quarter and Sun Resources expects to farm down from the current 37.5%WI to retain a 20%WI through the first well. The prospect has multiple targets in the productive Vicksburg Sands with high upside potential for both gas and oil as accompanying condensate (ie up to 58 bcfe). On trend to the Redback area are producing analogues with individual wells having initial daily well production rates of 3 to 4 mmcf/d with 100 to 140 bopd. Participation in this prospect by Sun Resources remains subject to future leasing and subsequent farm-out.

## 1.2 OIL AND GAS DEVELOPMENT & 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 was reasonably steady through Flour Bluff's gas plant in Texas. Net revenue received during the quarter was still negative due to the relatively high unit cost of production at Flour Bluff. USA gas prices for the quarter were seasonally low and averaged approximately US\$3.50 per 1,000 cubic feet for gas (mcf).

<b>PRODUCTION (Sun WI% share)</b>	<b>Sept 2011 Quarter</b>	<b>June 2011 Quarter</b>	<b>Variance</b>
<b>Gas</b> (mmscf)	12.96	13.14	-1%
<b>Oil</b> (bo)	208	183	+14%
<b>Net Revenue</b> (US\$)	-42,980	-58,380	+26%

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

### Lake Long, Louisiana (Sun Resources - 10%WI)

The SL328 #9 (Lake Long #9) remained off-line during the quarter while the Operator undertook a down hole tubing repair. The work over activity resulted in the discovery of an underground blowout, through a leak in the casing, that was successfully stopped and the well subsequently plugged and abandoned.

### Project Margarita, Texas (Sun Resources - 37.5%WI)

The F1 discovery (JSGU#1) remained off-line throughout the quarter and is pending an abandonment recommendation from the Operator.

### Flour Bluff Gas Field, Texas (Sun Resources - 20.00 to 24.1667%WI)

Amalgamated gross production from the fields during the September 2010 quarter was an average 0.6 mmscf/d with 12 bopd.

## 2. THAILAND

### L20/50 Block, Onshore Phitsanulok Basin (Sun Resources – 42.5%WI)

#### *Update*

During the September 2011 quarter, L20/50 Operator Carnarvon Petroleum Limited continued with the integration of geological data obtained from the two exploration wells in Q1 2011 and reprocessing of the existing 2D seismic data. The discovery of high quality sandstone reservoirs and extensive clay seal lithologies will help improve the chance of success in the remaining 20 or so leads and prospects within 5 different play types over an area of 548km<sup>2</sup> covered by the 2D seismic survey. Current analysis suggests the presence of good source rocks, seal and reservoir within complex faulting and multiple fault terraces on eastern flank of the basin. The joint venture is currently reviewing options for the acquisition of 3D seismic data over the eastern flank of the basin to improve the geological understanding of the faulting structures and enhance the future drilling potential in this Concession. Sun Resources continues to be approached by companies interested in farming in to the permit.

### **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 quarter it continued to engage with the Ministry of Resources and Rural Affairs (MRA) in Malta with a view to refreshing the ESA and restarting exploration in the licence area. A further meeting was held with the Ministry in Malta on 22 July to progress matters. Activities on the Company’s Malta areas have been suspended since September 2005 under force majeure provisions of the ESA due to border issues between Malta, Libya and Tunisia.

### **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 November 2011 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 shales 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 is hoped to be completed in Q4 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**

Sun Resources NL successfully raised approximately \$10.8 million by way of a share placement for approximately \$8.9 million ("Placement") and an Entitlement Issue for approximately \$1.9 million ("Entitlement Issue"). The Placement and Entitlement Issue have been undertaken at 1.7 cents per share with Hartleys Limited as Broker to the Offer.

### ***Placement***

The Placement occurred in two tranches: In tranche one, Sun issued approximately 66.6 million shares and raised approximately \$1.1 million pursuant to its ASX Listing Rule 7.1 15% capacity. In tranche two, Sun issued approximately 459 million shares to raise approximately \$7.8 million. The tranche two issue was approved at a general meeting of shareholders on 20 October 2011. Vendors of the Delta Oil Project subscribed for \$550,000 pursuant to the Placement. Directors of Sun Resources subscribed for \$117,000 in the Placement and this was also approved by shareholders at the general meeting on 20 October 2011.

### ***Entitlement Issue***

In addition to the Placement, Sun Resources was pleased to offer existing shareholders the opportunity to participate in the capital raising by undertaking a non-renounceable Entitlement Issue at the same price as the Placement. The Entitlement Issue allowed every Sun Resources shareholder registered as at the close of business on 8 September 2011 ("Record Date") to subscribe for 1 new share for every 4 shares held in Sun Resources. The Entitlement Issue raised approximately \$1.9 million and was fully subscribed by existing shareholders and through a placement of shortfall shares.

As at 30 September 2011, Sun Resources had cash at bank of \$1.1 million and \$750,000 of short term debt. A further \$9.7 million became available to Sun Resources after the General Meeting of shareholders on 20 October 2011.

## **BY ORDER OF THE BOARD**



**MATTHEW A BATTRICK, MANAGING DIRECTOR**

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