

26 August 2011

ASX Limited  
Company Announcements  
Level 4, 20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

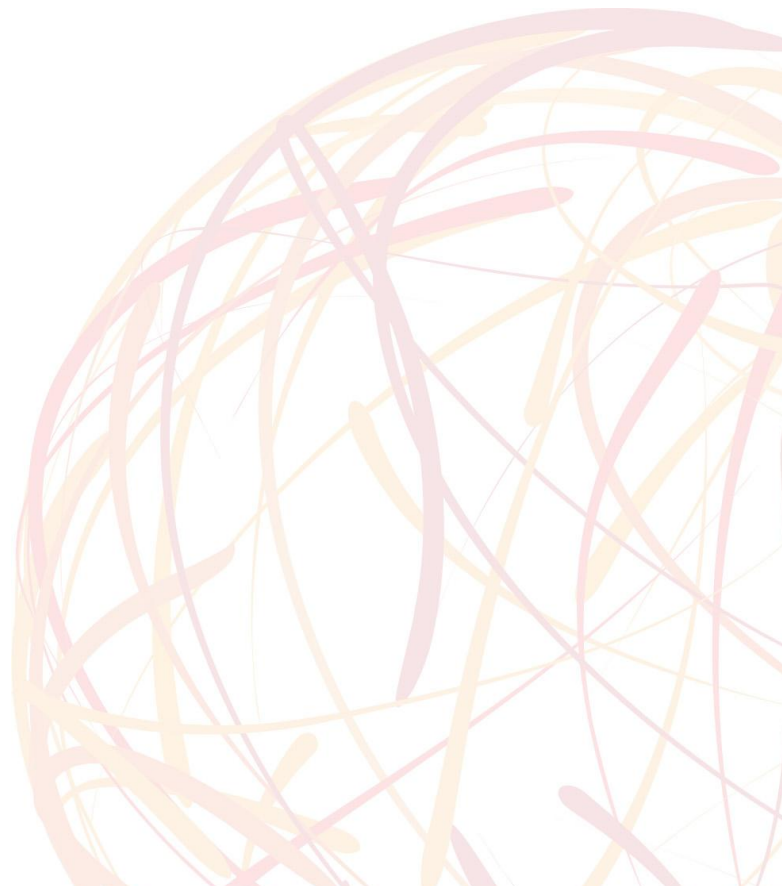
**SUN RESOURCES NL TO ACQUIRE DELTA OIL PROJECT**

Please find attached the following announcement in relation to the acquisition of working interests in the Delta Oil Project in Texas, USA.

Yours faithfully  
**SUN RESOURCES NL**



Craig Basson  
**COMPANY SECRETARY**



Friday 26 August 2011

## Sun Resources NL to acquire Delta Oil Project Up to 10,000 acres of 100% Working Interests along trend of the prolific Eagle Ford Shale Oil Fairway, Texas, USA

### Transaction Highlights

- Sun to acquire 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 the leases.
- 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.
- Principal shareholders of the Vendor will subscribe for a minimum of \$500,000 in Sun Resources pursuant to a capital raising.
- 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.

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The Board of Sun Resources NL (**Sun Resources, Sun** or the **Company**) is pleased to announce that it has entered into a binding Term Sheet with a Houston based private oil and gas company (**Vendor**), to acquire up to 10,000 net acres<sup>1</sup> 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 100% working interests 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 year option to extend the lease term.

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

<sup>1</sup> 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.

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 ***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;
- 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 million<sup>2</sup>** 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.

### **Background to the Eaglebine Oil Play**

Independent American oil company, Petrohawk Energy Corporation (**Petrohawk**), drilled the first horizontal Eagle Ford Shale (**EFS**) well in South Texas in 2008 and since then, hundreds of wells have been successfully drilled and completed across the EFS trend by a growing number of EFS oil and gas producers. On 14 July 2011, BHP Billiton announced an offer to acquire 100% of Petrohawk through an all-cash offer which valued the company at US\$15.1 billion<sup>3</sup>.

Early development of the EFS was in the gas-condensate zone where tight carbonate layers were targeted by long horizontal wells with multiple intervals (**multi-stage**) of hydraulically fractured (**fraced**) zones along the well bore, producing commercial flows of gas and oil/condensate. The depth range for this zone is traditionally between 10,000-14,000 feet. That experience has shown that the EFS can be productive where there are either carbonate-rich or sand-rich intervals in the shale that are brittle enough to be successfully fraced to deliver productive wells. The exploration of the trend has also moved up dip through the volatile oil zone into the 'black oil' zone, between 5,000-9,000 feet below surface.

The EFS trend has progressively moved north-east toward the East Texas Basin where the EFS transitions into the Woodbine Sands, the reservoir of the giant East Texas Field. The Texas Railroad

<sup>2</sup> discounted at 10%, net of royalties, capital costs, operating costs and state taxes but excluding company income taxes.

<sup>3</sup> Total enterprise value of approximately US\$15.1 billion including approximately US\$3.0 billion of assumed net debt

Commission is now claiming the EFS is one of the top 10 largest oil and gas fields in the world, stretching over 150 miles long and 50 miles wide.

The term 'Eaglebine' is an acronym for the area of East Texas where the Eagle Ford Shale ('**Eagle**') transitions into the Woodbine Sands ('**bine**'). The target is the brittle sandy layers that in places produce naturally at low rates from old vertical wells but perform substantially better when the latest EFS horizontal drilling and completion techniques are employed. The oil is generated in the Eagle Ford Shale and the low permeability brittle sandy units interbedded with silts and shales, act as reservoirs when fraced in horizontal wells, in the same way as the low permeability brittle limestone units in the Eagle Ford Shale in the well-known producing areas.

The depth range of the Eaglebine interval in the Delta Oil Project area is 5,000 to 8,000 feet and will target 'black oil' production. The major reservoir zone of interest is a 450 feet thick interval of Eaglebine, which includes the Woodbine 'A' sand, which now produces from horizontal wells located within 35 miles of the Delta Oil Project.

In addition to the Eaglebine play, the Delta Oil Project has five (5) secondary objectives that are known producing horizons in the area including:

- Pecan Gap Play (4,000 feet);
- Sub Clarksville Play (5,000 feet);
- Travis Peak Sandstone Play (10,000 feet);
- Cotton Valley Sandstones Play (12,000 feet); and
- Bossier Sands Play (16,000 feet).

Recently there have been several major gas discoveries in the deep Bossier sands within close proximity to the Delta Oil Project, and it is possible that the deep Bossier sands are also prospective within the boundaries of the Delta Oil Project.

### **Acquisition Timing**

Sun is pleased to report that it has completed its due diligence on the first 1,688 acres of oil and gas leases in the Delta Oil Project, and is progressing due diligence on the remaining leases. Sun will, during the next week, settle the acquisition of the first tranche of leases totalling 1,688 acres (**Tranche 1 leases**) using loan funds from Sun's largest shareholder and founder, Dr Bradford Farrell, and part of its existing cash reserves. A second tranche of approximately 1,250 acres is expected to be acquired subject to completion of due diligence, completion of a capital raising pursuant to Sun's ASX Listing Rule 7.1 15% capacity and completion of a formal asset purchase agreement.

The balance of up to 10,000 acres will be acquired in additional tranches, subject to a number of conditions precedent including due diligence, completion of a capital raising by Sun of no less than \$10.4 million, and all receipt of necessary regulatory and shareholder approvals by Sun. The conditions precedent to the acquisition of the Delta Oil Project are for the benefit of, and may only be waived by Sun. The acquisition of the Delta Oil Project is expected to be completed by mid-October 2011.

The loan from Dr. Bradford Farrell will initially be for \$750,000, however this will be increased to \$2 million subject to ASX approval. The loan will be secured against a portion of the leases to be acquired in the Delta Oil Project, and will otherwise be on normal commercial terms.

### **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 convertible performance shares which shall convert to ordinary shares in the event that certain successful performance is attained and these hurdles are detailed below:

#### Performance Shares and Delta Oil Project Milestones

- (i) up to 75 Class B convertible performance shares, each convertible into 1 million ordinary shares 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;
- (ii) up to 40 Class C convertible performance shares, each convertible into 1 million ordinary shares 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;
- (iii) up to 65 Class D convertible performance shares, each convertible into 1 million ordinary shares 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;
- (iv) up to 65 Class E convertible performance shares, each convertible into 1 million ordinary shares 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
- (v) up to 75 Class F convertible performance shares, each convertible into 1 million ordinary shares 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 shares 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 shares will be subject to approval by the ASX.

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 Resources 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 shares and other securities proposed to be issued to the Vendor.

Matthew Battrick, Sun Resources' Managing Director said:

*"We are very excited by the potential of the Delta Oil Project to become a significant oil producer, analogous to successful developments along the Eagle Ford Shale oil and gas producing trend in recent years. The substantial lease area with 100% working interests we are acquiring is an attractive asset which provides Sun with the potential to attract an experienced horizontal well operator to reduce development risk and in the success case, establish early production."*

## Capital Raising

The Company is currently undertaking a capital raising in the order of \$10.8 million pursuant to a placement and rights issue to fund the acquisition of the Delta Oil Project and early exploration activities. Sun expects to provide an update to the market in respect of this capital raising in the coming days. A maximum of approximately \$8 million (from capital raising proceeds, existing cash reserves and the loan from Brad Farrell) will be applied to the settlement of the acquisition of the Delta Oil Project. Demonstrating their support for the transaction and the Delta Oil Project, the principal shareholders of the Vendor have committed to subscribe for a minimum of \$500,000 in Sun Resources pursuant to the proposed capital raising.

## Sun Shareholder Meeting

Sun Resources shareholders will be required to vote on the issue of the securities to the Vendor at a general meeting of Sun's shareholders. A notice of meeting will be released to the ASX and dispatched to shareholders in due course. Sun expects to hold this meeting by 7 October 2011.

The Company will provide updates to shareholders as the purchase of the Delta Oil Project proceeds over the coming weeks.

This announcement does not remove Sun Resources from Trading Halt.

**For further information please contact:**



Matthew Battrick  
Managing Director



Craig Basson  
Company Secretary

Telephone: (08) 9388 6501  
Email: [admin@sunres.com.au](mailto:admin@sunres.com.au)

*Information contained in this report was compiled by the Managing Director of Sun Resources, Matthew Battrick, BSc (Geol), MPESA, MPESGB, MAAPG, GAICD who has more than 30 years' experience in the practice of geology and 30 years' experience in petroleum geology.*

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the implied assessment, based on certain estimates and assumptions that some or all of the resources and reserves described can be profitably produced in the future.

Although management believes the expectations reflected in such forward-looking statements are reasonable, forward-looking statements are based on the opinions, assumptions and estimates of management at the date the statements are made, and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward looking statements. In addition, if any of the assumptions or estimates made by management prove to be incorrect, actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this document. Such assumptions include, but are not limited to, general economic, market and business conditions and corporate strategy. Accordingly, investors are cautioned not to place undue reliance on such statements.

All of the forward-looking information in this document is expressly qualified by these cautionary statements. Forward-looking information contained herein is made as of the date of this document and Sun Resources disclaims any obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise, except as required by law.

**Figure 1: Eagle Ford Shale Position and Location of Delta Oil Project plotted on Texas County map.**

