



SUN RESOURCES NL

ABN 69 009 196 810
(INCORPORATED IN WESTERN AUSTRALIA)

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10 October 2006

Company Announcements
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2006 NOTICE OF ANNUAL GENERAL MEETING, EXPLANATORY MEMORANDUM AND PROXY FORM

We advise that the Company's Annual Report for the twelve-month financial period ending 30 June 2006, Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form were despatched to Shareholders today.

We attach herewith a copy of the Annual Report and a copy of the Notice of Annual General Meeting, Explanatory Memorandum and Proxy Form.

The Company has made an application to the ASX for a waiver from listing rule 10.13.3 and the ASX has made the following decision:

"1. Based solely on the information provided, Australian Stock Exchange Limited ("ASX") grants Sun Resources NL ("the Company") a waiver from listing rule 10.13.3 to the extent necessary to permit the Company's notice of meeting ("the Notice"), to approve the issue of up to 1,500,000 options exercisable at \$0.25 expiring on or before 30 June 2009, and the issue of up to 1,500,000 options exercisable at \$0.30 expiring on or before 30 December 2009, ("the Options") to Mr William John Ashby or his nominee as part of his remuneration as an Executive Director, to not state that the securities will be issued within 1 month of the date of the meeting, on the following conditions:

1.1 The Company releases the terms of the waiver to the market no later than when the Notice is announced to the market;

1.2 The Company's annual report released during the period while any of the securities remain to be issued discloses details of the securities that remain to be issued or vested;

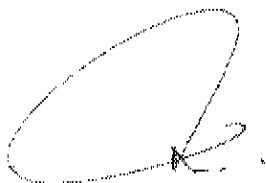
1.3 The Notice clearly states that the Options are to be issued on or within 1 month of the dates referred to in the Notice, being 1 January 2008 and 1 January 2009

"

1.4 The Notice clearly states the full terms and conditions of issue of the Options, including the number of Options and the relevant performance hurdles."

"2. ASX has considered listing rules 10.13.3 only and makes no statement as to the Company's compliance with other listing rules."

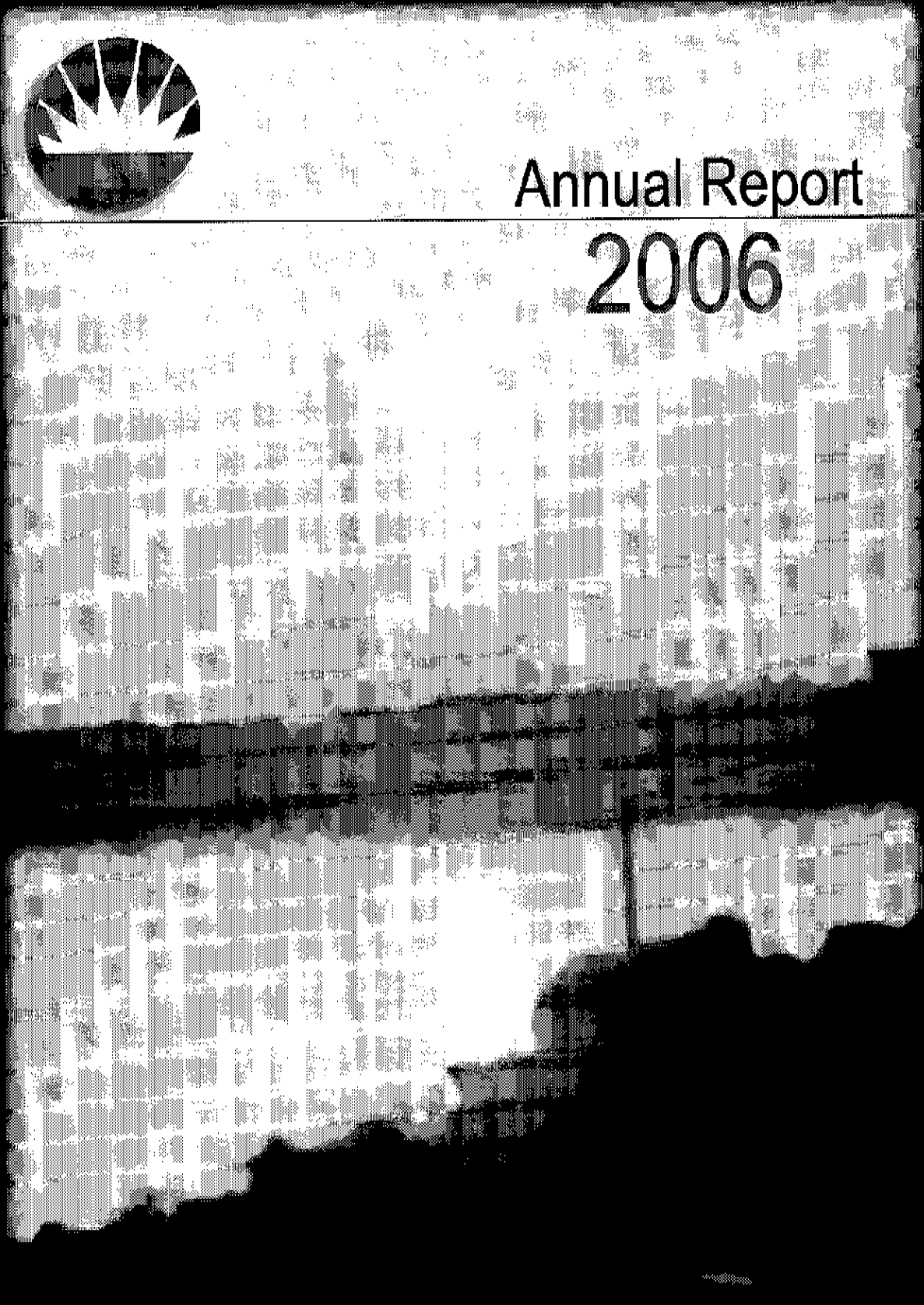
Yours faithfully
SUN RESOURCES NL



A P Woods
Director/Company Secretary

Atts

CC: Directors
ASX
ASIC
DD
NGM



Annual Report 2006

Sun Resources NL
ABN 69 009 196 840

Corporate Directory

Directors

Dr Bradford Lawrence Farrell, B.Sc.
(Hons Econ Geol), M.Sc., Ph.D., FAIMM
MMICA, CP(Geol), MIMM, CEng, MPESA
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City Beach, Western Australia 6015
Executive Director and Chairman

Mr William John Ashby
B.Sc. (Geophysics), Grad. Dip. App. Sc. - Geophysics
34 Norbury Crescent
City Beach, Western Australia 6015
Executive Director and General Manager

Alan Peter Woods
FCPA, FTIA, MAICD
10 Palmer Street
Attadale, Western Australia 6156
Executive Director and Company Secretary

Dr Philip Linsley, B.Sc. (Hons Geol) (London)
Ph.D. (London), MBA (Kingston)
4 Birds Hill Road
Oxshott, Surrey KT22 0NJ
England

Non-Executive Director

Dr Wolf Gerhard Martinick
B.Sc, Ph.D., MAIMM, CP(Env)
60 Jutland Parade
Dalkeith, Western Australia 6009
Non-Executive Director

Company Secretary

Alan Peter Woods
FCPA, FTIA, MAICD
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Auditors

BDO
Chartered Accountants & Advisers
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Perth, Western Australia 6000

Solicitors

Simon Watson LL.B., B.Ec
17 Ord Street
West Perth, Western Australia 6005

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2096

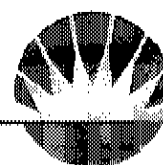
Bankers

National Australia Bank Limited
District Commercial Branch
Unit 7, 51 Kewdale Road
Welshpool, Western Australia 6106

Home Exchange

Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000
ASX Code: SUR

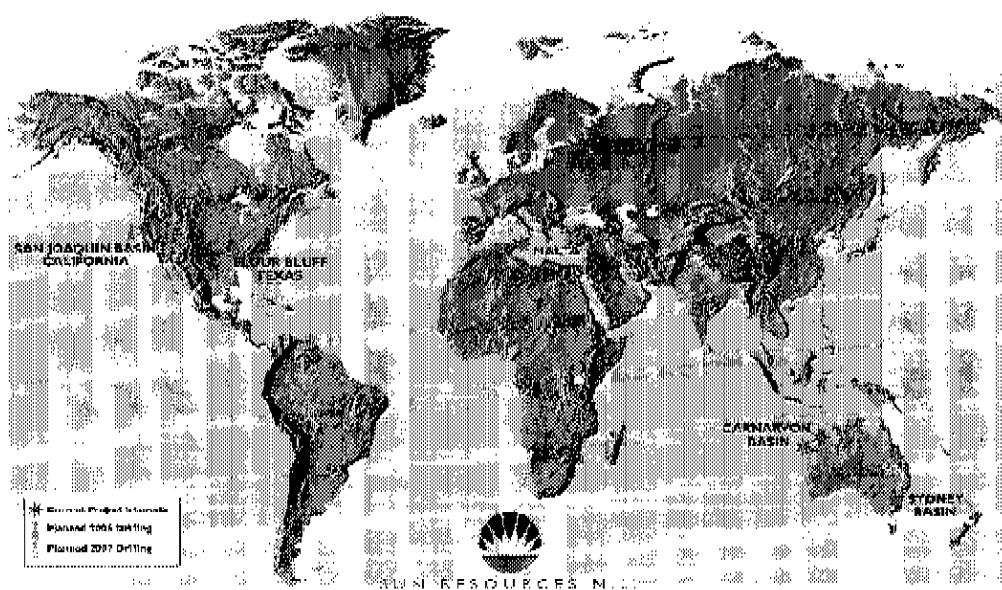
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Location of Interests



Review Of Activities

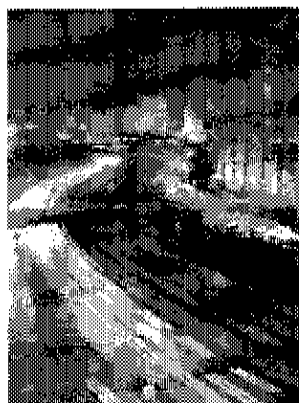


A OIL AND GAS EXPLORATION

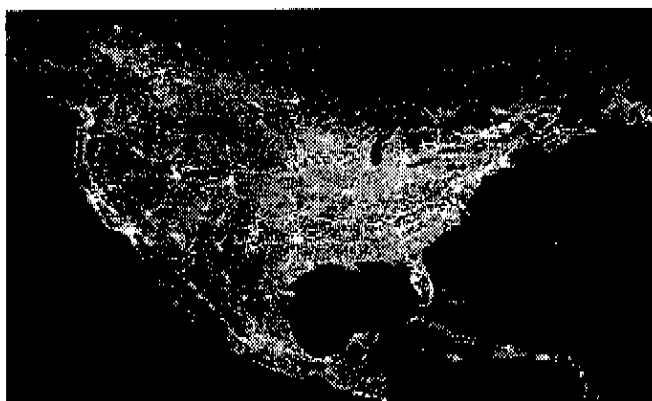
Sun Resources NL ("Sun Resources") has undergone a step change in its development in the last twelve months with the USA becoming the cornerstone for cash flow generation from production by the Company. The Company received A\$1,471,174 net of costs for the financial year from production at the Flour Bluff Gas Field, Gulf Coast, Texas, and aims to be funding all future exploration and development activities from cash flow once major development funding is completed at Flour Bluff in the next 18 to 24 months.

During the last twelve months, Sun Resources participated in the drilling of two oil and gas wells (one well in the offshore Camarvon Basin of Western Australia and one in California in the USA) and in work overs and completions on seven wells in the Flour Bluff Gas Project.

The Company expects to participate in a further nine wells in financial year 2007; two field step out development wells on the Flour Bluff Gas Project and up to seven exploration wells on Project Margarita, Gulf Coast, Texas, exploring deep and shallow prospects (one well and four to six wells respectively) delineated from 3D seismic.



North American
Energy Consumption



1 USA - EXPLORATION AND DEVELOPMENT ACTIVITIES

Sun Resources increasing exploration presence in the USA is due to excellent investment opportunities offered to small companies by virtue of the country's voracious and ever increasing energy consumption, infrastructure, prolific hydrocarbon bearing basins and importantly energy pricing.

Notwithstanding oil is priced at prevailing world prices, currently in excess of US\$70 per barrel, and there is a huge deficit between domestic USA oil production* of 6.83 million barrels of oil per day and consumption of 20.6 million barrels of oil per day, gas prices are up to three to four fold flat Australian prices (US\$6 to 9 compared with \$US2.00 to 2.25 per thousand cubic feet of gas ("mcf")) and will continue to hold at these levels. Gas price is a reflection of the current (and growing) 3.8 trillion cubic feet per annum of gas imports* into the USA. This again is a reflection of the growing deficit between domestic USA gas production* of 18.2 trillion cubic feet per annum and consumption of 22 trillion cubic feet per annum. Gas prices are also being underpinned by the prospect of increased importation of liquefied natural gas ("LNG") to satisfy demand.

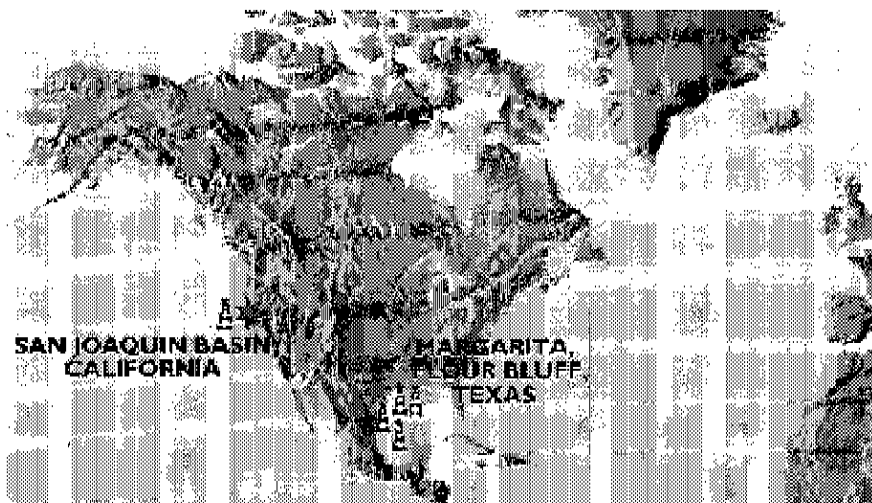
Sun Resources exploration emphasis has been on both oil and gas in conventional geological settings, principally located in Texas (Flour Bluff Gas Project and Project Margarita) and California (Eagle Project in the San Joaquin Basin), but has been extended elsewhere in the past, particularly to what are termed unconventional gas resources, to coal bed methane (Rock Springs "CBM" Project in Wyoming) in the mid North American continent. Note Coal Bed Methane (CBM) is the equivalent USA terminology for Coal Seam Methane (CSM) in Australia.

* Year 2005 USA hydrocarbon production and consumption - Source Energy Information Administration USA Government

Review Of Activities (Continued)



Project Interests USA
Planned 2007 Drilling



1.1 Flour Bluff Gas Project Development, Texas – 20.00% to 24.167% Interest

Sun Resources, through its USA subsidiary, is a partner in the redevelopment of an old giant gas field complex at Flour Bluff on the southern outskirts of Corpus Christi, Gulf Coast, Texas.

Flour Bluff is an exception to almost all other South Texas giant fields that have long been redeveloped, extended and deepened under increasing gas prices as it has essentially languished since Humble Oil, an Exxon predecessor who discovered and operated the fields over the period 1936 to 1993 disposed of it in the later year date. The collective fields (West Flour Bluff, adjacent East Flour Bluff and Pita Island) are estimated to have produced to date between 1.2 to 1.3 trillion cubic feet of gas and 60 million barrels of oil (mainly as condensate). At their peak the fields produced collectively at production rates of up to 110 million cubic feet of gas per day from more than 40 separate reservoirs in the Oligocene Frio Formation, mostly at shallow depths above 6,800 feet (2,100 metres). When Humble Oil disposed of the fields production was down to 1.3 million cubic feet of gas per day and shallow reserves were exhausted.

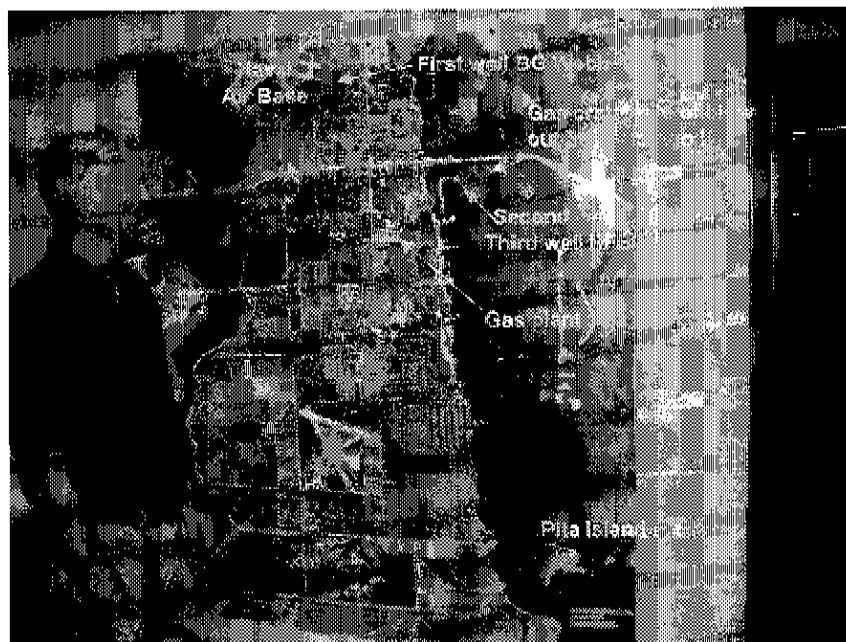
Operator and major partner, Houston-based Texas Crude Energy Inc ("TCEI"), from which the majority of Sun Resource's interests were acquired, carried out a consolidation of the Flour Bluff leasehold from 1998 and made extensive studies of the considerable catbase and demonstrated significant gas potential from multiple sands between 6,800 (2,100 metres) and 11,500 feet (3,500 metres) depth, principally in West Flour Bluff. More importantly, TCEI successfully carried out fracture stimulations of three reservoirs in three old wells (Petty #2, Webb #17 and Smith #1) in the period 2002-03 and increased the production rate from 1.3 to 7 million cubic feet a day, demonstrating the effectiveness of modern stimulation methods to be applied to reservoir sands in the development program.

In December 2004, Sun Resources acquired a 12.50% working interest in 10,200 acres of leases encompassing both adjacent onshore and offshore production units of the three fields on the basis of collective proved, probable, possible ("3P") reserves of 101.6 billion cubic feet of recoverable gas equivalent (ie 92.5 billion cubic feet of recoverable gas with 1.52 million barrels of recoverable oil) with considerable further upside estimated at 224 billion cubic feet of recoverable gas equivalent, and in May 2005 increased its working interest in the East Flour Bluff Gas Field to 16.67%. All of these acquisitions were made from TCEI. Sun Resources completed the acquisition of a further additional 7.50% working interest in the project (effective 1 November 2005) for \$US3.25 million from Davis Gulf Coast Oil, Inc on 23 December 2005. The acquisition took its interest to 20.000% in the West Flour Bluff and Pita Island Fields and 24.167% in the East Flour Bluff Field.

Review Of Activities (Continued)



Overview of Flour Bluff Gas Project



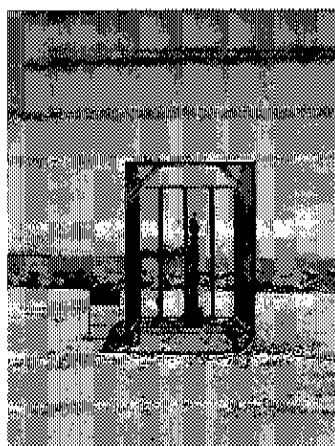
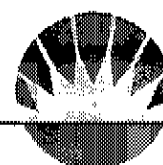
Sun Resources has spent US\$6,263,000 on total acquisitions at Flour Bluff which equates to US\$0.55 per thousand cubic feet of gas equivalent ("mcf") for 1P (Proved) Reserves, or US\$0.40 per mcf for 2P (Proved, Probable) or US\$0.31 per mcf for 3P (Proved, Probable, Possible) Reserves. These prices should be considered in the light of the gas market in the USA where the price received for gas produced from the project typically ranges between US\$6.00 to 8.00 per mcf, though at the time of the acquisition during the December 2005 quarter the gas price averaged US\$11.20 per mcf. The total acquisition represents an unusual and significant opportunity for Sun Resources to participate in a significant cash flow from a relatively low risk, large, gas development and upside potential from deep exploration programme on major gas fields with established infrastructure. Sun Resources is now contributing to the redevelopment of the fields at its final working interest levels in each of the project fields.

The initial Flour Bluff Project Phase 1 development program, running February 2005 to January 2006, comprised a proof of concept, three well exploration drilling programme (BG Webb 1 on the West Flour Bluff Gas Field; EFB E-10 and EFB D-24 on the East Flour Bluff Gas Field) targeting multiple sand reservoirs as well as a re-completion / work over program on four wells (EFB 9-D and 9-F, 17-D, D-19 and D-19 F and Petty #2) to principally assess and produce remaining shallow small reserves. The program schedule was drawn out by some four months due to drilling rig delays and stand downs of operations due to the abnormally large number of destructive hurricanes on the Gulf Coast during the northern summer season.

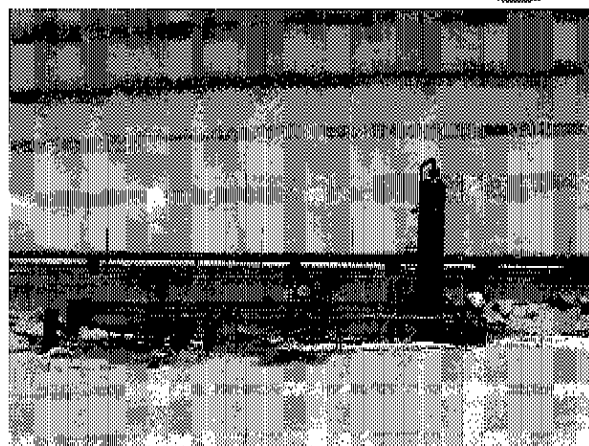
The overall outcome of this Phase 1 program was mixed. Two of the wells, BG Webb #1 and EFB E-24 proved the potential of the mid deep Frio J and upper K sand potential in both the East and West Flour Bluff Fields, but had poor production performance on initial reservoir completions; the significant ultra deep potential of the Frio lower K sand potential in the West Flour Bluff Field was disproved and the remaining potential of the shallow Frio Massive and upper Miocene sands in the East Flour Bluff Field was also disproved by EFB E-10, ie confirming gas was present in targeted reservoirs but these reservoirs were too de-pressured to produce. The results of the work overs to produce the remaining shallow small reserves in the East Flour Bluff Field were disappointing, though in hindsight somewhat predictable, especially from the completion results of EFB E-10.

In terms of production performance it was hoped to reach new production levels with the fields especially from flow outcomes from the new wells, work overs and new completions of old wells, ie production of around 15 to 20 million cubic feet per day was targeted on completion of the initial Phase 1 program with a further production target of at least 20 to 30 million cubic feet per day in the next 12 months of a Phase 2 program. The Phase 1 target has yet to eventuate with peak production averaging 5.223 million cubic feet of gas equivalent in September 2005, a greater than two fold increase on the start of the program. Subsequent independent expert studies have shown the production performance of reservoirs completed in BG Webb #1 and EFB D-24 is not due to problems of reservoir per se. These reservoirs are capable of production at high rates (2 to 5 million cubic feet per day) with a high recovery of measured reserves when completed correctly.

Review Of Activities (Continued)



Well Head Installations
East Flour Bluff
Gas Field



The poor production performance is derived from the fact that the well bores are rugose and are over gauge due to formation caving into the bore hole. This leads to poor and incomplete cement bonding between drilled formations and the subsequent casing run and cemented into place in the wells for production. A poor cement bond allows migration of water from formation aquifers at differing depths to hydrocarbon bearing sands; this can substantially suppress and in some cases curtail hydrocarbon flow from the reservoir into the production casing. Often the water source is a considerable distance below the productive reservoir as is the case with the producing Frio K15 sand in the BG Webb #1 well. The problem of cement bond and poor casing seal should be overcome in future programs through use of synthetic based drilling mud and not water based drilling mud to drill in gauge well bores.

The important outcome from the Phase 1 program is the new reserve position at 1 December 2005 as set out in Table 1 below. These figures are derived from an October 2005 report commissioned by the Operator from independent expert Ryder Scott with the addition of the Operator's revisions based on subsequent results of well work overs and completions. The modified reserves and potential volume positions can be summarised as follows:

- There has been an overall decrease in 3P project reserves from 101.6 to 96.9 billion cubic feet of recoverable gas equivalent, which is a reflection of the results of the completion / work over program on the 3P shallow reserves in East Flour Bluff;
- The estimated potential has also reduced from 204 to 113 billion cubic feet of recoverable gas equivalent from downgrading the very deep Frio K sand potential of West Flour Bluff and the Frio Massive sand potential in East Flour Bluff; and,
- A significant reclassification within 3P reserves has occurred since the October 2004 estimate by Ryder Scott made prior to the commencement of the Phase 1 Program reflecting movement of Possible and Probable into the Proved (1P) category. Some 54% of total project reserves (53.2 billion cubic feet of recoverable gas equivalent) is now in the overall Proved (1P) category as against 38% in October 2004.

The important conclusion is Flour Bluff is still a project of significance even with revisions to the potential volumes as there is up to 210 billion cubic feet of potential recoverable gas equivalent reserves in which Sun Resources has a significant interest.

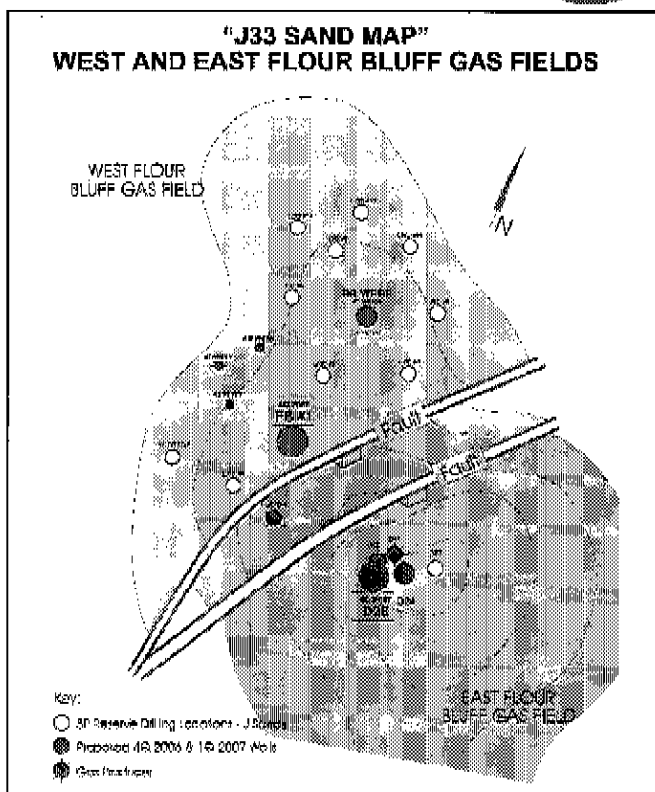
FLOUR BLUFF PROJECT	Sun Interest	PROJECT RESERVES					
		Proved	Probable	Possible	Total 3P	Potential	Total All
	%	BCFe	BCFe	BCFe	BCFe	BCFe	BCF
West Flour Bluff Gas Field	20.000	34.3	14.0	22.7	71.0	97.5	168.5
East Flour Bluff Gas Field	24.167	17.0	5.2	1.8	24.0	15.5	39.5
Pita Island Gas Field	20.000	1.9			1.9		1.9
Total Fields		53.2	19.2	24.5	96.9	113.0	209.9
Sun Resources Share of Reserves		11.4	4.1	4.9	20.4	23.2	43.6

Table 1 Reserve Estimates of the Flour Bluff Project 1 December 2005

Review Of Activities (Continued)



Proposed 3P Reserve Drilling Locations Flour Bluff Gas Project



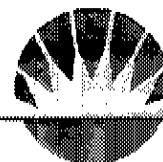
Phase 2 of the development program was to commence in February 2006, but has been delayed to mid October 2006 due to a back up in the Contractor's deep rig scheduling caused by the current boom in the demand for drilling rigs especially for the fewer in number in the drilling industry on the Texas Gulf Coast with deep drilling capacity. Regrettably because of this problem only FB #1 on the West Flour Bluff Gas Field (slotted mid October – December 2006) and D-26 on the East Flour Bluff Gas Field (slotted February – April 2007) are presently firmly scheduled for drilling in the 2007 financial year.

The Phase 1 program in summary, was proof of concept designed to verify the location of remaining reserves and potential in the fields. The Phase 2 program is a focus on development of the now delineated reserves in the fields, ie in the deep Frio J and K sands in both the East and West Flour Bluff Gas Fields. Emphasis will be on applying learnings from Phase 1; ie substantially improving flow outcomes by better well engineering and well completions to obtain predicted flow outcomes of 3 to 5 million cubic feet per day from single completions from wells and possibly increments of that from multiple completions of reservoirs.

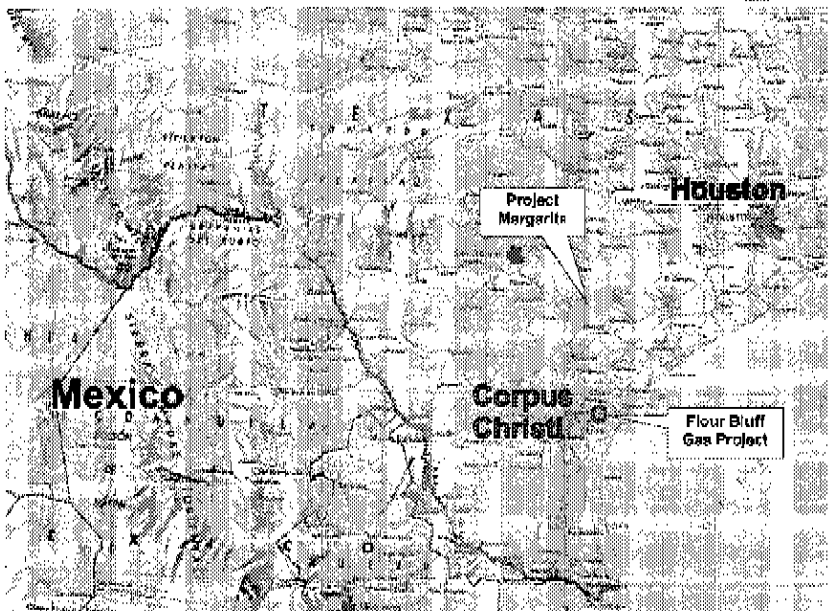
The Phase 2 program involves 8 new wells and a work over of a well over a 16 to 18 month period, targeting 40.9 billion cubic feet of recoverable gas equivalent of 3P recoverable reserves (36.5 billion cubic feet of recoverable gas and 723,700 barrels of recoverable oil). Of the eight new wells, four will be located on the West Flour Bluff Gas Field (FB #1 to 4) and are essentially step outs from BG Webb #1 targeting Frio J and K sands. Four new wells on the East Flour Bluff Gas Field (D-23, D-26, D-27 and D-28) have different targets. D-26 and D-27 are essentially step outs from D-24 targeting Frio J sands. D-23 and D-28 are follow up of promising indications of remaining shallow potential from mud logs and wireline logs of D-24; ie D-23 targets the 2,500 - 2,600' sands, and D-28 targets the 8,000' sands.

The Phase 2 program addresses gas volumes within the 3P (Proved, Probable, Possible) reserve envelopes for both fields as verified by the independent expert Ryder Scott. Expected individual well reserve outcomes range from 4 to 7 billion cubic feet of recoverable gas equivalent. As per the outcome of the first development phase, success on the program will see an upward movement of Possible and Probable reserve categories into Proved and those in Proved Undeveloped into Proved Producing and Proved Behind Pipe. What is currently classified as "Potential" will remain so until a Phase 3 development program occurs in 2008, when wells are planned on West Flour Bluff Gas Field to test the prominent northern "nose" where the bulk of the project potential is thought to lie. The Operator has suggested gross project production may get to 18 to 20 million cubic feet /day at end of the Phase 2 Program with considerable upside to these projections if all wells are completed successfully.

Review Of Activities (Continued)



Location of South Texas Projects

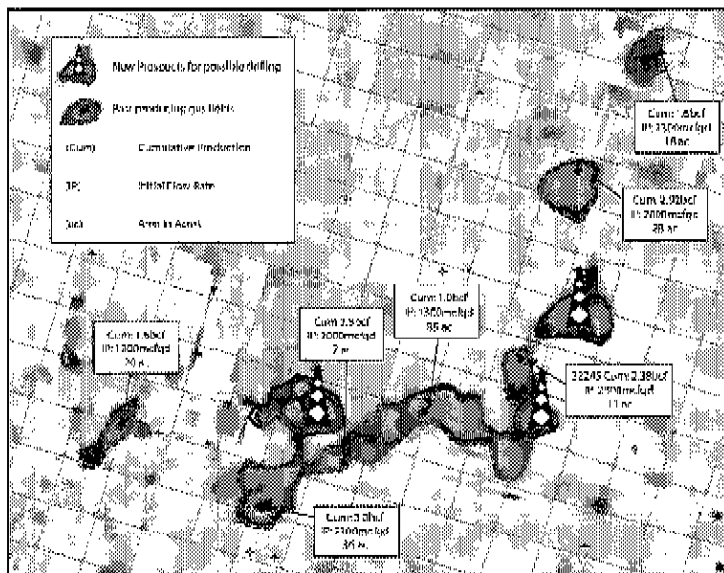


1.2 Project Margarita, Onshore Gulf Coast, Texas - 37.5% Interest

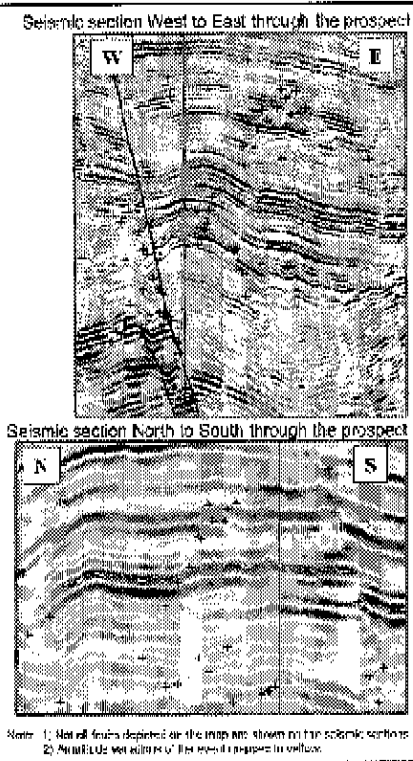
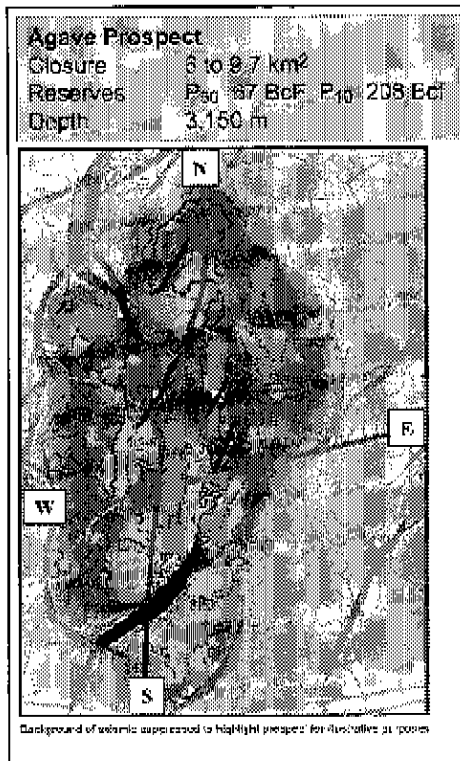
In the December quarter 2005, Sun Resources strengthened its exploration activities in Texas, USA, on the highly prolific oil and gas prospective onshore Texas Gulf Coast through a ground floor Joint Venture with Wandoo Energy, LLC ("Wandoo") on an extensive 2D and 3D seismic data base covering portions of four main producing trends on the onshore Texas Gulf Coast.

It is difficult to work up plays and test new concepts in the USA without ready access to basic data, particularly seismic, the main tool used in oil and gas exploration. Generally this means a junior explorer must carry out their own speculative seismic surveys, usually 2D rather than the more expensive and superior 3D, or buy or licence seismic data from seismic brokers. The resulting consequence means exploration is expensive, restrictive in area as the cost of seismic demands a focus, and importantly the opportunity to generate worthwhile prospects and manage risk is extremely limited. Wandoo is an experienced, successful group of Houston based Gulf Coast geoscientists who have exclusive access to an extensive 2D and 3D seismic data base currently comprising one hundred and forty 3D seismic data sets (16,300 km²) and 161,000 line kilometres of 2D seismic. Interests in the Joint Venture are Sun Resources 37.5%, Victoria Petroleum NL ("Victoria") 37.5% and Wandoo 25%.

Shallow gas prospect generation from 3D seismic amplitudes, Project Margarita

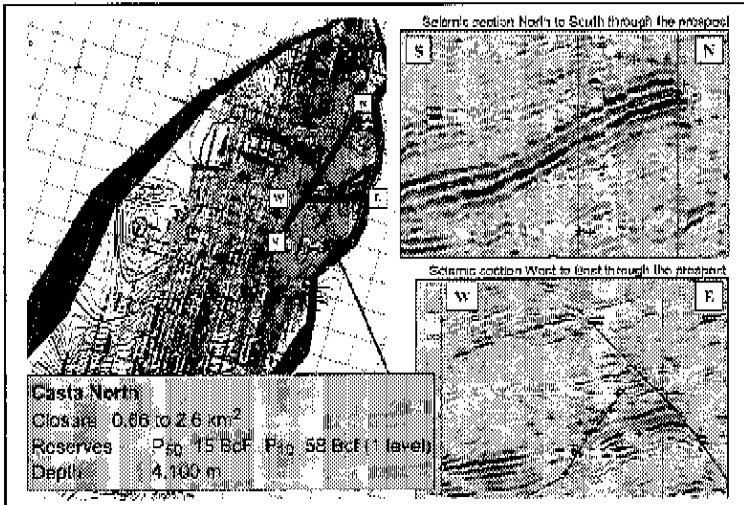


Review Of Activities (Continued)



Agave Deep Prospect,
Project Margarita

Casta North Deep Prospect,
Project Margarita



The Wandoo Joint Venture exposes Sun Resources on a ground floor basis to a large seismic data base for regional evaluation and generation of many prospects that offers a choice of drillable prospects of various risked size potential. The Company can mitigate the drilling risk by farming out a portion of its current 37.5% working interest and its further right to an additional working interest in prospects. Importantly, conditional on performance of the Joint Venture in the next financial year and by mutual agreement with Wandoo, Sun Resources will have the right but not the obligation to participate in further joint ventures with Wandoo on other Wandoo deemed prospective onshore or offshore 3D and / or 2D seismic data sets in the State of Texas.

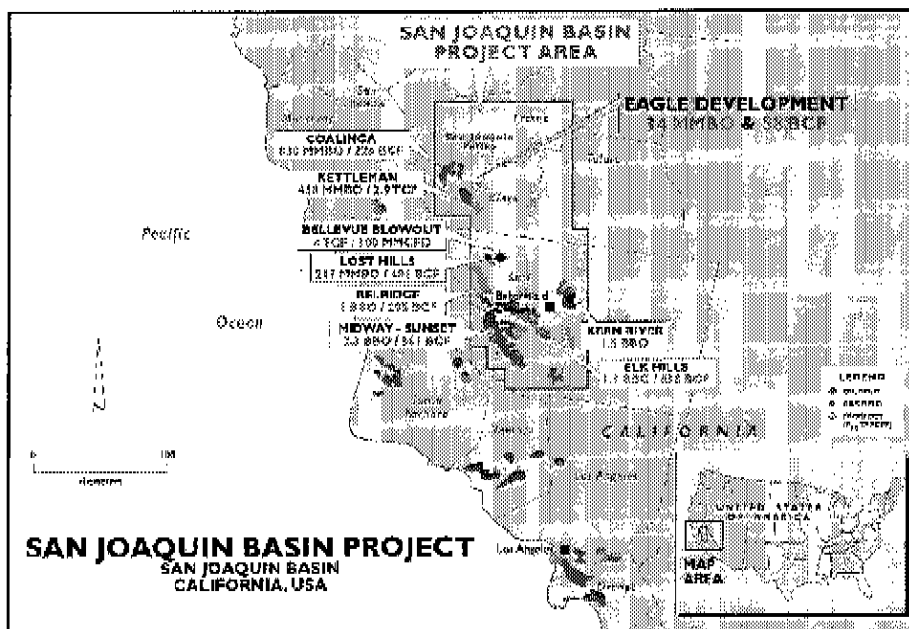
The first specific project in the Wandoo Joint Venture is Project Margarita where 25 leads and prospects have been recognised in prospective stratigraphic/structural settings at various depths ranging from 1,000 to 4,000 metres in 530 km² of 3D seismic. Historic production and plays in the project area and environs are Frio and Vicksburg sands at <1,800 metres depth. Deeper Yegua and Wilcox sands between 1,800 and 4,000 metres are under explored and only 4 wells >2,400 metres have been drilled in the project area and were drilled pre 3D seismic. A number of the deeper high impact Wilcox targets to 208 billion cubic feet gas potential have been recognised.

Review Of Activities (Continued)



At the end of the financial year a substantial land acquisition program by leasing was underway and further reprocessing of the 3D seismic to high grade the current deep prospect inventory was nearing completion. Current emphasis is on commencement in December quarter 2006 of a four to six well, back to back, drilling program on shallow gas prospects with 8 to 10 billion cubic feet of gas potential outcome. This program will be a precursor to commencement of a drilling program on the more substantial individual deep 60 to 200 billion cubic feet gas potential prospects in June quarter 2007.

Location of Eagle Development,
San Joaquin Basin, USA



1.3 Eagle Oil & Gas Development, California – 10.00% Interest

Participants in the Eagle Oil/Gas Development in the San Joaquin Basin in California are the USA subsidiaries of Sun Resources (10.00%), Operator Victoria (20%), Empryan Energy PLC ("Empryan") (38.5%), Lakes Oil NL (15.00%), First Australian Resources NL ("First Australian") (15.00%) and private USA investors (1.5%). Potential recoverable reserves are indicated in a stratigraphic trap containing sandstones of the Eocene age Gatchell Formation. These recoverable reserves range from a mean of 13.5 million barrels of oil with 25 billion cubic feet of gas to the P₁₀ case of 34 million barrels of oil with 58 billion cubic feet of gas.

In mid 2001, Sun Resources participated in Eagle 1, a successful horizontal well bore within the Gatchell sandstone reservoirs which intersected 91 metres of net pay. This pay was noted to have good to excellent porosity and in spite of the high mud weight used in drilling, indications of hydrocarbons were present, namely suppressed fluorescence and C1 to C6 hydrocarbon readings from gas chromatograph logs. Of importance was the fact that the net pay was some 10 to 11 times the extent of the net pay of the Gatchell sands encountered in the adjacent vertical Mary Bellocchi 1 well drilled in 1986 on a small structural culmination on the stratigraphic trap. Regrettably the Eagle 1 well could not be completed and tested at the time due to up hole mechanical problems with the well. The Mary Bellocchi 1 well flowed hydrocarbons to the surface on test at rates of up to 223 barrels of 42° API oil and 880,000 cubic feet of gas per day before a bad cement job behind the lower perforations allowed excessive water and migration of drilling fines to interfere and eventually cease the flow of hydrocarbons. At the then prevailing low oil and gas prices the flow rate was uneconomic for a 4,200 metre deep well.

Current high oil and gas prices (in excess of US \$70 per barrel of oil and US\$7 to 9 per mcf for gas) now makes the project an attractive development target. This attractiveness is further increased by the acquired knowledge that the reservoir can be developed and produced by insitu horizontal wells of 300 to 900 metres reach which results in increased flow rates (4 to 6 fold) for oil and gas over a conventional vertical well such as Mary Bellocchi 1.

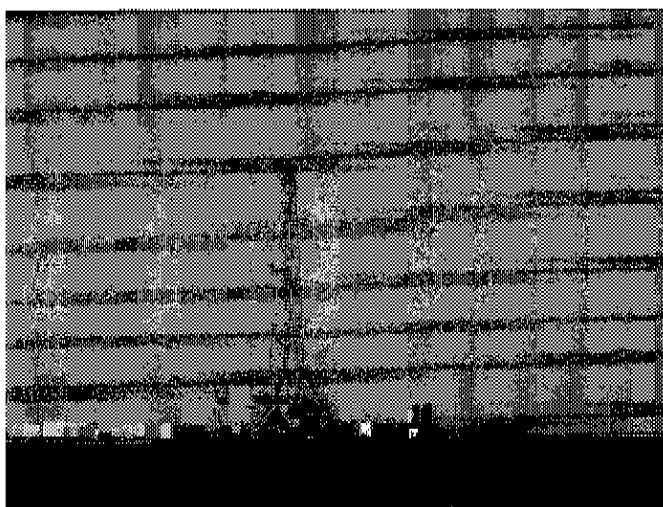
Review Of Activities (Continued)



In November 2005, the Operator farmed out the majority portion of its interest to Emphyrean and signed a rig contract to drill Eagle North 1 an up dip appraisal well on the stratigraphic trap approximately 365 metres northwest of the 2001 Eagle 1 surface location. The operations plan was to drill to a total vertical depth of 4,200 metres and after logging and confirmation of the presence of oil in the target Gatchell sandstones, case and production test the well for five days. Following a successful test the well was then to be plugged back to drill a side track horizontal lateral up dip within the reservoir for a distance of 300 metres which would then be completed for oil and gas production.

The well commenced on 11 January 2006 and on 15 February 2006 reached a total depth of 4,218 metres. Wire line logs were run and oil saturation was indicated in the target Gatchell Formation over a 21 metre interval from 4,143 metres depth with interpreted net oil pay of up to 13.4 metres. The well was cased for testing. After perforating 20 metres of the zone no hydrocarbon flow was evident. Prior to carrying out stimulation of the reservoir with nitrogen to induce flow some 400ccs of crude oil that had percolated up from the target zone was collected from the well. Notwithstanding this encouraging result, no flow resulted from nitrogen stimulation and subsequent pump into formation suggesting the oil bearing Gatchell sands had not been adequately brought into communication with the well bore by the perforations. This would be most likely due to the large washouts in the friable Gatchell oil sands observed on logs and the resulting inability of the perforations to extend past the extra cement to the Gatchell oil sands, coupled with the fact that the Gatchell sands adjacent to the cement had also been badly damaged with a probable mud skin as a result of the 5ppg (3,500psi) overbalanced mud conditions forcing mud and mud filtrate into the formation whilst drilling. Based on this unexpected result it was decided to drill the side track radius-lateral down dip to Mary Bellocchi 1 and Eagle 1 (where there was known and better logged pay) to test and if satisfactory complete Eagle North 1 along the pay for production. This was preferred to the alternative, which was to drill up dip to and along the target which had greater uncertainty in oil sand potential.

Eagle North 1, February 2006



After a series of mechanical and equipment problems which caused two side track radius-laterals to be aborted the well finally landed horizontally in the Gatchell oil sands down dip of the vertical well bore and the well ran along good sands with good oil shows to 4,281 metres measured depth where drilling was stopped to run a 4½" liner. At this point some 72 metres of potential oil sand pay from 4,209 to 4,281 metres measured depth lay behind liner to test. Planned operations from here were to continue drilling a further 320 metre horizontal well bore to proposed total depth 4,601 metres measured depth in the target oil sands in 3¾" hole in balance with the formation pressure, after which a 2¾" slotted liner would be run and the whole 392 metres horizontal section tested. Regrettably drilling of the 3¾" hole ceased at 4,386 metres measured depth because of hole stability problems. The 105 metres traversed was marked by tight hole spots and sections of flowing sand sources with oil (ie good porous reservoir sand with high gravity crude accompanied by solution gas) entering the well bore. This section of the hole could not be cased with slotted liner due to well mechanical problems and a decision was taken to carry out production testing operations over the 177 metres of indicated oil bearing sand; ie after first perforating the 72 metres behind the 4½" liner from 4,209 to 4,281 metres measured depth and barefoot completing out of the base of the 4½" liner at 4,281 metres measured depth the 105 metres of open hole lower Gatchell oil sand from 4,281 to 4,386 metres measured depth.

Review Of Activities (Continued)



An attempt to perforate the casing and production test the well was made in early June 2006, but mechanical problems again occurred without obtaining a result. At this point, on the 8 June 2006, it was decided to curtail testing operations, release the high cost deep drilling rig and continue the production testing operations in a more cost effective and technically efficient manner by using both a coiled tubing unit rig and a deep completion rig. The heavy demand for equipment and personnel in the Bakersfield production area has resulted in the delay experienced to date in obtaining the necessary equipment to effect a test result. It is expected that a test will occur in mid to late September 2006.

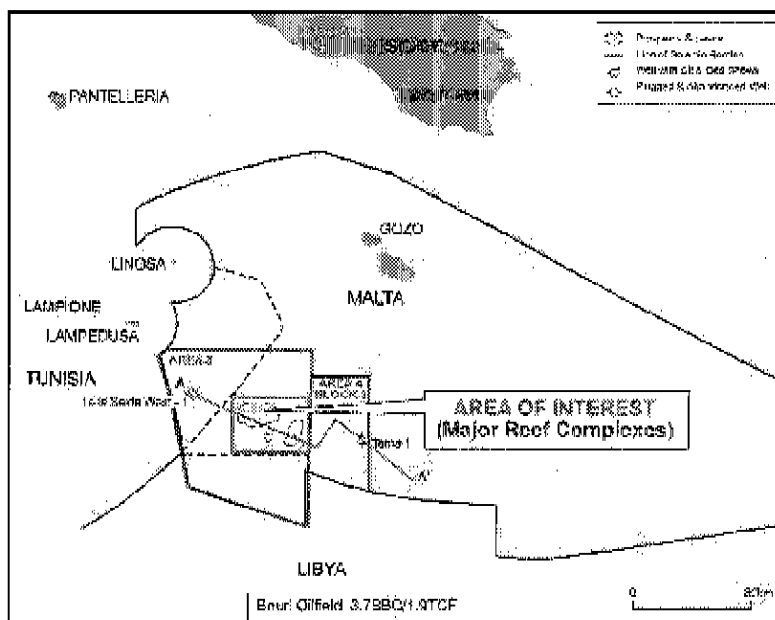
The Operator's time, while awaiting the simultaneous availability of all necessary equipment at site, is being utilised to ensure optimum planning of the engineering program to carry out the forward production testing operations. A successful completion and economic flow from the well will trigger a long term production test to determine production characteristics of the reservoir. If satisfactory results are achieved an immediate 129 km² 3D seismic survey is planned to locate a further nine, 900 metre long insitu horizontal wells in the reservoir to drain the field as well as instituting permitting of production facilities. Field life is expected to be 15 years with oil production proposed to be trucked to receiving facilities at Coalinga some 20 kilometres to the west with gas production via a gas pipeline that is immediately northwest abutting the development area.

2 OFFSHORE MALTA FARMIN, SOUTHERN MEDITERRANEAN SEA

2.1 Area 4, Block 3, ESA and Area 5 – 20.00% Interest

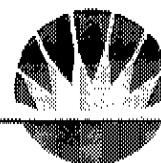
The Malta Joint Venture, comprising Sun Resources (20.00%) and Pancontinental Oil and Gas NL ("Pancontinental") (80.00%) has a joint venture project in southern Maltese waters abutting Tunisia and Libya which comprises two contiguous Exploration Study Agreements ("ESAs"), Area 4, Block 3 ESA and Area 5 ESA, on the Pelagian Platform.

Project Area, Malta



The joint venture's exploration activities, ie the acquisition and interpretation of 2D seismic, magnetic and gravity data over Area 5 ESA and reprocessing and interpretation of 2D seismic over Area 4, Block 3 ESA, have resulted in an impressive inventory of 11 prospects and leads with large (world class) speculative reserve potential. The two largest and most interesting prospects are the stacked reef complexes in Area 5; ie the Chianti Prospect having 455 (mean) to 1,223 (P₁₀) million barrels of recoverable oil potential; and the Limoncello Prospect, 968 MMBO (mean) to 2,555 (P₁₀) million barrels of recoverable oil potential. The potential estimates are based on the joint venture's current seismic mapping and using representative reservoir parameters from significant neighbouring commercial oil and gas field analogues in Libya (analogue field Bouri, 2.5 billion barrels of oil recoverable) and Tunisia (analogue field Miskar, 1.5 trillion cubic feet of gas condensate recoverable).

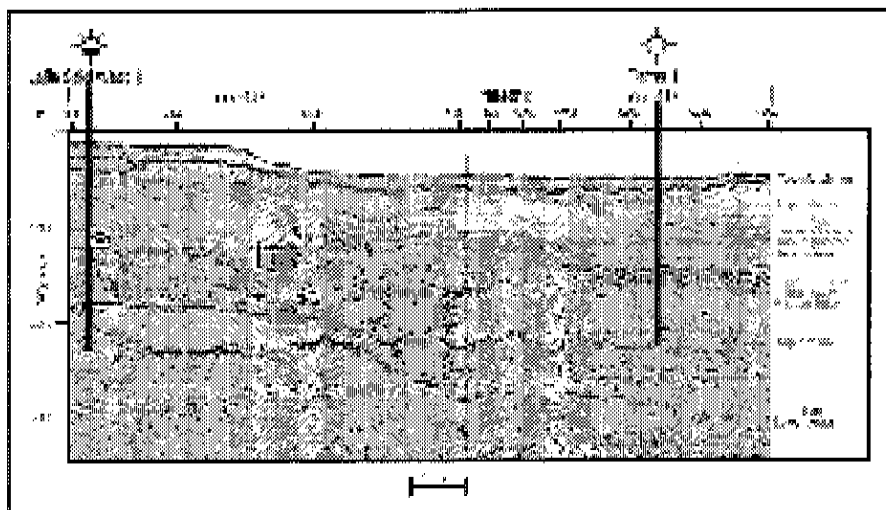
Review Of Activities (Continued)



The Malta Joint Venture as a result of its exploration activities concluded a farmout through a Participation Agreement ("Agreement") with Anadarko International Energy Company ("Anadarko"), a subsidiary of Anadarko Petroleum Corporation (NYSE:APC), on the joint venture project area in late June 2005. Anadarko is one of the largest independent oil and gas exploration and production companies in the world and for local comparison is a greater company in asset size than BHP Billiton Limited.

The Agreement requires Anadarko to carry out at its cost a regional and detailed seismic program in undisputed Maltese waters in the ESAs leading to elections to drill one or two wells on the currently defined Chianti or Limoncello Prospects which have large speculative reserve potential.

Line of Seismic Section
A-A' from Figure Above
Showing Major Reef
Targets

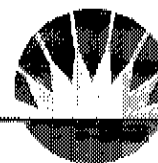


The original agreement with Anadarko required Anadarko, on or before 30 June 2006, after carrying out the acquisition and subsequent interpretation of up to 1,800 line kilometres of 2D seismic on principally Area 5 of the project area, to advise the Malta Joint Venture partners of its election or otherwise to enter into a Production Sharing Contract ("PSC") with them and the Government of Malta to drill a well on either the Chianti or Limoncello Prospect in the first term of the PSC. The drilling of the exploration well was required prior to 31 December 2007, but subject to certain conditions no later than 30 June 2008. Anadarko at its discretion may also bring forward the spud date of the well if a drilling rig becomes available at an earlier date. Anadarko on completion of the first well, at no cost to the Malta Joint Venture partners, will have earned a 65% interest in the PSC. Within 120 days of the well outcome, Anadarko has the right, but not the obligation to increase its interest in the PSC to 75% by drilling a second well in the PSC at its cost which could be an appraisal of a discovery made by the first well or a further exploration well on another prospect in the second term of the PSC. Regrettably due to force majeure (explained below) critical dates in the Agreement have by mutual agreement between the parties been extended out in time by 12 months.

At the end of June 2005 Anadarko was tendering for a seismic vessel for the 2D infill seismic program in ESA Area 5 with the expected 2D seismic program expected to take four weeks in September 2005. However, at the Maltese Government's request in July 2005, the Joint Venture suspended the seismic survey to assist the government in facilitating the resolution of maritime border issues it has with both Tunisia and Libya. These border issues affect the western and southern boundaries of ESA Area 5. A prior 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.

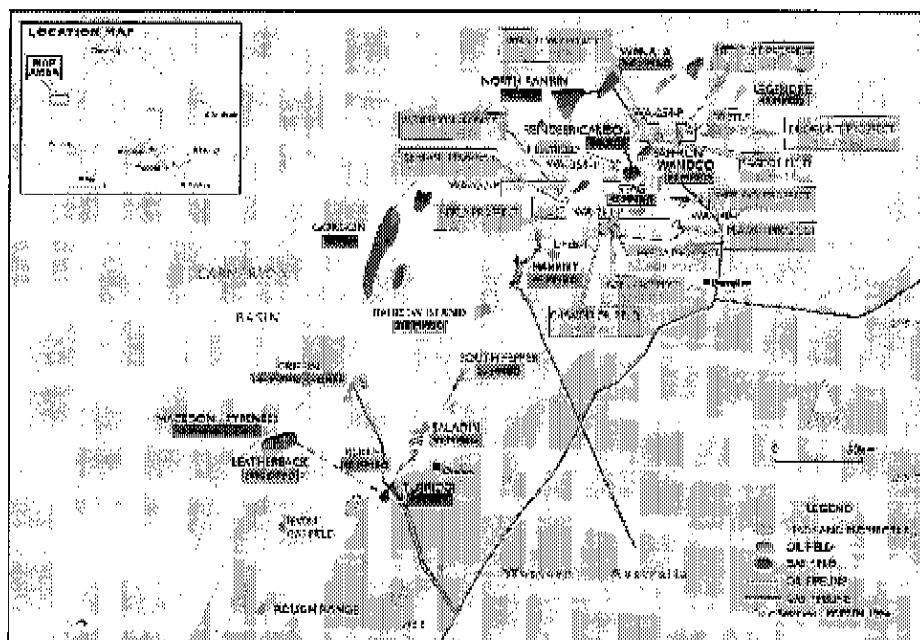
Significant progress is being made on resolution of the maritime borders, particularly between Malta and Tunisia. An Agreement between Malta and Tunisia was signed on 27 February 2006 for joint oil and gas exploration and exploitation in zones of the Continental Shelf located between Malta and Tunisia 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, have worked on the determination of the exact coverage of a joint exploration and exploitation zone between the two countries. A report on this determination was due to be presented by the joint committee to the two country's Ministers of Foreign Affairs in June 2006. Similar discussions between Malta and Libya are current on resolving the southern boundary issue in the southern area of the ESA Area 5, and it is hoped that a similar agreement will be forthcoming in the very near future.

Review Of Activities (Continued)



Hopefully, matters between all parties, ie Malta and Tunisia and Malta and Libya, can be resolved and concluded before the end of September 2006 as seismic activity will be curtailed until early 2007 because of the winter season in the Mediterranean Sea. In anticipation that matters will be resolved before the winter season Anadarko has been pro-active in seeking tenders for the seismic survey late September – early October 2006 on a seismic boat passing by to other work basis. In the event that matters are not resolved before the winter season Anadarko will be able to carry out the seismic in conjunction with other planned seismic to be run on their nearby Tunisian permits in early 2007.

Camarnon Basin Permits,
Western Australia



3 CARNARVON BASIN, WESTERN AUSTRALIA

During the financial year Sun Resources was 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). The basin has become Australia's richest oil and gas province since Bass Strait, with reserves in excess of nine billion barrels of oil equivalent.

3.1 Dampier Sub-Basin Permits

Four permits, WA-254-P, WA-257-P, WA-261-P and WA-340-P, are being actively explored in the northern portion of the Sub-Basin, 60 to 80 kilometres northwest of the iron ore export port of Dampier and the LPG onshore facilities on the Burrup Peninsula. To the north and south of the permits lie substantial oil fields (Cossack, Wanea, Wandoo, Stag) and gas fields (Angel, North Rankin, Goodwyn). It is probable from developments outlined below that 4 to 6 wells will be drilled on these permits in the next few years commencing second half of 2007.

3.1.1 WA-254-P - 7.86% To 9.25% Interest

During the financial year, the Operator of the permit, Apache Energy Northwest Pty Ltd ("Apache") has directed activities to maturing prospects, namely Duomonte, Dr Zeus and Janus revisited, for drilling, particularly as new deeper levels of interest in structures are now indicated in new seismic reprocessing carried out on the permit's seismic database. From developments outlined below two to three wells will be drilled in 2007 and onwards in the last five year term of the permit which was granted renewal in March quarter 2006.

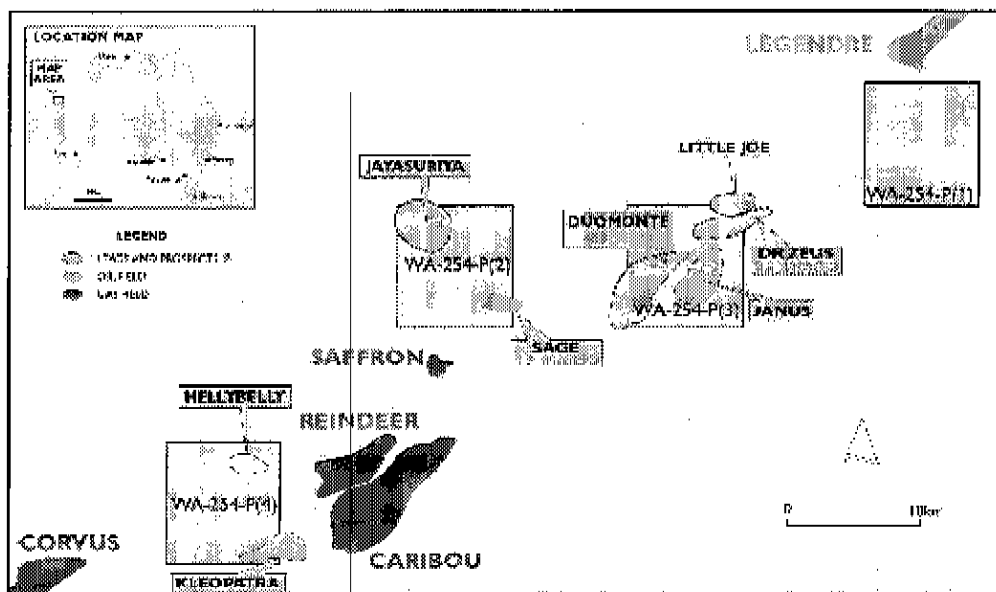
Even though the permit to date has exceeded the required statutory well commitments, the Operator is hoping to drill prospects as they mature. The driver for this is the gradual decline of the nearby Legendre Oilfield facility which is owned by the majority participants in WA-254-P, Apache and Woodside Energy Limited ("Woodside"). Any discovery made in the WA-254-P permit could be tied back to this facility with a substantial saving to the joint venture in the cost of infrastructure.

Review Of Activities (Continued)



An Apache peer group review on the Duomonte Prospect has confirmed it's progression to drilling, but now in 2007 rather than in 2006, because of the now recognised potential of deeper formations from recently acquired reprocessed seismic data (the Panaeus refresh data) and the need to integrate this information into the prospect data base. The Duomonte Prospect consists of two similar sized lobes, one in WA-254-P the other in adjacent WA-1-P. WA-254-P potential ranges from 20 (mean) to 44 million barrels of oil recoverable (P_{10}) with primary target formation (pre recent seismic developments) being shallower Legendre Formation sands at approximately 2,500 metres depth.

WA-254-P, Prospects and Leads



A nearby well Janus 1 targeted Legendre sands at a shallower depth than Duomonte and these sands were found to be water wet with oil shows. A re-look at the seismic data suggests the younger and shallower Calypso Formation sands are also a secondary target, but could be gas prone. Deeper seismic events within the gross structure, highlighted in the new (Panaeus refresh) seismic data, now also need assessment at North Rankin and Mungaroo levels for a Caribou Field (gas and oil) look alike target before Duomonte can be drilled.

The Janus 1 well was drilled by the joint venture in late 1997 also encountered Eliassen sands which had some oil shows which were unexpected at the time and were not followed up. The potential of the Eliassen sands has recently been highlighted by the January 2005 discovery of a 76 metre gas condensate column in the Hurricane 1 well in northern adjacent WA-208-P. This gas condensate discovery was of note as a gas – water contact was not encountered and suggests the possibility of a down dip oil leg. The target potential of the Eliassen sands in Janus 1 has been investigated by a detailed petro-physical study. The results of this study suggest the presence of by passed pay in the well. It has been estimated that 11.5 metres of net pay is present from 39.5 metres of gross pay with an oil-water contact at 1,926 metres MDRT in the well. The size of the accumulation has not yet been estimated, but depends on mapping the down dip leg of the inferred accumulation in ongoing work this financial year.

A new prospect Dr Zeus (formerly Lead Z) is now a highlight of the prospect and lead inventory. The prospect is a mid *M. australis* (Saffron Sand equivalent) stratigraphic trap with some structural closure, outlined by a prominent amplitude anomaly. Prospect potential ranges from, 23 (mean recovered) to 52 million barrels of oil recoverable (P_{10}). An internal Apache peer group has also reviewed and approved the prospect for drilling. As with Duomonte, the deeper seismic events in Dr Zeus in the new Panaeus refresh data have been highlighted, particularly at Angel Formation level. The Angel Formation needs assessment in the light of the recent reassessment of the Janus #1 well as this formation near to the prospect is in faulted juxta position to Eliassen Formation sands with probable by passed oil pay.

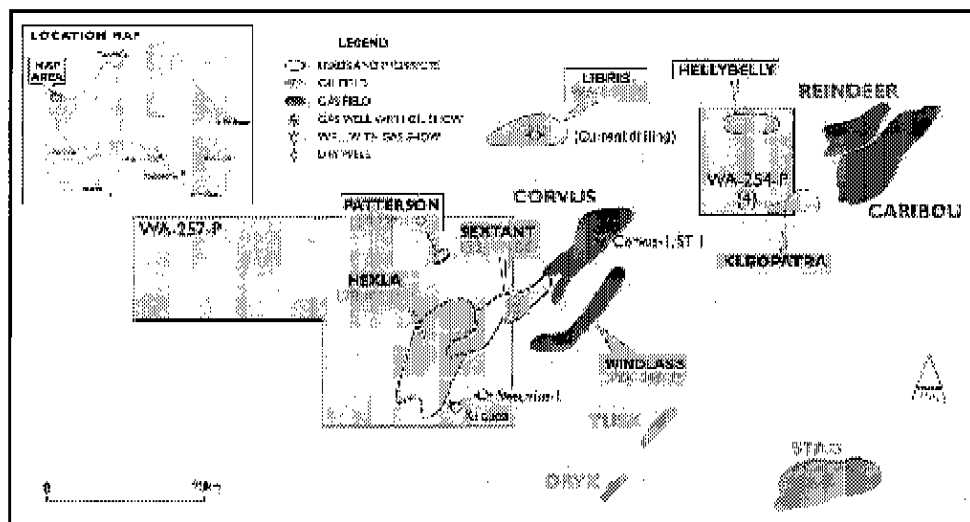
Miscellaneous prospects, Little Joe, Helly Belly (Lower Cretaceous / Angel Formation sands in structural closure in a buttress trap) and Jayasuriya (Eliassen sands stratigraphic pinch out on the basin paleo-slope) require more interpretative work, especially as the new Panaeus refresh seismic data is now available to determine if they are drilling candidate. Little Joe Prospect straddling the WA-254-P and WA-208-P northern boundary was slated for September quarter 2005 drilling by Santos Limited ("Santos") within WA-208-P, but has yet to be drilled by the WA-208-P joint venture. Potential on the Santos web site has been given as 50 million barrels of oil recoverable equivalent with 35% of the prospect lying in WA-254-P.

Review Of Activities (Continued)



Participants in WA-254-P are Sun Resources (7.86% to 9.25%), Operator Apache (47.89% to 47.90%), Woodside Petroleum Ltd ("Woodside") (17.06% to 24.38%), First Australian (10.71% to 11.25%), Victoria (6.17% to 9.30%) and New Zealand Oil and Gas NL (2.99% to 5.23%). The above larger interests of the junior participants reflect their equity in the graticular block containing the stranded Sage Oilfield. The Sage Oilfield, 8.3 (mean) to 13.4 (P_{10}) million barrels of oil recoverable in three reservoirs, is currently waiting for a nearby discovery to be made to move forward by sharing development costs.

WA-257-P, Prospects
and Leads



3.1.2 WA-257-P – 9.64% Interest

During financial year 2006, Operator Apache, has focused on bringing two structural – stratigraphic traps to drill status. These are the previously known *W. spectabilis* sands Hekla Prospect, up to 100 (P_{10}) million barrels of oil recoverable; and the new *P. inhiense* (Angel Formation) sands, Sextant Prospect.

The Sextant Prospect is a truncation sub crop play at the *P. inhiense* (Angel Formation) level and is an extrapolated analogue to the Muineer / Exeter oil discoveries in the northern Camarvon Basin which are in production. The prospect overlaps into eastern adjacent WA-246-P with the prospect style repeated along strike as another prospect called Windlass. Target potential for Sextant ranges from 50 (mean) to 130 (P_{10}) million barrels of oil recoverable with two thirds of the potential falling in WA-257-P. Sextant 1 is now a conditional well on the Operator's drilling schedule for 2007 as the prospect has been shown to have less structural risk than the Hekla Prospect. However, a firm well recommendation from the Operator is pending the outcome of the Libris 1 well being drilled in WA-246-P by Apache that will reveal more information on the *P. inhiense* (Angel Formation) reservoir.

Participants in WA-257-P are Sun Resources (9.64%), Operator Apache (51.78%) and Kufpec Australia Pty Ltd (38.58%).

3.1.3 WA-261-P – 6.15% interest

WA-261-P lies directly south of production licence WA-15-L which contains the Stag Oilfield which was bought into production in mid 1998. The field is currently in decline from its peak production of over 20,000 barrels of oil per day. A successful exploration outcome on any prospects in WA-261-P would lead to rapid field development by a tie back to the facilities of the nearby Stag Oilfield which WA-261-P Operator, Apache operates and has the majority interest.

Back-to-back drilling of the Hestia (formerly Vesta) Prospect with the new Gats Prospect was scheduled in late August 2005. However, adverse weather conditions at a drilling location on the Legendre Oilfield some 80 kilometres north of WA-261-P resulted in the early drilling of the Gats Prospect in the first week of August 2005 with the drilling of the Hestia Prospect proposed on the rig's return from prioritised delayed drilling on the Legendre Oilfield in the December quarter 2005. However drilling of Hestia did not eventuate and it is now scheduled in 2007.

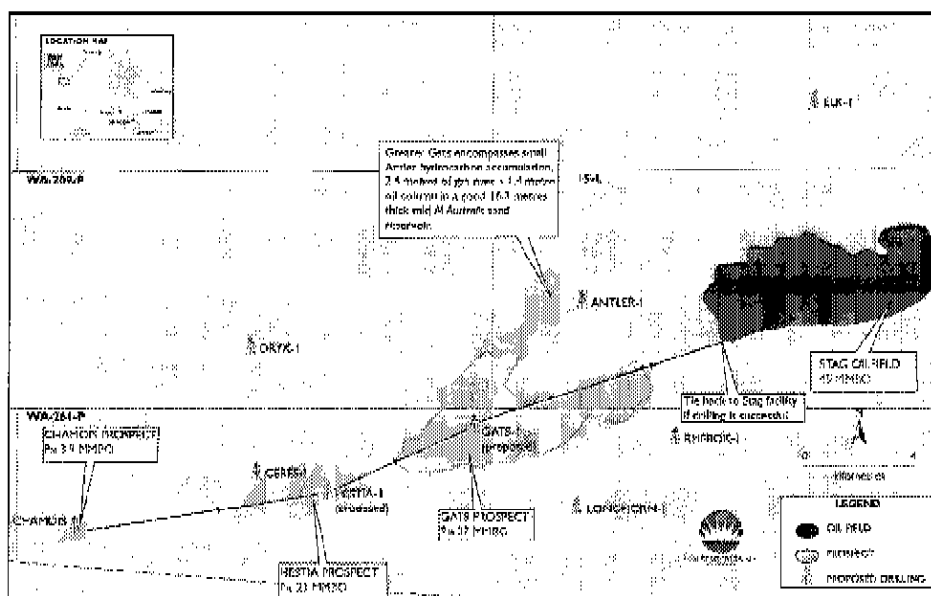
The Gats Prospect is an analogue of the nearby Stag Oilfield. It is a structural-stratigraphic trap that resides mainly in WA-261-P (80%), but overlaps in part the northern adjacent Stag Oilfield Production Licence WA-15-L and exploration permit WA-209-P. Prospect target potential in the shallow Lower Cretaceous *M. australis* Sandstone (locally known as the Stag Sand) reservoir was estimated by the

Review Of Activities (Continued)



Operator as being 17.1 (mean) to 36.9 (P_{10}) million barrels of oil recoverable. The favourable attribute of the prospect was the fact that the "Greater Gats" Prospect (P_2 outline) encompasses the small Antler hydrocarbon accumulation structure in WA-15-L. Antler 1 intersected 2.4 metres of gas sitting on a 1.4 metre oil column in a good 16.3 metre thick mid *M. australis* sand reservoir with an oil/water contact at 705.5 metres depth.

WA-261-P, Prospects and Leads



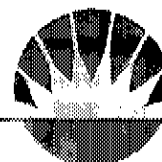
Gats 1 was drilled to 860 metres MDRT ("measured vertical depth below rotary table") and intersected a poorly developed, thin (7 metre thick) non reservoir (siltstone with nodular glauconite) facies of the *M. australis* Sandstone at 683.5 metres MDRT. No hydrocarbon shows (gas readings on gas chromatograph logs or fluorescence on cuttings) were evident in the target reservoir. The result was in sharp contrast to the Antler hydrocarbon accumulation in the "Greater Gats" Prospect outline. From a subsequent well post mortem it was noted that it was the first time in the region around the Stag Oilfield that a strong seismic event corresponding to the *M. Australis* reservoir had resulted in poor quality reservoir. (As a generalisation a poor quality seismic event can correspond to a good quality reservoir, but not the other way around.) It is likely that a stratigraphic pinchout of the reservoir sand occurs between Antler 1 and the Gats 1 well, but it's location can not be reliably mapped on the 2D seismic available.

The Hestia Prospect is a buttress-stratigraphic trap lying southward of the Ceres 1 location and south westwards of Gats. It is a result of the observations of excellent oil shows in good reservoir sands in principally the *C. halosa* and *N. gracilus* of the Athol Formation in Ceres 1. The *C. halosa* sand only is targeted in the prospect at 780 metres MDRT. The largest risk for the Hestia Prospect is seal at the reservoir sub crop interface with the basal Cretaceous unconformity. To minimise future drilling risk the nearby Gats 1 well was deepened specifically to the *C. halosa* sand to obtain information on the nature of the seal - reservoir interface. Two to four metres of induration was found to be present in the sandy facies on the basal Cretaceous unconformity in Gats 1 and the sand was so tight it could not be cored. If similar induration is present in nearby Hestia it should be an effective seal to the reservoir. Prospect size of Hestia is prognosed as ranging from 11.5 (mean) to 23.2 (P_{10}) million barrels of oil recoverable. If drilling of the Hestia Prospect is successful, the Chamois oil accumulation 2.4 (mean) to 3.9 (P_{10}) million barrels of oil recoverable 8 kilometres to the southwest could also be developed to tie back to the nearby Stag Oilfield.

Before Hestia can be drilled a new deeper target needs to be examined from observations made by the Operator from recently received Panaeus refresh seismic data. This target is Mungaroo Formation sands below the Athol Formations sands in the buttress trap. This setting is analogous to the Tusk oil accumulation to the northwest in nearby WA-246-P. If this potential is confirmed the overall prospect target will be considerably larger with upside to 40-50 million barrels of oil recoverable.

Participants in WA-261-P are Sun Resources (6.15%), Apache (Operator) (45.12%), Strike Oil NL ("Strike") (16.22%), Tap Oil Limited ("Tap") (10.00%), Victoria (12.50%) and Bow Energy NL ("Bow Energy") (10.0%).

Review Of Activities (Continued)



3.1.4 WA-340-P – 20.00% Interest

Operator Strike continued seismic studies on WA-340-P to upgrade four Jurassic to Cretaceous age structural stratigraphic leads. Further seismic was acquired in December quarter 2005 and old seismic was reprocessed to integrate with the new seismic data to bring the adjacent Sherlock 23 (mean) to 45 (P₁₀) million barrels of oil recoverable and Peawah 8 (mean) to 14 (P₁₀) million barrels of oil recoverable leads to prospect status for possible drilling. Final interpretation of the merged data set is expected in the new financial year to allow a decision on possible drilling in 2007.

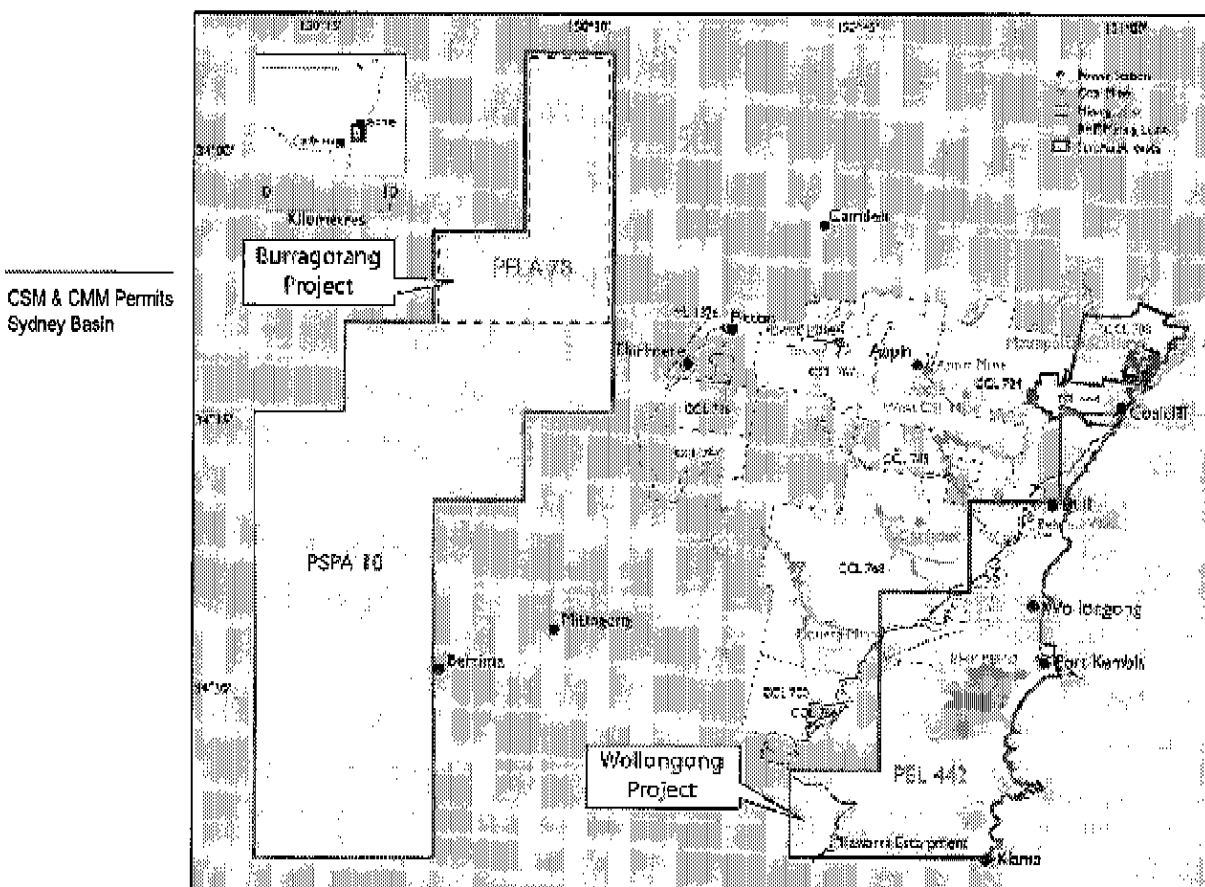
Participants in WA-340-P are Strike as Operator (40.00%), Victoria (20.00%), Pancontinental (20.00%) and Sun Resources (20.00%).

4 ONSHORE SYDNEY BASIN, NEW SOUTH WALES

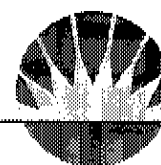
The 44,000 square kilometre, onshore portion of the Sydney Basin has been recently recognised to contain a vast resource of untapped coal seam methane ("CSM") due to the presence of large resources of Permian age, high rank bituminous coals. This resource has been estimated at 26.6 trillion cubic feet with 5.3 trillion cubic feet being recoverable.

Sun Resources is a joint venture partner in the Wollongong CSM and CMM ("Coal Mine Methane") Project and the Burragorang CMM Project in the southern onshore Sydney Basin in the Illawarra region, south of Sydney. Significant CSM and 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 overall energy project has two main attributes for success; the presence of large amounts of gas above the water table and a doorstep market of large population bases, namely Wollongong – Port Kembla and Sydney.

Work on the projects during the financial year were limited and is still awaiting unlisted Operator Apex Energy NL's ("Apex") flotation on the ASX to fund a targeted local power scheme on the Wollongong Project and separately the grant of PELA 78 to conduct drilling to ascertain the presence of significant methane gas accumulations in sealed stope targets in abandoned coal mines in the Burragorang Project area.



Review Of Activities (Continued)

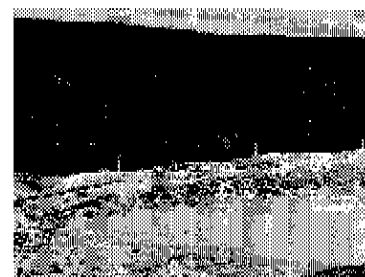


4.1 Wollongong Coal Seam Methane and Coal Mine Methane Projects – 20.00% Interest

The Wollongong CSM and CMM project is a joint venture with unlisted Operator Apex. The project on the southwest coastal margins of the Sydney Basin between Port Kembla and Helensburgh and comprises granted Petroleum Exploration Licences PEL 442 and PEL 444 and access to Helensburgh Coal Pty Ltd's Metropolitan Mine Coal Concession Leases CCL 703 and CCL 379 ("Metropolitan").

The joint venture is investigating the economic potential of both CSM and CMM in the licences, especially CSM of all Permian age gassy coal seams. The whole of the Illawarra Coal Measures sequence section inclusive of the Bulli Seam, Balgownie Seam, Cape Horn Seam, Woronora Seam, Wongawilli Seams, American Creek Seams, Tongarra Seam and Woonona Seam were intersected in two 662 metres vertical core holes in CCL 703 last financial year. Net coals of interest in the holes ranged from 17 to 20 metres and analytical results showed significant encouraging gas contents and methane gas compositions for the deeper coals. A general trend was observed of increasing gas contents (10 to 12 m³ / tonne), increasing methane (94 to 96%) and decreasing (4 to 6%) inert gas content (carbon dioxide and nitrogen) with increasing depth. In particular the American Creek seam was shown to be almost at saturation and minimum dewatering of the coal would be necessary to commence gas production. This data is being used to increase confidence in present Most Likely (P₅₀) in place gas estimates for all the leases and to advance local power generation schemes within the leases using both CSM and in particular CMM, as per the February 2004 Darkes Forest 1 discovery made by the joint venture in PEL 444 which flowed 1.2 million cubic feet of gas per day. The first of these power schemes is being planned on the Metropolitan Mine site using initially part of the 4.7 million cubic feet of gas per day currently being drained from the Bulli Seam ahead of mining. The concept of supplying both CMM and CSM to a local at or near site power generator is well proven locally on a far larger scale than what is currently contemplated by the Sun Resources-Apex study. Abutting to the west of the joint venture's leases lies the Westcliff-Appin-Tower colliery complex of BHP-Billiton Limited. Some 7 billion cubic feet of CSM gas per annum drained from the Bulli Coal Seam ahead of long wall mining is supplied to two local power stations owned by Energy Developments Limited having a total 96.8 MW of generating capacity.

Drilling and Testing
Darkes Forest 1,
PEL 444

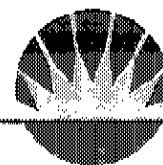


4.2 Burrangong Project PELA 78 (formerly PSPA 10) – 14.00% Interest

During December 2005, a joint venture, comprising Apex (56%) as Operator, Australian Coalbed Methane Pty Ltd (30%) and Sun Resources (14%), made an application over the more prospective portion of the area of former PSPA 10 for a PEL (PELA 78). PSPAs are a special form of tenure introduced in New South Wales to encourage petroleum exploration of areas where prospectivity may be marginal or where exploration is based on applying unconventional or speculative concepts and does not include drilling. A detailed 12 months assessment of abandoned coal mines in PSPA 10 by the joint venture suggested mines in the Burrangong Valley are a target for CMM, particularly recently generated biogenic methane. Biogenic methane is the consequence of the entry of bacteria-laden meteoric waters into coal seams and is a product of the interaction of these bacteria on the coal. Unfortunately there was little opportunity to monitor mine gas accumulation to test this concept further as the mines of interest are sealed and require "key hole" drilling of the sealed stopes. Drilling activity can only be performed under a PEL.

PELA 78 lies in the south western margins of the Sydney Basin, inland from Wollongong in the Illawarra. Very little work has been done on CSM and CMM in this part of the Sydney Basin as it now lies within the Sydney Water Catchment, and all activities are subject to authorisation by the Catchment Authority. The PELA offers potential for shallow biogenic methane resources generated by bacteria which have entered both the coal seams with groundwater and the abandoned coal mine workings (goafs) within the licence area. The deeply incised topography of much of this region results in extensive exposure of coal seams which in turn facilitates the entry of water and bacteria to the seams to generate biogenic methane. Based on recent carbon isotope determinations by CSIRO, methane gas from the Burrangong Valley mines in PELA 78 have an extremely strong biogenic signature and, to the east, in adjoining Sydney Gas Limited's PEL 2 and PEL 1, biogenic methane has been shown to be a significant component of the CSM gas in Sydney Gas Limited's "high production fairway". It is quite possible for methane gas generated by biogenic activity to attain potentially commercial accumulations in the goafs in the decade or so since the cessation of all mining activities in the region.

Review Of Activities (Continued)



5. ABANDONED PROJECTS

5.1 Rock Springs, Wyoming Coal Bed Methane, USA – 45.00% Interest

Sun Resources with Victoria, through their respective 100% owned USA subsidiaries, completed a farm in at the end of the December quarter 2003 with Kestrel Energy Inc to earn a collective 90% interest in 33,000 acres of BLM lease land having underlying coal bed methane ("CBM") potential in deep Upper Cretaceous and Early Tertiary age coals and other assets (principally the under utilised Green Canyon and Dines pipelines having cumulative gas carrying capacities of 10 million cubic feet per day and a 3D seismic data base over half of the farm in area). All of these assets were located in a 376,320 acre (1,505 square kilometre) Area of Mutual Interest ("AMI") in the western area of the Rock Springs Uplift of the Greater Green River Basin, Sweetwater County, southwest Wyoming State.

The main thrust of Sun Resources and Victoria was exploration and development of indicated CBM resources from CBM potential studies of the Upper Cretaceous and Early Tertiary age multi seam coals on the current leases. During the March quarter 2005, Sun Resources as Operator, advanced the proposed test of the CBM potential on the project area by drilling the first ever CBM test of the coals in the project area; i.e. the 5,100 foot (1,554 metres) deep Dines CBM #1 well in the Dines area. The well program earned each of the faminees their first 20% interest in the project.

The well targeted a net 73 feet (24 metres) of Fort Union A, B, D and E coals and Lower Lance age A, B and C coals keyed off the adjacent Dines #2 gas well logs. Regrettably the gas content results, especially those of the deeper Lance coals, were disappointing being sub economic for development of CBM at well depths of 1,225 to 1,550 metres.

At a joint venture meeting in the September quarter 2005 a decision was made to plug and abandon the Dines CBM #1 well as a testing program could not be justified on the low gas results. Furthermore the Joint Venture accepted the Operator's recommendation from their studies that no further CBM exploration be carried out on the leases as the probability of occurrence of an economic CBM accumulation here is low. As a result of cessation of CBM exploration activities on the leases a decision was made to wind up the joint venture.

5.2 APPL 270 (Former APPL 247), PAPUA NEW GUINEA – 20.00% Interest

Sun Resources, through its subsidiary Highland Petroleum Limited in financial year 2005 was part of a consortium of companies exploring PPL 228 and its successor permit application APPL 247. Exploration was being focused in those portions of the licence area where infrastructure is present, structural risk is reduced, target depth is shallow, and importantly, where hydrocarbons are known to be present from previous drilling (Tarim 1, Menga 1, Stanley 1). High graded prospects/leads, the result of extensive geological studies and financial modelling by the operator, Barracuda Limited, were in order of importance, Maipe, Muir, Gu River, Tarim and Champion. However, the award of APPL 247 was subject to a clause that was deemed unsatisfactory to the majority of the joint venture, particularly the major participant and Operator, Santos which held 67.50% through its two PNG subsidiaries. As a result the offer was declined and the joint venture came to an end.

Notwithstanding the demise of the joint venture, APPL 247 participants, Austral-Pacific Energy Limited ("Austral Pacific") Operator 40%, Sun Resources 20% and new entity Rift Oil PLC 40% through their respective PNG subsidiaries made a 2,660 km² application over the most prospective part of former PPL 228/APPL 247 in February 2005 to continue the unfinished exploration program to bring prospect and leads to drill status. The bulk of the prospects have been covered by skeletal seismic some 14 years ago and have large speculative reserve potential; eg at P₅₀ level, Maipe 687 million barrels of oil recoverable, Muir 424 million barrels of oil recoverable and Gu River 423 million barrels of oil recoverable. During the December quarter 2005 the PNG Government advised the joint venture that another competing party with a better work program was awarded a licence which covered the majority area of APPL 270. This advice brings to a close the Company's exploration activities in PNG.

B MINERAL EXPLORATION / INVESTMENT

The Joint Venture on the vestlgial mineral Interest of the Butterfly gold tenement in the North Coolgardie Mineral Field, Western Australia in which the Company has a 5% NPI interest remains current with Barmenco Limited, a successful underground mining contractor, and Atlantic Gold Limited.

C NEW PROJECT DEVELOPMENT

During financial year 2006, Sun Resources continued its involvement in new project generation and development to the benefit of its Shareholders. This resulted in the acquisition of a significant interest in Project Margarita, Gulf Coast, Texas, USA.

Tenement Directory



PROSPECT OIL & GAS	TENEMENTS	INTEREST	COMMENTS
Western Australia			
<i>Offshore Northern Carnarvon Basin</i>			
Dampier Sub-Basin	WA-254-P	7.86% to 9.25%	Blocks 1,3 & 4 - 7.86% Block 2 - 9.25%
Dampier Sub-Basin	WA-257-P	9.64%	
Dampier Sub-Basin	WA-261-P	6.15%	
Dampier Sub-Basin	WA-340-P	20.00%	
New South Wales			
<i>Onshore Sydney Basin</i>			
	PEL 442	20.00%	
	PEL 444	20.00%	
	CCL 379	20.00%	
	CCL 703	20.00%	
	PELA 78	14.00%	
California, USA			
<i>San Joaquin Basin</i>			
Eagle	Private lease land	10.00%	
Texas, USA			
<i>Texas Gulf Basin</i>			
East Flour Bluff Gas Field	State lease land	24.17%	
West Flour Bluff Gas Field	BLM lease land	20.00%	
Pita Island Gas Field	State lease land	20.00%	
Malta			
<i>Pelagian Platform</i>			
	Area 4, Block 3 ESA	20.00%	
	Area 5, ESA	20.00%	
Western Australia			
<i>North Coolgardie Mineral Field</i>			
Butterfly	M40/110	5.00% NPI	Joint Venture with Kookynie Resources NL on that portion of the lease covered by former P40/462.



Directors' Report

Director's Report



In accordance with a resolution of the directors, the following report is submitted in respect of the results of the economic entity constituted by the Company and the subsidiaries it controlled during all or part of, or at the end of, the financial year ended 30 June 2006 and the state of affairs of the economic entity as at that date.

Directors

The names of the directors of the Company in office at the date of this report are:

Dr B L Farrell	Director and Chairman – Executive
Mr W J Ashby	Director and General Manager - Executive
Mr A P Woods	Director and Company Secretary - Executive
Dr P Linsley	Director - Non Executive
Dr W G Martinick	Director - Non Executive

Bradford L Farrell, B.Sc (Hons Econ Geol), M.Sc, Ph.D. (Executive Director and Chairman)

Dr Farrell was appointed to the Board on 1 May 1987. He was previously also a Director of Basin Minerals Limited for the period November 1995 to October 2002. Dr Farrell is a graduate of the University of Adelaide where he obtained a Bachelor of Science, Honours Economic Geology. Subsequently post graduate qualifications of Master of Science and Doctor of Philosophy were obtained at the University of Leicester, United Kingdom. He is a Fellow of the Australasian Institute of Mining and Metallurgy, Member of the Mineral Industry Consultants Association, Chartered Professional Geologist, and a Member of the Institution of Mining and Metallurgy, a Chartered Engineer of that body, Member of the Petroleum Exploration Society of Australia and a Member of the Association of Exploration Geochemists. He has had thirty-eight years experience in resource exploration and senior project management and evaluation. During this time he has managed numerous and extensive exploration programmes within Australia and overseas for a variety of mineral commodities for both major and junior exploration companies. Some of these programmes have resulted in significant discoveries, which are currently in production or will see future production.

Dr Farrell holds 19,525,255 fully paid ordinary shares and 1,200,000 unlisted partly paid contributing shares in the Company.

Aian P Woods, FCPA, FTIA, MAICD (Executive Director and Company Secretary)

Mr Peter Woods was appointed to the Board on 17 October 1989. He was previously also a Director of Basin Minerals Limited for the period November 1995 to October 2002. Mr Peter Woods is a shareholder and founding Managing Director of APSL Pty Ltd which commenced operations in June 1984. APSL Pty Ltd provides corporate and management services to exploration, mining and technology companies in Australia and overseas. He is a Fellow of the Taxation Institute of Australia, a Member of the Australian Institute of Company Directors and he has thirty-six years experience in corporate accounting and financial management areas. He has had extensive experience in the provision of management, financial and taxation advice to clients, including several public companies. In recent years, he has developed a close involvement with oil, gas, gold exploration and mining companies. This work has included professional advice in respect to equity capital raisings, corporate reconstructions, mergers, acquisitions, developing extensive gold hedging programs and financing packages in relation to a number of public companies.

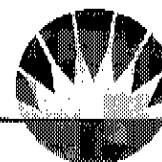
Mr Woods holds 6,459,526 fully paid ordinary shares and 1,200,000 unlisted partly paid contributing shares in the Company.

Philip Linsley, B.Sc. (Hons Geol), Ph.D, MSA (Non-Executive Director)

Dr Linsley was appointed to the Board on 7 May 1997. Dr Linsley is a Non-Executive Director whose primary role is to assist the Board in the acquisition of oil production and to investigate exploration opportunities outside Australia and Oceania. Dr Linsley is also a Director of Carpathian Resources Limited which is listed on both the ASX and AIM and a Director of PXP Management Limited, a well known United Kingdom based consultancy firm focusing on the oil and gas exploration and production industry. He has had some thirty one years experience in oil exploration and production in many parts of the world (Australia, South East Asia, Africa, America, Kazakhstan, Europe and the Middle East) initially in employment with Texaco and Mesa and later as a consultant to companies that include Occidental, Tricentral, Ashland, Ranger, Svenska and Chase Manhattan Bank. Dr Linsley is a Non-Executive Director whose primary role is to assist the Board in the acquisition of oil production and to investigate exploration opportunities outside Australia and Oceania.

Dr Linsley holds 1,220,902 fully paid ordinary shares and 1,200,000 unlisted partly paid contributing shares in the Company.

Director's Report (Continued)



Wolf G Martinick, B.Sc, Ph.D. (Non-Executive Director)

Dr Martinick was appointed to the Board on 19 February 1996. Dr Martinick is a scientist with extensive experience in the resource industry. For over thirty two years he has been associated with the exploration and mining industry in Australasia, especially with respect to environmental, water, land access and Native Title issues. He is a Fellow and Chartered Professional of the Australian Institute of Mining and Metallurgy and a past Vice President of the Association of Mining and Exploration Companies. In 2003 he became Executive Chairman of ASX listed Ezenet Limited, in 2005 Non-Executive Chairman of AIM listed Weatherly International PLC and he is also Non-Executive Chairman of MBS Environmental, a company that provides environmental consultancy services to the resource industry.

Dr Martinick holds 10,984,139 fully paid shares and 1,200,000 unlisted partly paid contributing shares in the Company.

Subsequent to year ended 30 June 2006, Mr William J Ashby was appointed Executive Director and General Manager, effective 1 July 2006.

William J Ashby, B. Sc. (Geophysics), Grad. Dip. App. Sc. – Geophysics (Executive Director and General Manager)

Mr Ashby was appointed on 1 July 2006 and his current role in the Company is General Manager. Mr Ashby has had some 22 years of professional experience in the oil and gas industry in Australia, North and South America. He has had a distinguished career in technical management of operated ventures in a number of companies, namely Ampolex, and through takeover of that entity in Mobil, and most recently Conoco-Phillips, Australia. With respect to Conoco-Phillips, he was the Director of Exploration – Australia Business Unit. His team was responsible for the recent significant Caldita gas discovery in exploration permit NT/P61 in the Bonaparte Basin, offshore Northern Territory, which lies approximately 270 kilometres north/north east of Darwin.

All directors held their positions as a director throughout the entire financial year and up to the date of this report with the exception of Mr William J Ashby.

Board Committees

The Company has three committees at the date of this report:

- Nomination Committee
- Audit and Compliance Committee
- Remuneration Committee

(1) Nomination Committee

The Nomination Committee comprises the full Board and meets as a Committee at least once a year and as required. The Committee ensures the Board has the appropriate number and blend of directors with the necessary commercial, financial and relevant industry experience to oversee the corporate direction and daily management of the Company, and is functional in its own right in its performance and competency.

(2) Audit and Compliance Committee

The purpose of the Audit Committee is to assist the Board in discharging its responsibility to exercise due care, diligence and skill in relation to the Company, in the areas of:

- Application of accounting policies, standards, and reporting of financial information;
- Business risk management;
- Internal control systems;
- Corporate conduct and business ethics; and
- Reporting requirements.

The Board requires that the Company conducts itself in accordance with acceptable ethical standards and complies with all applicable laws, regulations, Board policies and directives. In addition, it requires that adequate procedures and mechanisms should be in place to mitigate the risk that the Company's business goals and objectives are met.

The Board is responsible for the establishment of the Audit Committee, its composition and Charter.

The Audit Committee meets at least two times a year.

A majority of the members of this committee are independent of the management of the Company.

The members of the Audit and Compliance Committee are:

Mr S J Mann	(Independent Chairperson)
Dr P Linsley	(Non-Executive Director)
Mr W J Ashby	(Executive Director)

Director's Report (Continued)



(3) Remuneration Committee

The purpose of the Remuneration Committee is to discharge the board's responsibility relating to the compensation of the Company's directors and executives.

The Remuneration Committee makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior management and directors themselves.

The members of the Remuneration Committee are:

Mr S J Mann	(Independent Chairperson)
Dr W G Martinick	(Non-Executive Director)
Dr P Linsley	(Non-Executive Director)

The Remuneration Committee operates in accordance with its charter and ensures that the levels of remuneration are sufficient to attract and retain the directors and key executives needed to run the Company successfully, while avoiding paying more than is necessary for this purpose.

The committee meets as frequently as may be required to undertake its role effectively, but no less than once per year to:

- Determine the remuneration policy including fixed, performance based and equity based remuneration;
- Determine the remuneration of executive directors and key executives; and
- Review and approve all equity based plans, equity based remuneration and equivalent incentive plans.

Principal Activities of the Consolidated Entity

The principal activities of the Company and controlled subsidiaries during the financial year were oil and gas exploration and investment. There was no significant change in these activities during the year.

The economic entity's activities and operations on exploration projects are summarised in the "Review of Activities" preceding the report.

Operating Results

The consolidated net loss of the economic entity for the financial year after income tax was (\$617,325), 2005: (\$689,142).

Dividends

No dividends were paid or declared during the financial year or subsequent to the year end.

Environmental And Occupational Health And Safety Regulation Performance

The Company's environmental and occupational, health and safety ("OHS") obligations are regulated under both State and Federal Law or in the case of Company's overseas interests, by the governing laws of that country. All environmental and OHS performance obligations are monitored by the Board and subjected from time to time to Government agency audits and site inspections. The Company has a policy of at least complying, but in most cases exceeding its performance obligations. No environmental breaches or OHS incidents have occurred or have been notified to or by any Government agencies during the year ended 30 June 2006. The Company ensures that it complies with all necessary conditions when exploring its permits. The Company has established Environmental and OHS Board Policies under which all exploration is carried out. Both Policies ensure all employees, contractors and other service providers are fully acquainted with the Company's environmental and OHS programs. The Company's primary goal in the environmental management of exploration activities is to prevent unnecessary environmental impact and reinstate sites where disturbance cannot be avoided, whilst its goal in OHS is to provide and foster a culture of carrying out exploration activities in a safe working environment at best exploration practice.

Significant Changes in the State of Affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Company that occurred during the financial year under review.

Significant Events after Balance Date

Mr William J Ashby was appointed Executive Director and General Manager, effective 1 July 2006. As a consequence of the appointment, the Company issued to Mr William Ashby, on the 18 July 2006, 1,500,000 unlisted options with an exercise price of \$0.20 per option on or before 30 December 2008, in accordance with his remuneration package approved on 18 May 2006 as General Manager.

Director's Report (Continued)



Likely Developments and Expected Results

The information required under this section has been included in the "Review of Activities".

Remuneration Report

This report details the nature and amount of remuneration for each director of Sun Resources NL. There were no specified executives involved in the management of the company who were not directors.

(1) Remuneration Policy

The performance of Sun Resources NL depends upon the quality of its directors, executives and staff. To achieve its financial and operating activities, the Company must attract, motivate and retain highly skilled directors and executives.

The Company embodies the following principles in its remuneration framework:

- Provide competitive awards to attract high calibre executives;
- Structure remuneration at a level and mix commensurate with their position and responsibilities within the Company so as to reward executives for Company and individual performance;
- Align executive incentive rewards with the creation of value for shareholders; and
- Link rewards with the performance of the Company.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the performance of the Company. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation. Messrs Farrell and Woods have post employment benefits relative to their separate consultancy's contracts refer, "Post Employment Benefits" page 27.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options and contributing shares are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The remuneration committee determines payments to the Non-Executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to Non-Executive Directors is subject to approval by shareholders at the Annual General Meeting and is currently \$150,000 per annum. Fees for Non-Executive Directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the employee option plan.

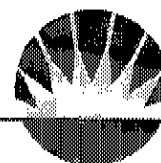
(2) Performance-based Remuneration

The remuneration of the directors is not performance based.

(3) Company Performance

	2002	2003	2004	2005	2006
Revenue	\$2,192,175	\$12,976,546	\$515,268	\$2,331,584	\$1,837,530
Net profit/ (loss)	\$860,136	\$10,883,363	(2,041,558)	(689,142)	(617,325)
Share Price at Year-end (cents)	11	8	11	18	13
Dividends Paid (cents)	-	4	-	-	-

Director's Report (Continued)



(4) Directors' Remuneration

(a) Details of the nature and amount of each major element of the remuneration of each Director of the Company and the consolidated entity are set out below.

2006

	Consulting Fees, Salary and Director's Fees	Superannuation Contributions	Non-Cash Benefits inc FBT	Share-based Equity/Options Payment *	Other #	Total	Performance Related %
	\$	\$	\$	\$	\$	\$	%
Dr B L Farrell	198,000	2,477	38,975	98,400	-	337,852	-
Mr A P Woods	90,000	-	-	98,400	-	188,400	-
Dr P Linsley	30,000	-	-	98,400	11,843	140,243	-
Dr W G Martinick	30,000	-	-	98,400	-	128,400	-
Mr W J Ashby	-	-	-	-	-	-	-
Total	348,000	2,477	38,975	393,600	11,843	794,895	-

* Share-based Equity issued to each director has a value of \$98,400, exclusive of \$30,000 each director has paid from director's fees as a call on the contributing shares issued.

Other - Reimbursement of travel expenses.

- (i) Dr B L Farrell is a Director and shareholder of Berrema Pty Ltd trading as Farrell and Associates. The Company has entered into a contract with Farrell and Associates for the provision of geological and management services. Fees paid during the year at normal commercial rates were \$168,000 (2005: \$168,000).
- (ii) Mr A P Woods is a Director and shareholder of APSL Pty Ltd. The Company has entered into a contract with APSL Pty Ltd for the provision of corporate advice including the services of Mr A P Woods as Company Secretary to the Company. Fees paid during the year at normal commercial rates were \$60,000 (2005: \$58,500).
- (iii) Dr P Linsley is a Director and shareholder of PXP Management Limited. PXP Management Limited provided services to the Company in the financial year in relation to the acquisition of oil production and investigated international exploration opportunities. Expenses reimbursed during the year were \$11,843 (2005: \$15,620).
- (iv) Dr W G Martinick is a Director and shareholder of MBS Environmental Pty Ltd, an environmental and water management consultancy. Fees paid during the year at normal commercial rates were \$Nil (2005: \$Nil).
- (v) There is no relationship between remuneration and company performance.

Directors are paid fees for board services and travelling and out of pocket expenses where applicable. In lieu of fees and subject to shareholders' approval periodic issues of options/shares may be made to directors who pay for the issue at a commercially determined value that does not reflect a loss or profit to the director at the time of the transaction. Executive directors' remuneration is determined with reference to prevailing commercial arms length rates and market conditions in the oil and gas industry.

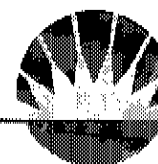
2005

	Consulting Fees, Salary and Director's Fees	Superannuation Contributions	Non-Cash Benefits inc FBT	Share-based Equity/Options Payment	Other	Total	Performance Related %
	\$	\$	\$	\$	\$	\$	%
Dr B L Farrell	168,000	-	37,551	-	*33,685	239,236	-
Mr A P Woods	58,500	-	-	-	-	58,500	-
Dr P Linsley	-	-	-	-	#15,620	15,620	-
Dr W G Martinick	-	-	-	-	-	-	-
Total	226,500	-	37,551	-	49,305	313,356	-

* Related member of staff employed by Company.

Reimbursement of travel expenses.

Director's Report (Continued)



(b) Incentive Options / Shares Granted as Remuneration

2006

At the AGM on 27 October 2005 shareholders approved the grant to each of the Directors listed below unlisted incentive 25 cent contributing shares each paid to 2.5 cents by the recipients. The valuation of the shares at grant date was determined using the binomial valuation model.

Director	Vested No.	Granted No.	Grant Date	Value at Grant Date	Exercise Date	Exercise Price
Dr B L Farrell	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Mr A P Woods	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Dr P Linsley	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Dr W G Martinick	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents

2005

No incentive options / shares were granted during the financial year.

(c) Shareholdings

2006

Number of ordinary shares held by parent entity directors

Director	Balance 1.7.05	Received as Remuneration	Options Exercised	Net Change Other *	Balance 30.6.06
Dr B L Farrell	19,525,255	-	-	-	19,525,255
Mr A P Woods	6,659,526	-	-	(200,000)	6,459,526
Dr P Linsley	1,220,902	-	-	-	1,220,902
Dr W G Martinick	10,766,481	-	-	217,658	10,984,139
Total	38,172,164	-	-	17,658	38,189,822

* Net Change Other refers to shares purchased or sold during the financial year.

(d) Unlisted Contributing Shares Holdings

2006

Number of Unlisted Contributing Shares held by parent entity directors

Director	Balance 1.7.05	Received as Remuneration ¹	Exercised	Net Change Other *	Balance 30.6.06
Dr B L Farrell	-	1,200,000	-	-	1,200,000
Mr A P Woods	-	1,200,000	-	-	1,200,000
Dr P Linsley	-	1,200,000	-	-	1,200,000
Dr W G Martinick	-	1,200,000	-	-	1,200,000
Total	-	4,800,000	-	-	4,800,000

* Net Change Other refers to shares purchased or sold during the financial year.

¹ Each recipient has paid the first call of 2.5 cents on each contributing share from his \$30,000 Director's Fee received for financial year 2006.

(e) Post Employment Benefits

Dr B L Farrell and Mr A P Woods each have separate consultancy contracts and have retirement benefit schemes which on termination or on expiry of those contracts, the Company is required to pay 1.2 months of present annual monthly fees for every year or part year of service since 1 July 1993.

Indemnification of Officers

Insurance and indemnity arrangements established in the previous year concerning officers of the Company were retained during the year ended 30 June 2006. The Company has paid insurance premiums in respect of directors' and officers' liability and legal expenses' insurance

Director's Report (Continued)



contracts, for current and former directors and officers, including executive officers of the Company and directors, executive officers and secretaries of the Company. The insurance premiums relate to:

- (i) costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome;
- (ii) other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

Meetings of the Company's Directors

Of the 7 directors' meetings held during the financial year ended 30 June 2006 the details of directors' attendances were as follows:

Dr B L Farrell	attended 7 meetings out of a total of 7 meetings held.
Mr A P Woods	attended 7 meetings out of a total of 7 meetings held.
Dr P Linsley	attended 7 meetings out of a total of 7 meetings held (5 by conference call).
Dr W G Martinick	attended 5 meetings out of a total of 7 meetings held.

In addition a total of 26 circular resolutions were resolved during the financial year ended 30 June 2006.

Auditor's Independence Declaration

The Auditor's Independence Declaration on page 29 forms part of the Directors' Report for the financial year ended 30 June 2006.

Auditors Remuneration

BDO carry out half yearly and annual audit services and where applicable, non audit corporate advice for the Company. Fees paid during the year at normal commercial rates were \$31,519 (2005: \$28,408). The Board of Directors is satisfied that the provision of services during the year ended 30 June 2006 is compatible with the general standard of independence for auditors imposed by the Corporation Act 2001 and do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

Fees of \$7,050 (2005: \$6,144) for non-audit (taxation) services were paid/payable to the external auditors for the year ended 30 June 2006.

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian Equivalents to International Reporting Standards (AIFRS), the Company's Financial Report has been prepared in accordance with these standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report (page 47).

Proceedings on Behalf of Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Board of Directors' Declaration for Year Ended 30 June 2006

The Board of Directors' Declaration for year ended 30 June 2006 on page 34 forms part of the above Directors' Report.

This relates to the integrity of the financial statements, risk management and internal compliance and control systems of the Company for the financial year as set out in this Annual Report.

For and on behalf of the Board.

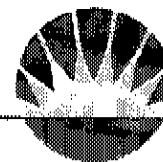
Bradford L Farrell
Director
Perth, Western Australia

Alan P Woods
Director
Perth, Western Australia

8 September 2006

8 September 2006

Auditor's Independence Declaration



Chartered Accountants
& Advisers

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6000
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Tel: (61-8) 9360 4200
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Email: bdo@bdowa.com.au
www.bdo.com.au

8 September 2006

The Directors
Sun Resources NL
PO Box 322
GREENWOOD WA 6024

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO CHARTERED ACCOUNTANTS TO THE DIRECTORS OF SUN RESOURCES NL

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours sincerely
BDO
Chartered Accountants

M Shafizadeh
Partner



BDO is a national
association of separate
partnerships and entities.

Statement Of Corporate Governance Practices



The Board of Directors of Sun Resources NL has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders and were in place throughout the financial year.

The Board of Directors

Role of the Board

The Board of Directors is responsible for setting the strategic direction and establishing the policies of Sun Resources NL and the economic subsidiaries. It is responsible for overseeing the financial position and for monitoring the business and affairs of the Company and the economic subsidiaries on behalf of the shareholders, by whom the directors are elected and to whom they are accountable. It also addresses issues related to internal controls and approaches to risk management.

The Board reviews the remuneration and policies applicable to Non-Executive and Executive Directors and the Managing Director on an annual basis. When reviewing directors fees the Board takes into account the size and scope of the Company's activities. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

Composition of the Board and Functions

The Directors' report contains details of the directors' qualifications, experience and special responsibilities.

Under the Constitution the minimum number of directors is three and the maximum is ten. Directors are not appointed for a fixed term. At each annual general meeting one third of the directors other than the Managing Director must resign by rotation, with those serving the longest resigning first. Resigning directors may stand for re-election.

As at 30 June 2006, the Board was comprised of four directors. Dr B L Farrell as Executive Chairman and Managing Director, was responsible for managing the overall operations of the Company; Mr A P Woods as an Executive Director and also Company Secretary, was responsible for corporate compliance and financial administration, Dr W G Martinick and Dr P Linsley were non-Executive Directors. On 1 July 2006, the Company separated the roles of Chairman and Managing Director, with Dr B L Farrell remaining as Executive Director and Chairman with the position of Managing Director becoming temporarily vacant. On the same day, Mr W J Ashby was appointed Executive Director and General Manager. His Directorship will be subject to re-election by shareholders at the Company's Annual General Meeting on 9 November 2006. Subject to his re-election, Mr W J Ashby will be confirmed and become Managing Director, filling the vacant position.

Details of Directors' shareholdings are disclosed in the directors' report and financial report.

Dr B L Farrell and Mr A P Woods each have separate consultancy contracts and have retirement benefit schemes which on termination or on expiry of those contracts, the Company is required to pay at 1.2 months of present annual monthly fees for every year or part year of service since 1 July 1993.

Any equity based compensation of directors is required to be approved in advance by shareholders.

Board Access To Information

All directors have unrestricted access to all Company employees and consultants and, subject to the law, access to all Company records and information held by employees and external advisers. The Board receives regular detailed financial and operational reports from senior management to enable it to carry out its duties.

Consistent with ASX Principle 2, each director may, with the prior written approval of the Chairman, obtain independent professional advice to assist the director in the proper exercise of powers and discharge of duties as a director or as a member of a Board Committee. The Company will reimburse the director for the reasonable expense of obtaining that advice.

Conflict Of Interest

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members.

Statement Of Corporate Governance Practices (Continued)



Since 5 May 2000 the Board has had a written Policy of a Code of Conduct with respect to Directors and Officers trading in securities of the Company.

Shareholders Relations And Communications

The Company's shareholders are responsible for voting on the appointment of directors. The Board informs shareholders of all major developments affecting the Company by:

- Preparing half yearly and annual financial reports and making these available to all shareholders.
- Advising the market of matters requiring disclosure under Australian Stock Exchange Continuous Disclosure Rules.
- Maintaining a record of significant ASX announcements on the Company's website.
- Submitting proposed major changes in the Company's affairs to a vote of shareholders, as required by the Corporations Law.
- Reporting to shareholders at annual general meetings on the Company's activities during the year. All shareholders that are unable to attend these meetings are encouraged to communicate issues or ask questions by writing to the Company.

Board Committees

The Board where appropriate, may establish a number of committees to assist in carrying out its responsibilities in an effective and efficient manner.

Three standing Board Committees assist the Board in the discharge of its responsibilities and are governed by their respective Charters, as approved by the Board. These are:

- Nomination Committee;
- Remuneration Committee;
- Audit and Compliance Committee.

Nomination Committee

The Nomination Committee comprises the full Board and meets as a Committee at least once a year and as required. The Committee ensures the Board has the appropriate number and blend of directors with the necessary commercial, financial and relevant industry experience to oversee the corporate direction and daily management of the Company, and is functional in its own right in its performance and competency.

Remuneration Committee

Among the specific responsibilities set out in its Charter, the Remuneration Committee reviews and makes recommendations to the Board on the Board's operation and performance; reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the directors, the Managing Director and senior management.

The members of the Remuneration Committee at the date of this report are:

Mr S J Mann	(Independent Chairperson)
Dr W G Martinick	(Non-Executive Director)
Dr P Linsley	(Non-Executive Director)

The composition, operation and responsibilities of the Committee are generally consistent with ASX Principles 2 and 9. Consistent with ASX Principle 2, a summary of the Remuneration Committee Charter has been posted on the new Corporate Governance section of the Company's website.

Audit and Compliance Committee

The Audit and Compliance Committee monitors internal control policies and procedures designated to safeguard Company assets and to maintain the integrity of financial reporting, consistent with ASX Principle 4.

The role of the Committee is to provide a direct link between the Board and the external auditors.

Statement Of Corporate Governance Practices (Continued)



It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The responsibilities of the Audit and Compliance Committee include:

- Monitoring compliance with regulatory requirements;
- Improving the quality of the accounting function;
- Reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- Liaising with external auditors and ensuring that the annual audit half-year review are conducted in an effective manner.

The Committee reviews the performance of the external auditors on an annual basis and meets with them at least twice during the year. Nomination of auditors will be at the discretion of the Committee.

The members of the Audit and Compliance Committee at the date of this report are:

Mr S J Mann	(Independent Chairperson)
Dr P Linsley	(Non-Executive Director)
Mr W J Ashby	(Executive Director)

Consistent with ASX Principle 4, the Committee Charter has been posted to the new corporate governance section of the Company's website.

Audit Process

As part of the Company's commitment to safeguarding integrity in financial reporting, the Company's accounts are subject to an annual audit by an independent professional auditor who also reviews the half yearly accounts.

Consistent with ASX Principle 6, the Auditor attends and is available to answer questions at the Company's annual general meetings.

Auditor Independence

The Company has implemented procedures and policies to monitor the independence and competence of the Company's external auditors. Details of the amounts paid for both audit work and non-audit services are set out in this annual report.

The Board requires that adequate hand-over in the year prior to rotation of an audit partner to ensure an efficient and effective audit under the new partner.

Internal Control Framework And Business Risk Management

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an Internal control framework that includes the following:

- Financial reporting – there is a comprehensive budgeting and forecasting system with updates provided to the Board at each Board meeting. Periodic reports are provided to the Board. Quarterly, half yearly and annual reports are prepared in accordance with the Corporations Act and ASX Listing Rules.
- The Managing Director and the Company Secretary are required to confirm in writing that the Company's financial reports present a true and fair view, in all material respect, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.
- The Company has written policies covering Health, Safety and the Environment.

Statement Of Corporate Governance Practices (Continued)



Ethical Standards

The Board adopts a proactive approach to promoting the practice of high ethical standards. All directors and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company, in the following areas;

- professional conduct;
- dealings with suppliers, advisers and regulators;
- dealings with the community and specifically in dealings with traditional landowners; and
- dealings with other employees.

Privacy

The Company has resolved to comply with the National Privacy Principles contained in the Privacy Act 1988, to the extent required for a company the size and nature of Sun Resources NL.

ASX Guidelines On Corporate Governance

Pursuant to ASX Listing Rules the Company must provide a statement disclosing the extent to which the ASX best practice recommendations have not been followed in the reporting period. Below the Company provides an explanation of any areas where Sun Resources NL does not presently comply with ASX best practice recommendations.

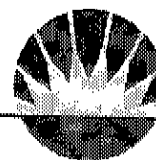
ASX considers that a person who is an executive and also with an interest in the Company with a substantial shareholding (>5.00%) in the reporting company is not independent. The majority of the Board of Directors, three of five directors, under the ASX definition of independent, are not independent Directors. These are; Dr B L Farrell, Executive Director and Chairman of the Company who controls 13.12% of the issued shares of the Company; Mr A P Woods, Executive Director and the Company Secretary of Sun Resources NL who controls 4.3% of the issued shares of the Company and Dr W G Martinick, Non-Executive Director who controls 7.38% of the issued shares of the Company.

Dr P Linsley and Mr W J Ashby, Directors of Sun Resources NL are considered the only independent directors.

Each individual member of the Board is satisfied that whilst the Company may not comply with a strict interpretation of this particular best practice recommendation, the Board always acts with Independence and in accordance with the Statement of Corporate Governance Practices.

The ASX guidelines also prescribe that the Company should maintain a dedicated corporate governance information section on its website. This is currently under construction. The Annual Reports, Half Yearly Reports and all ASX announcements pertaining to the Company's activities can be presently viewed on the Company's website.

Board Of Directors' Statement For The Year Ended 30 June 2006



The Managing Director and the Chief Financial Officer as Executive Directors of the Board and for the Board itself state that:

1. With regard to the integrity of the financial statements of Sun Resources NL for the financial year ended 30 June 2006 as outlined on pages 36 to 68 of this Annual Report that:
 - (i) the financial statements and notes thereto comply with Accounting Standards in all material respects;
 - (ii) the financial statements and notes thereto give a true and fair view, in all material respects, of the financial position and performance of the company and the economic subsidiary;
 - (iii) in our opinion, the financial statements and thereto are in accordance with the Corporations Act 2001; and
 - (iv) in our opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. With regard to risk management and internal compliance and control systems of Sun Resources NL for the year ended 30 June 2006 as outlined on pages 30 to 33 of this Annual Report that:
 - (i) the statements made in (1) above regarding the integrity of the financial statements and notes thereto is founded on a sound system of risk management and internal compliance and control systems which in all material respects, implements the policies adopted by the board of directors;
 - (ii) the risk management and internal compliance and control systems to the extent they relate to financial reporting are operating effectively and efficiently, in all material respects; and
 - (iii) nothing has come to our attention since 30 June 2006 that would indicate any material change to the statements in (i) and (ii) above.

A handwritten signature in black ink, appearing to read 'Bradford L. Farrell'.

Bradford L. Farrell
Director
Perth, Western Australia

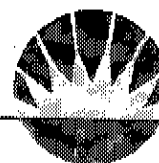
8 September 2006

A handwritten signature in black ink, appearing to read 'Alan P Woods'.

Alan P Woods
Director
Perth, Western Australia

8 September 2006

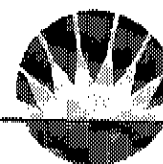
Balance Sheets As At 30 June 2006



	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2006	2005	2006	2005
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	8	1,868,035	3,131,355	952,329	2,974,860
Trade and other receivables	9	134,915	736,980	43,510	736,980
Financial assets	10	427,000	404,500	427,000	393,500
Total current assets		2,427,950	4,272,835	1,422,839	4,105,340
Non-current assets					
Trade and other receivables	11	-	-	12,679,685	5,335,970
Financial assets	12	-	-	2,501,500	2,501,500
Plant and equipment	13	24,667	25,092	24,667	25,092
Exploration expenditure	14	16,855,766	9,577,308	3,584,829	4,251,646
Total non-current assets		16,880,433	9,602,400	18,790,681	12,114,208
Total assets		19,308,383	13,875,235	20,213,520	16,219,548
Current liabilities					
Trade and other payables	15a	22,905	45,171	22,905	45,171
Non-current liabilities					
Trade and other payables	15b	-	-	12,939,130	12,910,477
Total liabilities		22,905	45,171	12,962,035	12,955,648
Net assets		19,285,478	13,830,064	7,251,485	3,263,900
Equity					
Issued capital	17	25,819,806	20,140,667	25,819,806	20,140,667
Reserves	17	393,600	-	393,600	-
Retained earnings		(6,927,928)	(6,310,603)	(18,961,921)	(16,876,767)
Total equity		19,285,478	13,830,064	7,251,485	3,263,900

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity For The Year Ended 30 June 2006



Economic Entity

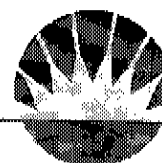
	Ordinary Share Capital	General Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2004	16,936,295	-	(5,621,461)	11,314,834
Shares issued during the year	670,000	-	-	670,000
Options converted to shares	2,567,872	-	-	2,567,872
Share capital issue expenses	(33,500)	-	-	(33,500)
Loss attributable to members of parent entity	-	-	(689,142)	(689,142)
Balance at 30 June 2005	20,140,667	-	(6,310,603)	13,830,064
Shares issued during the year	5,960,280	393,600	-	6,353,880
Share capital issue expenses	(281,141)	-	-	(281,141)
Loss attributable to members of parent entity	-	-	(617,325)	(617,325)
Balance at 30 June 2006	25,819,806	393,600	(6,927,928)	19,285,478

Parent Entity

	Ordinary Share Capital	General Reserve	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2004	16,936,295	-	(14,993,996)	1,942,299
Shares issued during the year	670,000	-	-	670,000
Options converted to shares	2,567,872	-	-	2,567,872
Share capital issue expenses	(33,500)	-	-	(33,500)
Loss attributable to members of parent entity	-	-	(1,882,771)	(1,882,771)
Balance at 30 June 2005	20,140,667	-	(16,876,767)	3,263,900
Shares issued during the year	5,960,280	393,600	-	6,353,880
Share capital issue expenses	(281,141)	-	-	(281,141)
Loss attributable to members of parent entity	-	-	(2,085,154)	(2,085,154)
Balance at 30 June 2006	25,819,806	393,600	(18,961,921)	7,251,485

The accompanying notes form part of these financial statements.

Cash Flow Statements For The Year Ended 30 June 2006

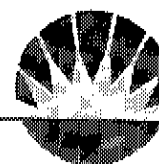


	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Note	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)	Inflows (Outflows)
Cash flows from operating activities				
Receipts from customers (Flour Bluff)	1,379,769	151,141	-	-
Payments to suppliers and employees	(524,568)	(431,610)	(492,156)	(434,972)
Payments for exploration	(8,619,459)	(7,398,783)	(674,183)	(2,073,121)
Dividends received	10,000	-	10,000	-
Interest received	118,020	186,493	106,818	186,493
Finance costs	(43,395)	(162)	(43,395)	(162)
Proceeds from sale of shares	30,865	1,882,431	-	-
Purchase of shares	(8,775)	(522,725)	(6,775)	(500,000)
Net cash flow provided by/ (used in) operating activities	(a) (7,657,543)	(6,133,215)	(1,099,691)	(2,821,762)
Cash flows from investing activities				
Payments for plant and equipment	(6,696)	(12,913)	(6,696)	(12,913)
Loan repaid from controlled subsidiaries	-	-	28,652	1,859,495
Loan advanced to controlled subsidiaries	-	-	(7,343,715)	(5,325,943)
Net cash flow provided by/ (used in) investing activities	(6,696)	(12,913)	(7,321,759)	(3,479,361)
Cash flows from financing activities				
Proceeds from the conversion of options	-	2,467,392	-	2,467,392
Proceeds from issue of shares	6,290,781	-	6,290,781	-
Net cash flow provided by/ (used in) financing activities	6,290,781	2,467,392	6,290,781	2,467,392
Net decrease in cash held	(1,373,458)	(3,678,736)	(2,130,669)	(3,833,731)
Cash at the beginning of the financial year	3,131,355	6,721,422	2,974,860	6,719,922
Exchange rate adjustments	108,138	88,669	108,138	88,669
Cash at the end of the financial year	1,866,035	3,131,355	952,329	2,974,860

The accompanying notes form part of these financial statements.

Cash Flow Statements

For The Year Ended 30 June 2006 (Continued)

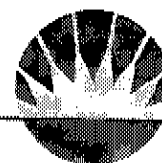


Cash flow information

(a) Reconciliation of (Loss) after income tax with Cash Flow from Operations.

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
(Loss) after income tax	(617,325)	(689,142)	(2,085,154)	(1,882,771)
Cash flows excluded from (loss) attributable to operating activities				
- Cost of exploration	(8,619,459)	(7,398,783)	(674,183)	(2,073,121)
- Purchase of shares	(8,775)	(522,725)	(6,775)	(500,000)
Non-cash flows in (loss)				
- Depreciation	7,121	5,971	7,121	5,971
- Exploration expenditure written off	1,341,001	1,573,522	1,341,001	1,573,522
- Cost of shares sold	24,725	834,076	-	-
- Exchange rate differences	(108,138)	(88,669)	(108,138)	(88,669)
- Increase/(decrease) in investment provision	(38,450)	118,225	(26,725)	106,500
- Director fees	513,600	-	513,600	-
Changes in assets and liabilities				
- (Increase)/decrease in trade and other receivables	(129,577)	4,838	(38,172)	4,835
- Increase/(decrease) in trade and other payables	(22,266)	29,472	(22,266)	31,971
Cashflow from operations	(7,657,543)	(6,133,215)	(1,099,691)	(2,821,762)

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006



1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Sun Resources NL and controlled subsidiaries, and Sun Resources NL as an individual parent entity. Sun Resources NL is a listed public company, incorporated and domiciled in Australia.

The financial report of Sun Resources NL and controlled subsidiaries, and Sun Resources NL as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Sun Resources NL and controlled subsidiaries, and Sun Resources NL as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Statements (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and the consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Sun Resources NL to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented. The parent and consolidated entity have however elected to adopt the exemptions available under AASB 1 relating to AASB 132: Financial Instruments: Disclosure and Presentation, and AASB 139: Financial Instruments: Recognition and Measurement. The same accounting policies and methods of computation have generally been followed in this financial report as the most recent annual financial report. The following accounting policies have changed because of first time adoption of AIFRS; exploration expenditure, income tax, share-based payments and, financial instruments.

Reconciliations and the transition from previous Australian GAAP to IFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on the historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

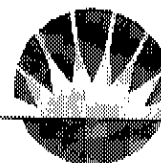
Critical Accounting Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates - Impairment

The group assessed impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



1. Statement of Significant Accounting Policies (Continued)

(a) Principles of Consolidation

The economic entity accounts comprise the accounts of Sun Resources NL and all of its controlled subsidiaries. Control exists, where Sun Resources NL has the power to control the functional and operating policies so as to obtain benefits from its activities. A list of controlled subsidiaries is contained within Note 25 to the accounts.

All inter-company balances and transactions between subsidiaries in the economic entity, including any unrealised profits or losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled subsidiaries have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Revenue Recognition

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from Flour Bluff is recognised when received from the Operator and is two months in arrears due to lag between sales and when received.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from rendering a service is recognised upon delivery of the service.

All revenue is stated net of the amount of goods and services tax (GST).

(c) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where that amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(d) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is credited to the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the economic subsidiary will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Sun Resources NL and its wholly owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Sun Resources NL is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidation group. The Australian Taxation Office has not been notified of this decision. The tax consolidated group has not entered into a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group. The parent subsidiary will therefore have liability for all tax as the other companies in the group will not be liable.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



1. Statement of Significant Accounting Policies (Continued)

(e) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's subsidiaries is measured using the currency of the primary economic environment in which that subsidiary operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(f) Exploration and Evaluation Expenditure

Exploration, evaluation and relevant acquisition expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Exploration and evaluation expenditure, which does not satisfy these criteria, is written off in full against profit in the year in which a decision to abandon the area is made. Economically recoverable reserves are defined as the estimated quantity of product in an area of interest, which can be expected to be profitably extracted, processed and sold under current and foreseeable economic conditions.

Revenue received from the sale of product, material or services during the exploration and evaluation phase of operations is offset against expenditure in respect of the area of interest or mineral resource concerned.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

(g) Other Creditors

These amounts represent unpaid liabilities for goods received by and services provided to the economic entity prior to the end of the financial year. The amounts are unsecured and are normally settled within 30 days.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



1. Statement of Significant Accounting Policies (Continued)

(h) Other Debtors

Other debtors represent prepayments and GST recoverable. Specific provision is made for doubtful debts.

(i) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments are fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

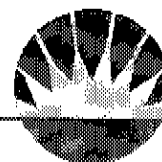
Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

(j) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



1. Statement of Significant Accounting Policies (Continued)

(k) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probably that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over their useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

	Depreciation Rate
Plant and equipment	25% - 40%
Furniture and fittings	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(l) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

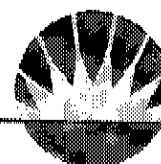
Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(m) Interests in Joint Ventures

The economic entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the economic entity's expenses are shown at Note 28 in the accounts.

The economic and parent entity's interests in joint venture entities are bought to account using the cost method.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



1. Statement of Significant Accounting Policies (Continued)

(n) Provisions and Contingent Liabilities

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Contingent liabilities are only disclosed when the probability for payment is not remote.

(o) Earnings per share

- (i) Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing the entity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.
- (ii) Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) Segment Reporting

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, plant and equipment and other assets, net of related provisions. Segment liabilities consist primarily of other creditors and provisions.

(q) Share-based payments

In order to apply the requirements of AASB2 "Share-based Payments" estimates were made to determine the "fair value" of equity instruments issued to Directors and incorporated into a Binomial Valuation Model prepared by an independent firm of Chartered Accountants.

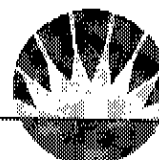
(r) Employee benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(s) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



2. First-time adoption of Australian Equivalents to International Financial Reporting Standards

Economic Entity

Reconciliation of Equity at 1 July 2004

	Previous GAAP at 1 July 2004 \$	Effect of Transition to AIFRS \$	AIFRS at 1 July 2004 \$
Current assets			
Cash and cash equivalents	6,721,422	-	6,721,422
Trade and other receivables	4,838	-	4,838
Financial assets	834,076	-	834,076
Total current assets	7,560,336	-	7,560,336
Non-current assets			
Trade and other receivables	-	-	-
Financial assets	-	-	-
Plant and equipment	18,150	-	18,150
Exploration expenditure	3,752,047	-	3,752,047
Total non-current assets	3,770,197	-	3,770,197
Total assets	11,330,533	-	11,330,533
Current liabilities			
Trade and other payables	15,699	-	15,699
Non-current liabilities			
Trade and other payables	-	-	-
Total liabilities	15,699	-	15,699
Net assets	11,314,834	-	11,314,834
Equity			
Issued capital	16,936,295	-	16,936,295
Retained earnings	(5,621,461)	-	(5,621,461)
Total equity	11,314,834	-	11,314,834

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



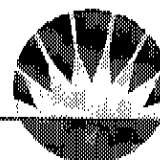
2. First-time adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

Economic Entity

Reconciliation of Equity at 30 June 2005

	Previous GAAP at 30 June 2005 \$	Effect of Transition to AIFRS \$	AIFRS at 30 June 2005 \$
Current assets			
Cash and cash equivalents	3,131,355	-	3,131,355
Trade and other receivables	736,960	-	736,960
Financial assets	404,500	-	404,500
Total current assets	4,272,835	-	4,272,835
Non-current assets			
Trade and other receivables	-	-	-
Financial assets	-	-	-
Plant and equipment	25,092	-	25,092
Exploration expenditure	9,577,308	-	9,577,308
Total non-current assets	9,602,400	-	9,602,400
Total assets	13,875,235	-	13,875,235
Current liabilities			
Trade and other payables	45,171	-	45,171
Non-current liabilities			
Trade and other payables	-	-	-
Total liabilities	45,171	-	45,171
Net assets	13,830,064	-	13,830,064
Equity			
Issued capital	20,140,667	-	20,140,667
Retained earnings	(6,310,603)	-	(6,310,603)
Total equity	13,830,064	-	13,830,064

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



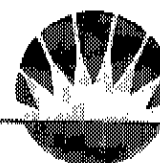
2. First-time adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

Parent Entity

Reconciliation of Equity at 1 July 2004

	Previous GAAP at 1 July 2004 \$	Effect of Transition to AIFRS \$	AIFRS at 1 July 2004 \$
Current assets			
Cash and cash equivalents	6,719,922	-	6,719,922
Trade and other receivables	4,838	-	4,838
Financial assets	-	-	-
Total current assets	<u>6,724,760</u>	-	<u>6,724,760</u>
Non-current assets			
Trade and other receivables	10,027	-	10,027
Financial assets	2,501,500	-	2,501,500
Plant and equipment	18,150	-	18,150
Exploration expenditure	3,752,047	-	3,752,047
Total non-current assets	<u>6,281,724</u>	-	<u>6,281,724</u>
Total assets	<u>13,006,484</u>	-	<u>13,006,484</u>
Current liabilities			
Trade and other payables	13,202	-	13,202
Non-current liabilities			
Trade and other payables	11,050,983	-	11,050,983
Total liabilities	<u>11,064,185</u>	-	<u>11,064,185</u>
Net assets	<u>1,942,299</u>	-	<u>1,942,299</u>
Equity			
Issued capital	16,936,295	-	16,936,295
Retained earnings	(14,993,996)	-	(14,993,996)
Total equity	<u>1,942,299</u>	-	<u>1,942,299</u>

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



2. First-time adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

Parent Entity

Reconciliation of Equity at 30 June 2005

	Previous GAAP at 30 June 2005 \$	Effect of Transition to AIFRS \$	AIFRS at 30 June 2005 \$
Current assets			
Cash and cash equivalents	2,974,860	-	2,974,860
Trade and other receivables	736,980	-	736,980
Financial assets	393,500	-	393,500
Total current assets	4,105,340	-	4,105,340
Non-current assets			
Trade and other receivables	5,335,970	-	5,335,970
Financial assets	2,501,500	-	2,501,500
Plant and equipment	25,092	-	25,092
Exploration expenditure	4,251,646	-	4,251,646
Total non-current assets	12,114,208	-	12,114,208
Total assets	16,219,548	-	16,219,548
Current liabilities			
Trade and other payables	45,171	-	45,171
Non-current liabilities			
Trade and other payables	12,910,477	-	12,910,477
Total liabilities	12,955,648	-	12,955,648
Net assets	3,263,900	-	3,263,900
Equity			
Issued capital	20,140,687	-	20,140,687
Retained earnings	(16,876,787)	-	(16,876,787)
Total equity	3,263,900	-	3,263,900

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



2. First-time adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

Economic Entity

Reconciliation of Profit or Loss for 2005

	Previous GAAP 2005 \$	Effect of Transition to AIFRS \$	AIFRS 2005 \$
Revenue	2,331,584	-	2,331,584
Administration expense	(353,935)	-	(353,935)
Depreciation and amortisation expense	(5,971)	-	(5,971)
Finance expense	(162)	-	(162)
Occupancy expense	(39,136)	-	(39,136)
Employee benefits expense	(95,699)	-	(95,699)
Exploration amortisation expense	(1,573,522)	-	(1,573,522)
Cost of Investments sold	(834,076)	-	(834,076)
Provision for loss on investments	(118,225)	-	(118,225)
(Loss) Before income tax expense	(689,142)	-	(689,142)
Income tax (expense)/benefit:	-	-	-
(Loss) for the year	(689,142)	-	(689,142)
(Loss) for the year attributable to members of the parent subsidiary	(689,142)	-	(689,142)

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



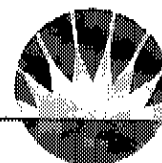
2. First-time adoption of Australian Equivalents to International Financial Reporting Standards (Continued)

Parent Entity

Reconciliation of Profit or Loss for 2005

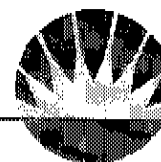
	Previous GAAP 2005 \$	Effect of Transition to AIFRS \$	AIFRS 2005 \$
Revenue	298,012	-	298,012
Administration expense	(345,826)	-	(345,826)
Depreciation and amortisation expense	(5,971)	-	(5,971)
Finance expense	(162)	-	(162)
Occupancy expense	(39,136)	-	(39,136)
Employee benefits expense	(95,699)	-	(95,699)
Exploration amortisation expense	(1,573,522)	-	(1,573,522)
Provision for inter-company loss	(13,967)	-	(13,967)
Provision for loss on investments	(106,500)	-	(106,500)
(Loss) Before income tax expense	(1,882,771)	-	(1,882,771)
Income tax (expense)/benefit	-	-	-
(Loss) for the year	(1,882,771)	-	(1,882,771)
(Loss) for the year attributable to members of the parent subsidiary	(1,882,771)	-	(1,882,771)

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
3. Revenue				
Operating activities:				
Dividends received – other corporations	45,000	-	45,000	-
Interest received – other persons	118,020	186,493	106,818	186,493
Proceeds on sale of shares	30,865	1,882,431	-	-
Flour Bluff income	1,471,174	151,141	-	-
Other income	25,883	22,850	25,883	22,850
Foreign currency translation gain	108,138	88,669	108,138	88,669
Write-back of provision for share loss	38,450	-	26,724	-
Total revenue	1,837,530	2,331,584	312,563	298,012
4. Profit/(loss) for the Year				
Expenses:				
Depreciation of plant and equipment	7,121	5,971	7,121	5,971
Exploration amortisation expense	1,341,001	1,573,522	1,341,001	1,573,522
Finance expense – related subsidiaries	43,395	-	43,395	-
Finance expense – other persons	-	162	-	162
Rental expense on operating lease	34,695	33,240	34,695	33,240
Provision for inter-company loss	-	-	-	13,967
5. Income Tax Expense				
a. The components of tax expense comprise:				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



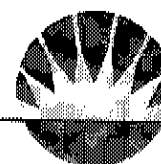
	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
5. Income Tax Expense (continued)				
b. The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)				
- economic entity	(185,198)	(206,743)	-	-
- parent entity	-	-	(625,546)	(564,831)
- other members of the income tax consolidated group net of intercompany transactions	-	-	-	284,175
	(185,198)	(206,743)	(625,546)	(280,656)
Add:				
Tax effect of:				
- non-deductible depreciation and amortisation	-	-	-	-
- other non-allowable items	253,786	1,424	252,325	1,203
- write-downs to recoverable amounts	-	-	-	-
- share options expensed during year	-	-	-	-
- under provision for income tax in prior year	-	-	-	-
	68,588	(205,319)	(373,221)	(279,453)
Less:				
Tax effect of:				
- rebateable fully franked dividends	-	-	-	-
- capital profits not subject to income tax	-	-	-	-
- foreign currency exchange profit not subject to income tax	-	-	-	-
- revaluation of shares not subject to income tax	-	-	-	-
- share of net profits of associates and joint venture entities netted directly	-	-	-	-
- tax losses transferred from controlled entities	-	-	-	-
Recoupment of prior year tax losses not previously brought to account	(68,588)	-	-	-
Deferred Tax Asset on current year losses not recognised	-	205,319	373,221	279,453
Income tax attributable to entity	-	-	-	-

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
5b. Income Tax Expense (Continued)				
Income tax expense to wholly-owned subsidiaries under the tax sharing agreement	-	-	-	-
Income tax attributable to entity	-	-	-	-
The applicable weighted average effective tax rates are as follows:	0%	0%	0%	0%
6. Auditors' Remuneration				
Remuneration of the auditor of the parent entity for:				
Auditing and reviewing the financial report	22,500	21,000	22,500	21,000
Auditing under accrual – prior year	1,969	1,264	1,969	527
Taxation services	7,050	6,144	7,050	6,144
	<u>31,519</u>	<u>28,408</u>	<u>31,519</u>	<u>27,671</u>
Remuneration of other auditors of subsidiaries for auditing the financial report of subsidiaries	4,370	737	-	-
7. Earnings per Share				
Earnings used to calculate basic earnings per share	(617,325)	(689,142)		
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	133,910,629	97,551,105		
Diluted earnings per share is not reflected as the result is anti-dilutive in nature.				
8. Cash and Cash Equivalents				
Cash at bank and on hand	1,798,862	1,876,227	885,156	1,719,732
Term Deposits	67,173	1,255,128	67,173	1,255,128
	<u>1,866,035</u>	<u>3,131,355</u>	<u>952,329</u>	<u>2,974,860</u>
Cash at bank bears floating interest rates between 0% and 4.2% (2005: 0% and 4.1%). Term Deposits are for thirty days and bear 5.3% interest (2005: 5.4%) and have an average maturity of 30 days.				
9. Trade and other Receivables – Current				
Other debtors	134,915	736,980	43,510	736,980
The payment period of other debtors is thirty days.				

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
10. Financial Assets - Current				
Available-for-sale				
- listed investments, at fair value	427,000	404,500	427,000	393,500

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

11. Trade and other Receivables - Non-current				
Amounts receivable from controlled subsidiaries	-	-	14,853,065	7,509,350
Provision for loss on loans	-	-	(2,173,380)	(2,173,380)
	-	-	12,679,685	5,335,970

12. Financial Assets - Non-current				
Held-to-maturity investments				
- unlisted shares at fair value (see Note 25)	-	-	2,501,500	2,501,500

Unlisted shares in subsidiaries are stated at amortised cost which equates to fair value.

13. Plant and Equipment				
Plant and equipment - at cost	47,765	41,069	47,765	41,069
- Accumulated depreciation	(29,854)	(24,422)	(29,854)	(24,422)
	17,911	16,647	17,911	16,647
Furniture and fittings - at cost	28,820	28,820	28,820	28,820
- Accumulated depreciation	(22,064)	(20,375)	(22,064)	(20,375)
	6,756	8,445	6,756	8,445
	24,667	25,092	24,667	25,092

Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Furniture and Fittings	Total
	\$	\$	\$
Balance at the beginning of the year	16,647	8,445	25,092
Additions	6,896	-	6,896
Disposals	-	-	-
Depreciation	(5,432)	(1,689)	(7,121)
Balance at the end of the year	17,911	6,756	24,667

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
14. Exploration Expenditure Capitalised				
Opening balance 1 July 2005	9,577,308	3,752,047	4,251,646	3,752,047
- Net exploration expenses incurred in the year and capitalised	8,619,459	7,398,783	674,184	2,073,121
- Expenditure written off	(1,341,001)	(1,573,522)	(1,341,001)	(1,573,522)
Closing balance 30 June 2006	16,855,766	9,577,308	3,584,829	4,251,646

Exploration expenditure is carried forward in accordance with the accounting policy and comprises expenditure incurred on the acquisition and exploration of tenement interests for oil and gas.

Recoverability of the carrying amount of exploration assets is dependant on the successful exploration and sale of oil and gas.

Capitalised costs amounting to \$8,619,459 (2005: \$7,398,783) have been included in cash flows from operating activities in the cash flow statement of the economic entity and \$674,184 (2005: \$2,073,121) for the parent entity.

15a. Trade and other Payables - Current

Other creditors and accruals	22,905	45,171	22,905	45,171
------------------------------	--------	--------	--------	--------

15b. Trade and other Payables - Non-current

Loan from subsidiary company	-	-	12,939,130	12,910,477
------------------------------	---	---	------------	------------

16. Tax

a. Liabilities

Current

Income Tax

-

-

-

-

Non-current

Deferred tax liability comprises:

Tax allowances relating to property, plant and equipment

-

-

-

-

Total

-

-

-

-

b. Assets

Deferred tax assets comprise:

Provisions

-

-

-

-

Total

-

-

-

-

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
17. Issued Capital				
Issued capital:				
148,755,785 fully paid ordinary shares (2005:116,309,785)	26,297,397	20,337,117	26,297,397	20,337,117
Issue costs of share capital (cumulative)	(477,591)	(196,450)	(477,591)	(196,450)
	<u>25,819,806</u>	<u>20,140,667</u>	<u>25,819,806</u>	<u>20,140,667</u>

Number of Shares	Details of Movement		Issued Capital \$
Ordinary shares			
116,309,785	1 July 2005	Opening Balance	20,337,117
32,446,000	14 December 2005	Issue of share capital by prospectus	5,840,280
<u>148,755,785</u>	30 June 2006	Closing balance	<u>26,177,397</u>
Contributing shares			
4,800,000	28 October 2005	Issue of unlisted contributing shares at 2.5 cents each	120,000
<u>4,800,000</u>	30 June 2006	Closing Balance	<u>26,297,397</u>

A general reserve was created for the valuation of the 4,800,000 unlisted contributing shares at a value of 8.2 cents per share which has been included as part of directors' remuneration.

18. Options over Unissued Shares

On 21 March 2006, 6 million unlisted options were issued to Linq Capital Limited in respect of a mezzanine finance facility provided for the development of the Flour Bluff Gas Project, Texas, USA.

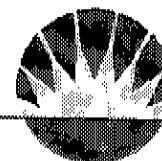
The unlisted options were issued in the following tranches of options:

- 2 million 29 February 2008 options with an exercise price of \$0.25 per option;
- 2 million 30 April 2008 options with an exercise price of \$0.35 per option; and
- 2 million 30 June 2008 options with an exercise price of \$0.45 per option.

19. Significant Events after Balance Sheet Date

The Company issued 1,500,000 unlisted options, on the 18 July 2006, to Mr W J Ashby with an exercise price of \$0.20 per option on or before 30 December 2008 as part of his remuneration package approved on 18 May 2006 as General Manager.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



20. Capital and Leasing Commitments

Exploration expenditure commitments

The Company has joint venture and statutory expenditure commitments on its areas of interest of approximately \$5,564,992 (due within one year) as at 30 June 2006. Financial commitments for subsequent periods are contingent upon future exploration results and cannot be estimated.

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Operating lease commitments				
Not later than one year	22,704	22,704	22,704	22,704
	22,704	22,704	22,704	22,704

The directors are not aware of any other expenditure commitments.

21. Share-based Payments

2006

At the AGM on 27 October 2005 shareholders approved the grant of an unlisted incentive of 25 cent contributing shares each paid to 2.5 cents to each of the Directors listed below. Each of the Directors paid 2.5 cents on each share granted. The valuation of the shares at grant date was determined using the binomial valuation model and included the 2.5 cents paid by each of the recipients.

Director	Vested No.	Granted No.	Grant Date	Value at Grant Date	Exercise Date	Exercise Price
Dr B L Farrell	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Mr A P Woods	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Dr P Linsley	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents
Dr W G Martinick	1,200,000	1,200,000	27 Oct 2005	8.2 cents	30 December 2010	22.50 cents

2005

No incentive options / shares were granted during the financial year

22. Key Management Personnel Compensation

(a) Names and positions held of economic and parent key management personnel in office at any time during the financial year are:

Key Management Person

Dr B L Farrell	Chairman and Managing Director - Executive
Mr A P Woods	Director and Company Secretary - Executive

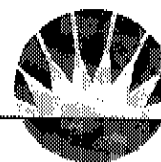
(b) Compensation Practices

The board's policy for determining the nature and amount of compensation of key management for the group is as follows:

The compensation structure for key management personnel is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the Company and key management personnel are on a continuing basis. Upon retirement key management personnel are paid employee benefit entitlements accrued to the date of retirement. Dr B L Farrell and Mr A P Woods each have separate consultancy contracts and have retirement benefit schemes which on termination or on expiry of those contracts, the Company is required to pay 1.2 months of present annual monthly fees for each year or part year of service since 1 July 1993.

The remuneration committee determines the proportion of fixed and variable compensation for each key management personnel.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



22. Key Management Personnel Compensation (Continued)

(c) Key Management Personnel Compensation

2006

Key Management Person

	Short-term Benefits				Post Employment Benefits	Total	Long/Short-term Performance Related
	Consulting Fees, Salary and Director's Fees	Non-Cash Benefits inc FBT	Share-based Equity/Options Payment *	Other	Superannuation Contributions		
	\$	\$	\$	\$	\$	\$	%
Dr B L Farrell	198,000	38,975	98,400	-	2,477	337,852	-
Mr A P Woods	90,000	-	98,400	-	-	188,400	-
Total	288,000	38,975	196,800	-	2,477	526,252	-

* Share-based Equity issued to each Key Management Person has a value of \$98,400 exclusive of \$30,000 paid by the Key Management Person from Director's Fees as a call on the contributing shares issued.

2005

Key Management Person

	Short-term Benefits				Post Employment Benefits	Total	Long/Short-term Performance Related
	Consulting Fees, Salary and Director's Fees	Non-Cash Benefits Inc FBT	Share-based Equity/Options Payment	Other	Superannuation Contributions		
	\$	\$	\$	\$	\$	\$	%
Dr B L Farrell	168,000	37,551	-	*33,685	-	239,236	-
Mr A P Woods	58,500	-	-	-	-	58,500	-
Total	226,500	37,551	-	33,685	-	297,736	-

* Related member of staff employed by Company.

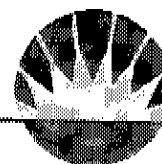
(d) Shareholdings

Number of Shares held by Key Management Personnel

Ordinary Shares

	Balance 1 July 2005	Received as Remuneration	Options Exercised	Net Change Other	Balance 30 June 2006
Key Management Person					
Dr B L Farrell	19,525,255	-	-	-	19,525,255
Mr A P Woods	6,659,526	-	-	(200,000)	6,459,526
	26,184,781	-	-	(200,000)	25,984,781

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



Unlisted Contributing Shares

	Balance 1 July 2005	Received as Remuneration*	Options Exercised	Net Change Other	Balance 30 June 2006
Key Management Person					
Dr B L Farrell	-	1,200,000	-	-	1,200,000
Mr A P Woods	-	1,200,000	-	-	1,200,000
	-	2,400,000	-	-	2,400,000

* Each recipient has paid the first call of 2.5 cents on each contributing share from his \$30,000 Director's Fee received for financial year 2006.

23. Related Parties Transactions

Transactions between related parties are on normal commercial terms and conditions, no more favourable than those available to other parties unless otherwise stated.

The Company's technical office 25 Prowse Street, West Perth, Western Australia is leased at a commercial rate from a company associated with Dr B L Farrell on an arms length basis.

In November 2005 the Company received a loan of \$2,900,000 on arms length commercial terms from an entity related to Dr B L Farrell as bridging finance prior to the receipt of funds from a capital raising in December 2005. This loan was repaid in December 2005, once the capital raising was complete.

24. Segment Reporting

(a) Primary Reporting

Business Segments	Corporate Administration	Exploration	Economic Entity
	\$	\$	\$
2006			
Segment revenue	366,356	1,471,174	1,837,530
Segment result (Loss)	723,676	(1,341,001)	(617,325)
Segment assets	2,452,617	16,855,766	19,308,383
Segment liabilities	22,905	-	22,905
Segment acquisition of assets	6,696	-	6,696
Segment amortisation and depreciation	7,121	-	7,121
Segment exploration expenditure written off	-	1,341,001	1,341,001
2005			
Segment revenue	2,180,443	151,141	2,331,584
Segment result (Loss)	884,380	(1,573,522)	(689,142)
Segment assets	4,297,927	9,577,308	13,875,235
Segment liabilities	45,171	-	45,171
Segment acquisition of assets	12,913	-	12,913
Segment amortisation and depreciation	5,971	-	5,971
Segment exploration expenditure written off	-	1,573,522	1,573,522

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



(b) Secondary Reporting

Geographical Segments

	Australia \$	USA \$	Economic Entity \$
2006			
Segment revenue	355,153	1,482,377	1,837,530
Segment result (Loss)	(2,072,583)	1,455,258	(617,325)
Segment assets	5,032,337	14,276,046	19,308,383
Segment liabilities	22,905	-	22,905
Segment acquisition of assets	6,696	-	6,696
2005			
Segment revenue	2,180,443	151,141	2,331,584
Segment result (Loss)	(833,124)	143,982	(689,142)
Segment assets	8,393,079	5,482,156	13,875,235
Segment liabilities	45,171	-	45,171
Segment acquisition of assets	12,913	-	12,913

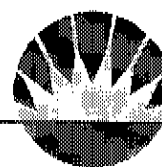
25. Investment in Controlled Subsidiaries

	Country of Incorporation	2006 Equity Holding %	2005 Equity Holding %
Sun Resources NL and its subsidiaries:			
Sun Resources NL	(a) Australia		
Nieuport Pty Ltd	(b) Australia	100	100
Sun Resources (New Caledonia) Pty Ltd	(c) Australia	100	100
Sun Resources (NSW) Pty Ltd	(d) Australia	100	100
Highland Petroleum Limited	(e) Papua New Guinea	100	100
Sun Alpha LLC	(f) Colorado, USA	100	100
Sun Beta LLC	(f) Colorado, USA	100	100
Sun Delta Inc	(f) Colorado, USA	100	100

- (a) The ultimate parent entity is Sun Resources NL.
 (b) Nieuport Pty Ltd carries out investments and holds mineral assets.
 (c) Sun Resources (New Caledonia) Pty Ltd carries out oil exploration activities in New Caledonia.
 (d) Sun Resources (NSW) Pty Ltd carries out oil exploration activities in New South Wales.
 (e) Highland Petroleum Limited carries out oil exploration activities in Papua New Guinea.
 (f) Sun Alpha LLC, Sun Beta LLC, Sun Delta Inc carry out oil exploration in the USA.

All of the above subsidiaries are economically dependant on Sun Resources NL.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



26. Financing Arrangements

The economic subsidiary has access to the following financing facilities with its banking provider:

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Amounts used:				
Bank overdraft facility	-	-	-	-
Credit card facilities	986	196	986	196
	986	196	986	196
Amounts unused:				
Bank overdraft facility	5,000	5,000	5,000	5,000
Credit card facilities	39,014	19,804	39,014	19,804
	44,014	24,804	44,014	24,804
Total facilities	45,000	25,000	45,000	25,000

The terms and conditions of these overdraft facilities are in accordance with the bank's standard terms and these facilities and conditions can be continued.

27. Financial Instruments

(a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, leases and shares.

(i) Treasury Risk Management

The senior executives of the group meet on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

(ii) Financial Risks

The main risks the group is exposed to through its financial instruments are interest rate risk, foreign currency risk, liquidity risk, credit risk and price risk.

Interest rate risk

Interest rate risk is managed with a mixture of fixed and floating rate debt. The interest rate risk is summarised in the table below.

Foreign currency risk

The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency

Liquidity risk

The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Price risk

The group is exposed to commodity price risk. Oil and gas prices have fluctuated significantly during the past three years.

(b) Interest Rate Risk Exposures

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities comprises:

2006

	Note	Floating interest rate (i)	Fixed interest rate maturing in			Non-interest bearing	Total	Average interest rate	
			one year or less	one to five years	more than five years			Floating (i)	Fixed (ii)
		\$	\$	\$	\$	\$	%	%	
Financial Assets									
Cash assets	8	1,798,862	-	-	-	1,798,862	4.2	-	
Term deposits	8	-	67,173	-	-	67,173	-	5.3	
Other debtors	9	-	-	-	134,915	134,915	-	-	
Investments	10	-	-	-	427,000	427,000	-	-	
		1,798,862	67,173	-	561,915	2,427,950			
Financial Liabilities									
Payables	15	-	-	-	22,905	22,905	-	-	
Net financial assets		1,798,862	67,173	-	539,010	2,405,045			

(i) Floating interest rates represent the most recently determined rate applicable to the instrument at balance sheet date.

(ii) Fixed interest rates are one year or less.

Reconciliation of net financial assets to net assets

	Reference Note	\$
Net financial assets as above		2,405,045
Non financial assets and liabilities:		
Plant and equipment	13	24,667
Exploration expenditure	14	16,855,768
Net assets per balance sheet		19,285,478

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



2005

	Note	Fixed interest rate maturing in				Total	Average interest rate		
		Floating interest rate (i)	one year or less	one to five years	more than five years		Non-interest bearing	Floating	Fixed
								(i)	(ii)
		\$	\$	\$	\$	\$	%	%	
Financial Assets									
Cash assets	8	1,876,227	-	-	-	1,876,227	4.1		
Term deposits	8	-	1,255,128	-	-	1,255,128	-	5.4	
Other debtors	9	-	-	-	-	736,980	-	-	
Investments	10	-	-	-	-	404,500	-	-	
		<u>1,876,227</u>	<u>1,255,128</u>	<u>-</u>	<u>-</u>	<u>1,141,480</u>	<u>4,272,835</u>		
Financial Liabilities									
Payables	15	-	-	-	-	45,171	-	-	
Net financial assets		<u>1,876,227</u>	<u>1,255,128</u>	<u>-</u>	<u>-</u>	<u>1,096,309</u>	<u>4,227,664</u>		

- (i) Floating interest rates represent the most recently determined rate applicable to the instrument at balance sheet date.
(ii) Fixed interest rates are one year or less

Reconciliation of net financial assets to net assets

	Reference Note	\$
Net financial assets as above		4,227,664
Non financial assets and liabilities:		
Plant and equipment	13	25,092
Exploration expenditure	14	9,577,308
Net assets per balance sheet		<u>13,830,064</u>

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



(c) Net Fair Values of Financial Assets and Liabilities

The carrying amounts of financial instruments on the balance sheet comprising cash, cash equivalents and non-interest bearing monetary financial assets and liabilities equal their net fair value.

Net Fair Values

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date.

	2006		2005	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$	\$	\$	\$
Financial Assets				
Cash Assets	1,798,862	1,798,865	1,876,227	1,876,227
Term Deposits	67,173	67,173	1,255,128	1,255,128
Other Debtors	134,915	134,915	736,980	736,980
Investments	427,000	427,000	404,500	404,500
	<u>2,427,950</u>	<u>2,427,950</u>	<u>4,272,835</u>	<u>4,272,835</u>
Financial Liabilities				
Payables	22,905	22,905	45,171	45,171
	<u>22,905</u>	<u>22,905</u>	<u>45,171</u>	<u>45,171</u>

(d) Foreign Exchange

The economic entity is exposed to currency exchange rate risk through primary financial assets comprising cash at bank in United States dollars. The exposure comprises US\$777,278 and is quantified in (e).

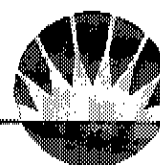
(e) Foreign Currency Exposure

The Australian dollar equivalents of foreign currency monetary items included in the balance sheet under the heading Cash Assets, to the extent that they are not effectively hedged comprise:

Cash assets

Cash at bank	<u>1,067,789</u>	<u>207,137</u>	<u>155,583</u>	<u>52,141</u>
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Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



28. Joint Ventures

The economic subsidiary's share of assets employed in joint ventures, referred to in the "Review of Activities" set out on pages 2 to 19 and in the "Tenement Directory" on page 20, are included in the Economic Entity Balance Sheets under the classifications shown below. The joint ventures do not have separate books of account and relate solely to contribution/interest in a well or expenditure on an area of interest. This is distinct from operating/producing joint ventures, which have assets and liabilities. Please refer to "Tenement Directory" on the inside back cover for details of the Company's percentage interest in each joint venture area.

	ECONOMIC ENTITY		PARENT ENTITY	
	2006	2005	2006	2005
	\$	\$	\$	\$
Exploration Expenditure	16,856,766	9,577,308	3,584,829	4,251,646

29. Contingencies

The Directors are not aware of any contingencies.

30. Employee Entitlements

Number of Employees

	2006	2005
Number of employees at year end	2	1

31. Change in Accounting Policy

(a) The group has adopted the following Accounting Standards for application on or after 1 January 2005:

- AASB 132: Financial Instruments: Disclosure and Presentation; and
- AASB 139: Financial Instruments: Recognition and Measurement.

The changes resulting from the adoption of AASB 132 and AASB 139 related primarily to increased disclosures required under the Standard and do not affect the value of amounts reported in the financial statements.

Notes To And Forming Part Of The Financial Statements For The Year Ended 30 June 2006 (Continued)



- (b) The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2004-3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2006	1 July 2006
	AASB 124: Related Party Disclosures	No change, no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2006	1 July 2006
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change, no impact	1 January 2006	1 July 2006
2005-10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 January 2007	1 July 2007
	AASB 101: Presentation of Financial Statements	No change, no impact	1 January 2007	1 July 2007
	AASB 114: Segment Reporting	No change, no impact	1 January 2007	1 July 2007
	AASB 117: Leases	No change, no impact	1 January 2007	1 July 2007
	AASB 133: Earnings per share	No change, no impact	1 January 2007	1 July 2007
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 January 2007	1 July 2007
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 January 2007	1 July 2007
2006-1	AASB 121: The Effects of Changes in Foreign Exchange Rates	No change, no impact	1 January 2006	1 July 2006
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 January 2007	1 July 2007
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 January 2006	1 July 2006

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or economic entity.

Directors' Declaration



The Directors of the Company declare that:

1. the financial statements and notes are in accordance with the *Corporations Act 2001* and:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that;
 - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c. the financial statements and notes for the financial year give a true and fair view;
3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in black ink, appearing to read 'Bradford L. Farrell'.

BRADFORD L. FARRELL
Director
Perth, Western Australia

A handwritten signature in black ink, appearing to read 'Alan P. Woods'.

ALAN P WOODS
Director
Perth, Western Australia

Dated this Friday, 8 September 2006

Independant Audit Report To The Members Of Sun Resources NL And Controlled Subsidiaries



Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA
6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
Email: bdo@bdowa.com.au
www.bdo.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SUN RESOURCES NL

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Sun Resources NL (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Remuneration Report" in pages 24 to 26 of the directors' report and not in the financial report.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the preparation and presentation of the compensation disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and that the compensation disclosures in the directors' report comply with Accounting Standard AASB 124. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the compensation disclosures in the directors' report comply with Accounting Standard AASB 124.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and the compensation disclosures in the directors' report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.



BDO WA member
member of separate
partnership and entities

Independant Audit Report To The Members Of Sun Resources NL And Controlled Subsidiaries (Continued)



While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

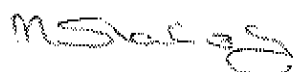
Audit Opinion

In our opinion:

- (1) the financial report of Sun Resources NL is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia; and
- (2) the compensation disclosures that are contained in pages 24 to 26 of the directors' report comply with Accounting Standard AASB 124.

BDO

Chartered Accountants



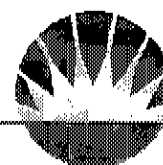
M Shafzadeh

Partner

Perth, Western Australia

Dated this 8th day of September 2006

Additional Shareholder Information As At 31 August 2006



The issued capital of the Company as at 31 August 2006 is 148,755,785 ordinary fully paid shares; 2,000,000 29 February 2008 unlisted options with an exercise price of \$0.25 per option; 2,000,000 30 April 2008 unlisted options with an exercise price of \$0.35 per option; 2,000,000 30 June 2008 unlisted options with an exercise price of \$0.45 per option; 1,500,000 30 December 2008 unlisted options with an exercise price of \$0.20 per option; 4,800,000 contributing shares paid to \$0.025 with outstanding call of \$0.225 expiring 30 December 2010.

Distribution of Shareholding as at 31 August 2006

	Fully Paid Ordinary Shares
Number of Shareholders	1,510
Percentage holdings by twenty largest holders	49.81%
Holders of less than a marketable parcel	203
Number of holders in the following distribution categories:	
0 - 1,000	48
1,001 - 5,000	211
5,001 - 10,000	288
10,001 - 100,000	786
100,001 and over	177
	<u>1,510</u>

Twenty Largest Shareholders

The names of the twenty largest shareholders are as follows:

	No. of Shares
1. Suparell Pty Ltd	19,525,255
2. Martinick Group	10,984,139
3. Mr Brian Lesleigh Williams & Mrs Valerie Ruby Dawn Williams Williams Super Fund	8,000,000
4. ANZ Nominees Limited	7,287,176
5. Woods Group	6,459,526
6. RBC Dexia Investor Services Australia Nominees Pty Limited	4,034,500
7. Elko Interiors Pty Ltd	2,410,000
8. Berenes Nominees Pty Ltd	2,000,000
9. Mr Peter Alfred Temes	1,530,000
10. Rosewarne Superannuation Pty Ltd	1,523,027
11. Philip Linsley	1,220,902
12. Bell Potter Nominees Ltd	1,107,500
13. Elcos Pty Ltd	1,100,000
14. Douglas Financial Consultants Pty Ltd	1,050,000
15. Mr Arnold Olschyna	1,006,214
16. Axwatch Pty Ltd	1,000,000
17. Forty Traders Ltd	1,000,000
18. Netwealth Investments Ltd	958,000
19. Mr George Paul Bird	953,481
20. Berne No 132 Nominees Pty Ltd	950,000

Additional Shareholder Information As At 31 August 2006 (Continued)

Substantial Shareholders

In accordance with Section 671B of the Corporations Act 2001, the Company had been notified of the following substantial shareholders:

Dr Bradford Lawrence Farrell of 30 Sudbury Way, City Beach WA 6015 has a relevant interest in 19,525,255 ordinary shares which represent 13.12% of issued ordinary capital.

Dr Wolf Gerhard Martinick of 60 Julland Parade, Dalkeith WA 6009 has a relevant interest in 10,984,139 ordinary shares which represents 7.38% of issued ordinary capital.

Mr Brian Lesleigh Williams and Mrs Valerie Ruby Dawn Williams (Williams Super Fund) of P.O. Box 5373, Manly QLD 4179, has a relevant interest of 8,000,000 ordinary shares which represents 5.38% of issued ordinary capital.

Details With Respect To Directors' Shareholding as at 31 August 2006

The interest at 31 August 2006, of the directors in the shares of the Company are as follows:

	Fully Paid Ordinary Shares	Unlisted Contributing Shares	Unlisted Options	Listed Options
Dr B L Farrell	19,525,255	1,200,000		
Mr W J Ashby			1,500,000	
Mr A P Woods	6,459,526	1,200,000		
Dr P Linsley	1,220,902	1,200,000		
Dr W G Martinick	10,984,139	1,200,000		

Voting Rights

Ordinary Shares

On a show of hands every member present in person or by proxy or attorney or being a corporation by its authorised representative who is present in person or by proxy, shall have one vote for every fully paid ordinary share of which he is a holder.

Contributing Shares

Contributing shares have no voting rights until each contributing share is fully paid up.

Listed and Unlisted Options

No options are currently listed. Both listed and unlisted options have no voting rights until such options are exercised as fully paid shares.

Resources NL
ABN 69 009 196 810
(Incorporated in Western Australia)

ASX Code: SUR

25 Prowse Street
WEST PERTH WA 6005 Australia

P.O. Box 1786
WEST PERTH WA 6005 Australia

Telephone: +61 8 9481 3638
Facsimile: +61 8 9481 3528

Email: admin@sunres.com.au
Web Page: www.sunres.com.au



SUN RESOURCES NL

ABN 69 009 196 810

NOTICE OF ANNUAL GENERAL MEETING

FORM OF PROXY

AND

EXPLANATORY MEMORANDUM

Date of Meeting

Thursday, 9 November 2006

Time of Meeting

11.00am

Place of Meeting

BDO Chartered Accountants and Advisers

Level 8

256 St Georges Terrace

Perth, Western Australia

Sun Resources NL

ABN 69 009 196 810

CORPORATE DIRECTORY

Directors	Dr Bradford Lawrence Farrell Dr Philip Linsley Mr Alan Peter Woods Dr Wolf Gerhard Martinick Mr William John Ashby
Secretary	Mr Alan Peter Woods
Auditors	BDO Chartered Accountants and Advisers Level 8 256 St Georges Terrace PERTH WA 6000
Legal Advisers	Simon Watson, LL.B., B.Ec. Barrister and Solicitor Level 1, 17 Ord Street WEST PERTH WA 6005
Share Registry	Computershare Registry Services Pty Ltd Level 2, Reserve Bank Building 45 St Georges Terrace PERTH WA 6000 Ph: (08) 9323 2000 Fx: (08) 9323 2033
Technical Office	25 Prowse Street WEST PERTH WA 6005
Registered Office	4 Bendsten Place Balcatta Western Australia 6021 Ph: (08) 9345 4100 Fx: (08) 9345 4541
ABN	69 009 196 810
Stock Exchange Code	SUR

Sun Resources NL

ABN 69 009 196 810

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Shareholders of Sun Resources NL will be held on Thursday, 9 November 2006 at 11.00am, at the office of BDO Chartered Accountants and Advisers, Level 8, 256 St Georges Terrace, Perth, Western Australia.

The following resolutions are to be considered at the meeting and Resolutions 1 to 8 inclusive are discussed in the Explanatory Memorandum to Shareholders which forms part of this notice.

1. FINANCIAL STATEMENTS

As an ordinary resolution:

- 1.1 To receive and adopt the financial statements for the year ended 30 June 2006 together with the Directors' Declaration and the reports of the Directors and Auditors.

2. ELECTION OF DIRECTORS

As ordinary resolutions:

- 2.1 To elect as a Director, Mr William John Ashby, who having been appointed since the last General Meeting retires in accordance with the Constitution and being eligible, offers himself for re-election as a Director and Managing Director.
- 2.2 To elect as a Director, Dr Philip Linsley, who retires in accordance with the Constitution and being eligible, offers himself for re-election as a Director.
- 2.3 To elect as a Director, Mr Alan Peter Woods, who retires in accordance with the Constitution and being eligible, offers himself for re-election as a Director.

3. REMUNERATION REPORT

As an ordinary resolution:

- 3.1 The remuneration report that forms part of the Directors' Report for the financial year ended 30 June 2006 be adopted.
- The remuneration report is set out on pages 25 to 27 of the Annual Report. Please note that the vote on this resolution is advisory only and does not bind the Directors or the Company.

4. INCREASE OF DIRECTORS FEES

As an ordinary resolution:

- 4.1 For the purposes of Rule 10.17 of the Listing Rules and clause 17.1 of the Constitution of the Company and for all other purposes to increase the maximum aggregate fees payable Directors of the Company from \$120,000.00 to \$170,000.00 per annum, such fees to be allocated to the Directors as the Board of Directors may determine.

5. ISSUE OF OPTIONS TO EXECUTIVE

As ordinary resolutions:

- 5.1 For the purposes of Rule 10.11 of the Listing Rules and Part 2E of the Corporations Act 2001 and for all other purposes, shareholders approve the allotment and issue for no consideration to Mr William John Ashby or his nominee up to one million five hundred thousand (1,500,000) options each to subscribe for fully paid ordinary shares in the capital of the Company on or before 30 June 2009 for an exercise price of twenty five cents (\$0.25) and otherwise on the terms set out in the options conditions outlined below such issue or placement to be made on or about 1 January 2008 as determined by the Directors as set out in the Explanatory Memorandum to this Notice of Meeting.
- 5.2 Subject to the passing of Resolution 5.1, for the purposes of Rule 10.11 of the Listing Rules and Part 2E of the Corporations Act 2001 and for all other purposes, shareholders approve the allotment and issue for no consideration to Mr William John Ashby or his nominee up to one million (1,000,000) options each to subscribe for fully paid ordinary shares in the capital of the Company on or before 30 December 2009 for an exercise price of thirty cents (\$0.30) and otherwise on the terms set out in the options conditions outlined below such issue or

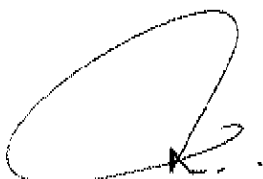
placement to be made or about 1 January 2009 as determined by the Directors as set out in the Explanatory Memorandum to this Notice of Meeting.

6. OTHER BUSINESS

To transact any other business that may be brought forward in accordance with the Constitution of the Company.

Dated at Perth this 4 October 2006

By order of the Board of Directors



Alan Peter Woods
Company Secretary

Voting Entitlement

For the purposes of determining voting entitlements at the General Meeting, shares will be taken to be held by the persons who are registered as holding the shares at 11.00am WST on Tuesday 7 November 2006. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

Voting Restrictions

Voting restrictions apply to resolutions 3.1, 5.1 and 5.2.

The Company will disregard any votes cast on resolution by:

- (a) Dr Bradford Lawrence Farrell in relation to Resolution 3.1;
- (b) Dr Philip Linsley in relation to Resolution 3.1;
- (c) Mr Alan Peter Woods in relation to Resolution 3.1;
- (d) Dr Wolf Gerhard Martinick in relation to Resolution 3.1;
- (e) Mr William John Ashby in relation to Resolutions 3.1, 5.1 and 5.2;
- (f) an associate of any such person.

However the Company need not disregard a vote if:

- (a) It is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- (b) It is cast by the person chairing the meeting as a proxy for the person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Proxies

A form of proxy with related information and instructions accompanies this Notice of Meeting.

Sun Resources NL

ABN 69 009 196 810

EXPLANATORY MEMORANDUM

INTRODUCTION AND BACKGROUND

This Explanatory Memorandum is intended to provide Shareholders with sufficient information to assess the merits of the resolutions contained in the accompanying Notice of Annual General Meeting of Sun Resources NL.

Shareholders at the Annual General Meeting will be asked to consider resolutions to:

- (a) to receive the financial statements;
- (b) to elect Mr William John Ashby who was appointed since the last General Meeting of the Company retires in accordance with the Constitution and being eligible, offers himself for re-election as a Director and Managing Director;
- (c) to elect Dr Philip Linsley as a Director who retires in accordance with the Constitution and being eligible offers himself for re-election;
- (d) to elect Mr Alan Peter Woods as a Director who retires in accordance with the Constitution and being eligible offers himself for re-election;
- (e) to adopt the Remuneration Report;
- (f) to approve an increase in Directors Fees; and
- (g) to issue options to an executive.

This Explanatory Statement has been prepared for the information of Shareholders in relation to the business to be conducted at the Company's Annual General Meeting to be held at the offices of BDO Chartered Accountants and Advisers, Level 8, 256 St Georges Terrace, Perth, Western Australia on Thursday, 9 November 2006 commencing at 11.00am.

The purpose of this Explanatory Statement is to provide Shareholders with information that is reasonably required by Shareholders to decide how to vote upon the resolutions.

The Directors recommend that Shareholders read this Explanatory Statement before determining whether to support the resolution or otherwise.

1. RESOLUTION 1 – FINANCIAL STATEMENTS

Resolution 1 seeks approval to receive and adopt the financial statements for the year ended 30 June 2006 together with the Directors' Declaration and the reports of the Directors and Auditors.

Shareholders are referred to the Annual Report especially to the Independent Audit Report on page 29 where the Independent Auditors, BDO, advise that the financial report of the Company is in accordance with the Corporations Act 2001 and other mandatory financial reporting requirements in Australia.

2. RESOLUTION 2 – ELECTION OF DIRECTORS

2.1 Resolution 2.1 seeks approval to elect as a Director, Mr William John Ashby, who was appointed since the last General Meeting of the Company and who retires in accordance with the Constitution and being eligible, offers himself for re-election.

2.2 Resolution 2.2 seeks approval to elect as a Director, Dr Philip Linsley, who retires in accordance with the Constitution and being eligible, offers himself for re-election.

2.3 Resolution 2.3 seeks approval to elect as a Director, Mr Alan Peter Woods, who retires in accordance with the Constitution and being eligible, offers himself for re-election.

Shareholders are referred to the Annual Report on pages 22 and 23 where details of Mr Ashby, Dr Linsley and Mr Woods may be obtained.

3. RESOLUTION 3 – REMUNERATION REPORT

Resolution 3 seeks adoption of the Remuneration Report.

Shareholders are referred to the Annual Report which incorporates the Remuneration Report.

4. RESOLUTION 4 – INCREASE IN DIRECTORS FEES

Resolution 4 seeks approval to increase or fix the maximum aggregate fees payable to Directors of the Company to one hundred and seventy thousand dollars (\$170,000.00) per annum, such fees to be allocated to the Directors as the Board of Directors may determine.

Previous Directors' fees were fixed upon the basis of four (4) Directors. With the appointment of an additional Director, Mr William John Ashby, and the role of the Chairman becoming non-executive, the increase in fees allows for these changes.

5. RESOLUTION 5 - ISSUE OF OPTIONS TO EXECUTIVE

5.1 Mr William Ashby is a full-time employee of the Company.

5.2 ASX Listing Rule 10.11 provides that a Company must not issue securities (which includes the options) to a Director without shareholder approval. Mr William John Ashby is a Director of the Company. Resolution 5 seeks approval under Listing Rule 10.11 and accordingly approval is not required under Listing Rule 7.1. It is proposed that the options will be issued on or within one (1) month of the dates referred to in the Resolutions. ASX Listing Rule 10.13.3 provides that the securities must be issued no more than one (1) month after the date of the Meeting. ASX Listing Rule 10.13.3 provides that securities approved for issue of in accordance with ASX Listing Rule 10.11 must be issued not more than one (1) month after the date of the Meeting.

The Company is required to obtain a waiver from the ASX providing for an exemption from the requirements of ASX Listing Rule 10.13.3 in relation to the Agreement, so that it may issue the Options beyond the one (1) month limit the Company has applied to the ASX for a waiver.

As at the date of this Notice, the Company had not received a waiver from ASX. Should the waiver not be granted to the Company prior to the date of the Annual General Meeting, this Resolution 5 will not be put to Shareholders at the Meeting and the Resolution will have no further effect.

Shareholders should also note that, in the event the waiver is granted, the issue of the Options pursuant to this Resolution 5 would be subject to any conditions that ASX may impose in granting the waiver.

5.3 The options to be granted to Mr William John Ashby, a Director of the Company, forms part of the remuneration arrangements with Mr Ashby. The employment agreement with Mr Ashby under which these options are to be issued was entered into in May 2006 before Mr Ashby was appointed a Director of the Company in June 2006. Under the Engagement Agreement the Company agreed to issue to Mr Ashby the options referred to in Resolutions 5.1 and 5.2 on 1 January 2008 and 1 January 2009 respectively. When Mr Ashby was appointed a Director the Company was required to obtain Shareholders approval to any further issues.

The options in the class proposed to be issued to Mr William John Ashby are currently unlisted on the ASX. The highest and lowest prices of shares recorded on the ASX during the twelve (12) months immediately preceding the date of this Notice of Meeting were:-

- (a) Highest Price - \$0.23 on 25 November 2005;
- (b) Lowest Price - \$0.09 on 23 August 2006.

- Section 208 of the Corporations Act requires a Public Company giving a financial benefit (such as the issue of options) to a related party (such as a Director must obtain shareholders approval to permit the benefit to be given. Section 211 of the Corporations Act provides that a public Company may give a financial benefit to a related party without shareholders approval if the benefit is remuneration as an officer or employee and the remuneration is reasonable in the circumstances. The members of the Board other than Mr Ashby consider that the options to be issued to Mr Ashby are reasonable and appropriate in the circumstances.
- 5.4 The purpose of the proposed issue to Mr William John Ashby is to provide a means by which Mr Ashby can share in the growth of the Company and accordingly strengthening his commitment to the Company and its operations. It is proposed that up the options will be issued within one (1) month of the date of the Resolution.
- 5.5 Each option entitles the option holder to acquire one (1) fully paid ordinary share in the capital of the Company on the following terms and conditions:-
1. The option expires at 5.00pm on 30 June 2009 or 30 December 2009 as the case may be.
 2. The option may be transferred at any time before the Expiry Date.
 3. If the option holder holds more than 1 option, all or any of the options may be exercised in whole or in part from time to time by notice in writing to the Company received before the Expiry Date.
 4. The exercise price for the option is A\$0.25 or A\$0.30 as the case may be.
 5. The shares issued upon exercise of the options:-
 - (a) will rank equally with existing ordinary fully paid shares; and
 - (b) will (unless the options are designated as restricted securities at the time) be eligible for listing on the official list of the Australian Stock Exchange.
 6. The Company will not apply for official quotation by the ASX of the options.
 7. There is no inherent right in the option to participate in any new issue of securities which may be offered to shareholders of the Company from time to time before the exercise of the option.
 8. The Company will notify option holders of the proposed issue at least 7 business days before the books closing date. This will give the option holders an opportunity to exercise their options before the book's closing date of any such new issue.
 9. In the event of any re-organisation of the capital of the Company, the number of options or the exercise price of the option or both shall be reorganised in accordance with the Listing Rules.

6. RECOMMENDATION AND CONCLUSION

Other than those resolutions where a Director is personally interested and must abstain from voting or making a recommendation, each of the Directors of the Company is of the opinion that the resolutions to be considered at the meeting are in the best interests of Shareholders of the Company and recommends that Shareholders of the Company vote in favour of all resolutions.

7. ACTION TO BE TAKEN BY SHAREHOLDERS

Attached to the Notice of Annual General Meeting is a Proxy form for use by Shareholders. All Shareholders are encouraged to attend the meeting, or alternatively, to complete, sign and return the attached Proxy form.

If any Shareholder requires copies of the Notice and Explanatory Memorandum, they should contact the Company at its registered office:-

Street Address:

4 Bendsten Place
BALCATTWA WA 6021
Telephone No. (08) 9345 4100

Postal Address:

PO Box 332
GREENWOOD WA 6924
Facsimile No. (08) 9345 4541

8. GLOSSARY

In the Notice of Meeting and this Explanatory Memorandum:-

- (a) "ASIC" means Australian Securities & Investments Commission.
- (b) "ASX" means Australian Stock Exchange Limited.
- (c) "Corporations Act" means the Corporations Act 2001 (Cth).
- (d) "Listing Rules" means the Listing Rules of the ASX.
- (e) "Sun" and "Company" means Sun Resources NL (ABN 69 009 196 810).

Sun Resources NL

ABN 69 009 196 810

Proxy Form

Shareholder Details

Name:

Address:

Contact Telephone No:

Contact Name (if different from above):

Appointment of Proxy

I/We being a shareholder/s of Sun Resources NL and entitled to attend and vote hereby appoint

The Chairman
of the meeting

(mark with an 'X')

OR

Write here the name of the person you are appointing if this person is **someone other than the Chairman of the Meeting.**

or failing the person named, or if no person is named, the Chairman of the Meeting, as my/our proxy to attend and act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the Annual General Meeting Members of Sun Resources NL to be held at the office of BDO Chartered Accountants and Advisors, Level 8, 256 St Georges Terrace, Perth, Western Australia, on Thursday the 9th day of November 2006 at 11.00am WST and at any adjournment of that meeting.

IMPORTANT

If the Chairman of the Meeting is your nominated proxy, or may be appointed by default, and you have not directed your proxy how to vote, please place a mark in this box with an 'X'. By marking this box you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by him, other than as a proxy holder, would be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolutions and your votes will not be counted in computing the required majority if a poll is called. The Chairman of the Meeting intends to vote undirected proxies in favour of each resolution.

Voting directions to your proxy – please mark to indicate your directions

Ordinary Business

	For	Against	Abstain*
1.1 Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.1 Election of Directors – Mr William John Ashby	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Election of Directors – Dr Philip Linsley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Election of Directors – Mr Alan Peter Woods	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.1 Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4.1 Increase of Directors Fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.1 Issue of Options to Executive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5.2 Issue of Options to Executive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*If you mark the Abstain box for a particular Resolution, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

Appointment of a second proxy (see instructions overleaf)

If you wish to appoint a second proxy, state the % of your voting rights applicable to the proxy appointed by this form

 %

DATED the day of 2006

PLEASE SIGN HERE This section *must* be signed in accordance with the Instructions overleaf to enable your directions to be implemented

Individual or Shareholder 1

Sole Director and
Sole Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date

How to complete this Proxy Form

1 Your Name and Address

Please print your name and address as it appears on your holding statement and the Company's share register. If shares are jointly held, please ensure the name and address of each joint Shareholder is indicated. Shareholders should advise the Company of any changes. Shareholders sponsored by a broker should advise their broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

2 Appointment of a Proxy

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If the person you wish to appoint as your proxy is someone other than the Chairman of the Meeting please write the name of that person. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a Shareholder of the Company.

3 Votes on Resolutions

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each Resolution. All your shareholding will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any Resolution by inserting the percentage or number of shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given Resolution, your proxy may vote as he or she chooses. If you mark more than one box on a Resolution your vote on that Resolution will be invalid.

4 Appointment of a Second Proxy

You are entitled to appoint up to two persons as proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company on (08) 9345 4100 or you may photocopy this form.

To appoint a second proxy you must on each Proxy Form state (in the appropriate box) the percentage of your voting rights which are the subject of the relevant proxy. If both Proxy Forms do not specify that percentage, each proxy may exercise half your votes. Fractions of votes will be disregarded.

5 Signing Instructions

You must sign this form as follows in the spaces provided:

- | | |
|--------------------|--|
| Individual: | where the holding is in one name, the holder must sign. |
| Joint Holding: | where the holding is in more than one name, all of the shareholders should sign. |
| Power of Attorney: | to sign under Power of Attorney, you must have already lodged this document with the Company's share registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it. |
| Companies: | where the Company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the Company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place. |

6 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at the address given below not later than 48 hours before the commencement of the meeting, i.e. no later than 11.00am WST on Tuesday 7 November, 2006. Any Proxy Form received after that time will not be valid for the scheduled meeting.

This Proxy Form (and any Power of Attorney and/or second Proxy Form) may be sent or delivered to the Company's registered office at 4 Bendsten Place, Balcatta, WA, 6021 or PO Box 332, Greenwood, WA, 6924 or sent by facsimile to the registered office on (08) 9345 4541.