Sunset Energy Limited

(ACN 123 591 382)

Financial Report

For the Financial Year ended 30 June 2009

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CORPORATE DIRECTORY

NON EXECUTIVE CHAIRMAN
Michael Fry

EXECUTIVE DIRECTOR
David Prentice

NON-EXECUTIVE DIRECTOR
David Morris

COMPANY SECRETARY
Cecilia Chiu

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STOCK EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
ASX Codes: Ordinary shares SEY

BANKERS
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WEBSITE
www.sunsetenergy.com.au

DIRECTORS' REPORT

The Directors submit their financial report of the consolidated entity for the financial year ended 30 June 2009. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and details of the Company's directors in office during the year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Michael Fry B.Com, F. Fin - Non-executive Chairman
Mr Michael Fry holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of Financial Services Institute of Australasia, and is a past member of the Australian Securities Exchange ("ASX"). Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.

David Prentice Grad. Dip BA, MBA – Executive Director
Mr David Prentice's career includes 21 years experience in commercial management and business development within the natural resources sector, working for some of Australia's leading resource companies. This has included high-level commercial and operational roles with a number of listed and unlisted resource companies.

David Morris BA (Hons),LLB - Non-executive Director
Mr David Morris is a principal of Morris Legal. Prior to starting Morris Legal in 2008, Mr David Morris was a partner with the national law firms Phillips Fox and Hunt & Hunt.

Mr David Morris has extensive experience in advising corporate clients on a wide range of issues. Mr Morris holds a Bachelor of Arts (Honors) from the University of Western Australia and a Bachelor of Laws from the University of New South Wales and holds Specialist Accreditation with the Law Society of New South Wales in Employment and Industrial Law. Mr Morris is currently a director of Bluefire Energy Limited and Winchester Resources Limited.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of directorship
Michael Fry	Liberty Resources Limited	19 July 2005 to date
	Red Fork Energy Limited	20 April 2004 to date
	Precious Metals Australia Limited	3 March 2004 - 21 June 2007
	Livingstone Petroleum Limited	17 December 2004 - 24 September 2007
	Chrysalis Resources Limited	13 July 2007 – 31 August 2008
David Prentice	Red Fork Energy Limited	20 April 2004 to date
	Jameson Resources Limited	5 July 2007 to date
	Kalgoorlie Boulder Resources Limited	14 January 2005 – 28 November 2007
	Gleneagle Gold Limited	18 February 2003 - 4 March 2008
David Morris	-	-

Company Secretary

The following persons have held the position of company secretary during or at the end of the financial year:

Cecilia Chiu CPA
Ms Chiu is a Certified Practising Accountant and holds a Bachelor of Commerce degree from the University of Western Australia. She has more than 7 years accounting and corporate experience. Ms Chiu previously worked as an auditor at Ernst & Young, and spent 5 years specialising in mining industry audit and assurance services followed by a further 2 years involvement in the listing of junior gold and base metal exploration companies on ASX. She has experience in corporate advisory and company secretarial services, ASX and ASIC compliance requirements. Ms Chiu is currently company secretary of listed uranium explorer United Uranium Limited.

DIRECTORS' REPORT (CONT.)

CORPORATE INFORMATION

Corporate Structure

Sunset Energy Limited is a public company listed on the ASX (Code: SEY) and is incorporated and domiciled in Western Australia. Sunset Energy Limited and its wholly owned subsidiary Sunset Energy LLC incorporated in the state of California are collectively referred to as Sunset Energy, or the Group, as the context requires.

Nature of operations and principal activities

Sunset Energy is an oil and gas exploration and production company whose primary purpose is to secure, find, develop, produce and sell hydrocarbons.

Employees

Sunset Energy Limited has no permanent employees. The operations of the Group (including exploration, development, production, engineering, land administration and general administration) are managed by its joint venture partner Solimar Energy Limited, an ASX listed entity.

OPERATING AND FINANCIAL REVIEW

Overview

The Group was established for the primary purpose of acquiring an interest in energy assets in the United States, principally in California.

Maricopa (San Joaquin Basin) : 50% Working Interest

The Group has a 50% Working Interest in the Maricopa Project located in the San Joaquin Basin, California. The Group (together with its Joint Venture partner Solimar Energy Limited (ASX Code: SGY) ("Solimar Energy") continued the exploration and development of the Maricopa Project (SEY 50% Working Interest) with two producing wells, Wellington #6 and Wellington #7 and one well Wellington #4 tested for production.

Production from the Wellington #6 well continued at good rates of oil and low rates of water. Total of 7,892 barrels of oil were sold at an average of approximately US$62.90 per barrel during the year. Sunset's share of revenue from the sales for the year was A$417,118.

Wellington # 7 has been problematic from the start due to the high water cut. Two attempts to isolate the water were undertaken with measurable improvement in performance and the well was estimated to be producing approximately 6 barrels of oil per day. As further evaluation of the well's relative production of oil and water occurred, the Group concluded that the profitability of the well remained marginal and a decision was made to shut-in the well.

Plans are also progressing on installing a water disposal line which would substantially reduce water disposal costs. A preliminary right of way agreement has been reached with one land holder and discussions are occurring with other land holders on Right of Way agreements. Solimar Energy is also looking at the possibility of approaching other producers in the area to ascertain if they would be interested in participating in the costs of installing a water disposal line which they would then have access to.

Wellington #4 was swab tested during the year. The workover on Wellington #4 was an inexpensive test of a proven oil column without the need to drill a new well. However, with well costs having fallen sharply over past months, future operations will most likely involve drilling a new well to access the known existing oil column. Further evaluation and rework has been planned for Wellington #4 to bring this well into production in the near future.

Sunset Energy (together with its joint venture partner Solimar Energy) has several future wells planned including horizontal drilling. Additional follow-up locations in the Maricopa Project have been identified, including up to 3 vertical well locations and possibly 2 horizontal locations. A new geologic review has also been undertaken to identify further new drilling locations to increase potential production.

OPERATING AND FINANCIAL REVIEW (CONT.)

Deer Creek (San Joaquin Basin) : 50% Working Interest
At Deer Creek, work continued during the year to finalise leasing and should soon put the Group in a position to move into the well planning stage. The Group holds a 50% interest in this project with Solimar Energy which holds the other 50% interest and is the operator.

The Silverthread Project: 18.5% - 20% Working Interest (Ventura Basin)
The Group has a 20% Working Interest in an initial 600 acres and an 18.5% Working Interest in further 200 acres (for a total of 800 acres). The Silverthread project is located in the prolific Ojai oil and gas producing area in the Ventura Basin, about 100 kilometres northeast of Los Angeles, California.

The joint venture partners are continuing to evaluate the report received from Schlumberger that confirmed that the Nesbitt #5 well had discovered a 495 foot oil column in a 640 foot oil saturated perforated interval.

Schlumberger made several recommendations to increase oil production from the well and the joint venture partners are investigating these development options for recovering what could potentially be significant volumes of oil in place.

Future Strategy
The Group is working to develop conventional oil and gas formations on its holdings in California in the United Sates. The location of these holdings in prolific oil and gas producing basins, with access to extensive infrastructure and pipeline networks, together with the relationship with its experienced operating partner (Solimar Energy), provides the Group with a significant competitive advantage. With the project acquisition program completed and with production success at Maricopa, the Group is focused on building on its production and cash flow by exploiting the potential of its acreage through drilling and development.

Financial position
The Group has cash funds on hand of $373,432 at year-end. The Group has been successful in the discovery and production of oil and gas and has established a highly prospective exploration portfolio in the Midway-Sunset Oil Field, California, U.S.A.

Operating results for the year
Sunset Energy participated in the exploration and production of oil and gas in the Midway-Sunset Oil Field, California, U.S.A.

FINANCIAL RESULT

The operating results for the financial year ended 30 June 2009 for the Group was an after tax loss of $488,807 (2008: parent $312,551).

DIVIDENDS PAID OR RECOMMENDED

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Sunset Energy was established as a focused North American oil & gas exploration company.

The following summary of events marks significant milestones in the state of affairs of the Group during the financial year:

1. On 17 August 2008 Sunset Energy LLC, a wholly owned subsidiary of Sunset Energy Limited was incorporated in the state of California, USA.

2. On 6 March 2009, the Group successfully raised a total of $670,711.80 via a non renounceable rights issue of 13,414,836 shares at $0.05 each.

3. On 30 June 2009, the Group issued 559,200 ordinary shares at deemed price of $0.05 to its consultant as consideration for services rendered during the rights issue.

AFTER BALANCE DATE EVENTS

1. On 3 July 2009, Sunset Energy announced a placement of up to 5,750,000 shares at $0.05 each to raise $287,500 before costs. The proceeds from the placement will be used towards working capital of the Group's production activities in California, USA. The placement was subsequently completed on 12 August 2009.

2. On 12 August 2009, Sunset Energy announced that 3,500,000 incentive options will be issued to its Board of Directors, subject to shareholders' approval. These options are exercisable at $0.10 each on or before 30 June 2012. Shareholders approval will be sought at the Company's next Annual General Meeting in November 2009.

The Directors are not aware of other matter or circumstances that has arisen since 30 June 2009 which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The primary objective of Sunset Energy is to develop a successful focused oil & gas exploration and production business. Whilst the Group has been undertaking primarily exploration activities to date, the addition of oil & gas production either through exploration success or acquisition is a primary objective.

The Group intends to offer investors further exposure to the oil and gas industry. The Group aims to achieve this goal through a combination of:

* Advancing exploration on current North American Licence interests.
* Aggressive pursuit of further prospective exploration in its North American interests;
* Reviewing and potentially acquiring other interests in the North American interests; and
* Utilising the Board and management's collective experience and skills to progress any discoveries to commercial production.

Environmental regulations and proceedings

Sunset Energy is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

The directors have considered the recently enacted National Greenhouse and Energy Reporting Act 2007 (the NGER Act) which introduces a single national reporting framework for the reporting and dissemination of information about the greenhouse gas emissions, greenhouse gas projects, and energy use and production of corporations. At the current stage of development, the directors have determined that the NGER Act will have no effect on the Group for the current, nor subsequent financial year. The director will reassess this position as and when the need arises.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Sunset Energy has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Sunset Energy believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed and approved by the Board.

In determining competitive remuneration rates, the Board considers local and international trends among comparative companies and the industry generally so that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits.

REMUNERATION REPORT (CONT.)

The Group is currently an exploration and emerging production entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Group moves from an exploration to a producing entity and key performance indicators such as profit and production and reserves growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. 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. Fees for non-executive directors are not linked to the performance of the Company, however, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

During the financial year the Company's share price traded between a low of $0.04 and a high of $0.315. The price volatility is a concern to the Board but is not considered abnormal for junior oil & gas explorer and emerging producer such as Sunset Energy. In order to keep all investors fully-informed and minimize market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors
Michael Fry – Non-Executive Chairman
David Prentice – Executive Director
David Morris – Non-Executive Director

(ii) Executives
Cecilia Chiu – Company Secretary

Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the year, and relative comparative information.

Except as detailed in Notes (a) – (d) to the remuneration report, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Group or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

(b) Compensation of Key Management Personnel

Remuneration Policy
The Board of Directors, mainly comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements for the executive team. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Directors and Executives is set out below.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

The value of remuneration received by key management personnel for the financial year ended 30 June 2009 is as follows:

	Primary		Equity Compensation	Post-employment	
2009	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**TOTAL $**
Directors					
Michael Fry	60,000	-	-	-	60,000
David Prentice	130,800	-	-	-	130,800
David Morris	30,000	-	-	2,700	32,700
Executives					
Cecilia Chiu *	42,000	-	-	-	42,000
Total 2009	262,800	-	-	2,700	265,500

2008	Primary		Equity Compensation	Post-employment	
Directors	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Total $**
David Prentice	111,400	-	95,624	-	207,024
Michael Fry	39,000	-	13,661	-	52,661
David Morris	19,500	-	13,661	1,755	34,916
David Parker	-	-	13,660	-	13,660
Executives					
Cecilia Chiu *	21,000	-	-	-	21,000
Total 2008	190,900	-	136,606	1,755	329,261

***** Ms Chiu does not receive the above fees. Athena Corporate Pty Ltd, a company Ms Chiu has an interest in, receives these fees from Sunset Energy Limited for corporate, accounting and secretarial services.

(c) Compensation Options: Granted and vested during and since the financial year ended 30 June 2009

During and since the financial year ended 30 June 2009, there were no options granted to directors and executive officers of the Group.

(d) Share and Option holdings

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the Group would have adopted if dealing at arm's length. The relevant interests of each director in share capital at the date of this report are as follows:

Directors	**Number of Shares**	**Number of Options**
Michael Fry	1,350,000	500,000
David Prentice	2,250	3,500,000
David Morris	-	500,000
	1,352,250	4,500,000

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

Options issued as Part of Remuneration

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to all directors of Sunset Energy to increase goal congruence between executives, directors and shareholders.

Employment Contracts of Directors and Senior Executives

For details of service agreements between key management personnel and Sunset Energy, refer note 17 of the financial statements.

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial year each director held office and the number of meetings attended by each director are:

	Directors Meetings	
Director	**Meetings Attended**	**Number Eligible to Attend**
Michael Fry	2	2
David Prentice	2	2
David Morris	2	2

OPTIONS

At the date of this report the following options over new ordinary shares in the Group were on issue.

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted Options	30 September 2010	$0.20	5,000,000

No ordinary shares were issued as a result of the exercise of options during or since the financial year ended 30 June 2009.

Directors' holdings of shares and share options have been disclosed in the Remuneration Report.

INDEMNIFYING OFFICERS OR AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Group shall be indemnified out of the property of the Group against any liability incurred by him in his capacity as officer, auditor or agent of the Group or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

The Group currently has a directors' and officers' liability insurance in place. A total premium of $27,000 had been paid for cover period from 1 May 2009 to 30 April 2010. Under the terms of the policy, the Group is covered for a limit of up to $10 million in aggregate against loss by reason of a wrongful act by the directors and officers during the period of insurance. No excess fee is payable for loss from such claims.

A US$75,000 of excess is payable by the Group for loss from any US claim and an excess fee of $25,000 for loss from any other Group reimbursement claim.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings

The Group was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on page 11 and forms part of the directors' report.

NON AUDIT SERVICES

There are no fees paid or payable to the auditors for non-audit services performed during the year ended 30 June 2009.

This report is made in accordance with a resolution of the directors.

David Prentice
Executive Director

30 September 2009

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Sunset Energy Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sunset Energy Limited.

Perth, Western Australia	**N G NEILL**
30 September 2009	**Partner, HLB Mann Judd**

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Corporate Governance Statement

The Board and management of Sunset Energy Limited (“Sunset Energy” or the “Group”) recognise their duties and obligations to shareholders and other stakeholders to implement and maintain a robust system of corporate governance. The Group believes that the adoption of good corporate governance adds value to stakeholders and enhances investor confidence.

The Group acknowledges the ASX Corporate Governance Council’s Corporate Governance Principles and Recommendations (2nd Edition) (the “Recommendations”) that took effect for the financial year from 1 July 2008 to 30 June 2009. This Corporate Governance Statement provides details of the Group’s compliance with those Recommendations, or where appropriate, indicates a departure from the Recommendations with an explanation. A checklist summarising the Group’s compliance with the Recommendations is also set out at the end of this statement.

The Group’s corporate governance policies were updated during the 2009 financial year to comply with the revised Recommendations and are available on the Group’s website: www.sunsetenergy.com.au. This statement reflects Sunset Energy’s corporate governance system in place during the 2009 financial year and as at the date of this report.

Principle 1: Lay Solid Foundations for Management and Oversight

Board Charter

The Board is accountable to shareholders for the performance of the Group. The Board operates under the Board Charter that details its functions, responsibilities and powers and those delegated to management.

On appointment, non-executive directors receive formal letters of appointment setting out the terms and conditions of appointment. The formal letter of appointment covers the matters referred to in the guidance and commentary for Recommendation 1.1. Executive directors are employed pursuant to employment agreements.

To assist the Board carry our its functions, it has developed a Code of Conduct to guide the Directors, the Chief Executive Officer, the Chief Financial Officer and other key executives in the performance of their roles.

Principle 2: Structure the Board to Add Value

Composition of the Board

The Board consists of a non-executive chairman, an executive director, and a non-executive director. Details of their skills, experience and expertise and the period of office held by each director have been included in the Directors’ Report. The number of board meetings and the attendance of the directors are set out in the Directors’ Report.

The roles of Chairman and the Managing Director are not exercised by the same individual. The role of Managing Director is carried out by Executive Director, Mr David Prentice. The Board Charter summarises the roles and responsibilities of the Chairman, Mr Michael Fry and the Managing Director, Mr David Prentice.

Independence of non-executive directors and the Chairman of the Board

The Board has assessed the independence of the non-executive director and the Chairman using defined criteria of independence and materiality consistent with the guidance and commentary for Recommendation 2.1. The Chairman, Mr Fry satisfies the tests of independence as detailed in the Recommendations.

Although Mr Fry holds 1,350,000 fully paid ordinary shares in the Group, he is regarded as independent as Mr Fry is not a substantial shareholder as defined by the Corporations Act.

Mr David Morris satisfies the tests of independence as detailed in the Recommendations.

The Group complies with Recommendations 2.1 and 2.2 in that the majority of directors are independent and the Chairman is independent.

Nomination and Remuneration Committee

The Group does not have an existing Nomination and Remuneration Committee as recommended in Recommendation 2.4. As the whole Board only consists of three (3) members, it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues.

The responsibilities of a Nomination and Remuneration Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. Currently the Board as a whole performs this role.

Board renewal and succession planning

The appointment of directors is governed by the Group's Constitution and the procedures for Selection and Appointment of New Directors. In accordance with the Constitution of the Group, no director except a Managing Director shall hold office for a continuous period in excess of three years or past the third annual general meeting following the director's appointment, whichever is the longer, without submitting for re-election. The Group has not adopted a policy in relation to the retirement or tenure of directors.

The appointment of the Company Secretary is a matter for the Board. Information on the skills, experience and qualifications of the Company Secretary can be found in the Directors' Report.

Evaluation of the performance of the Board, its committees and individual directors

The performance of the Board and individual directors are evaluated in accordance with the Performance Evaluation Policies. The objective of this evaluation will be to provide best practice corporate governance to the Group. Board Performance Evaluation Policy is available at the Company's website.

Induction and education

When appointed to the Board, a new director will receive an induction appropriate to their experience. Directors may participate in continuing education to update and enhance their skills and knowledge from time to time, as considered appropriate.

Access to information and advice

Directors are entitled to request and receive such additional information as they consider necessary to support informed decision-making. The Board also has a policy under which individual directors and Board committees may obtain independent professional advice at the Group's expense in relation to the execution of their duties, after consultation with the Chairman.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

The Board has adopted a Code of Conduct which applies to all directors and officers of the Group. It sets out Sunset Energy's commitment to successfully conducting the business in accordance with all applicable laws and regulations while demonstrating and promoting the highest ethical standards. The Code of Conduct reflects the matters set out in the commentary and guidance for Recommendation 3.1.

Securities Trading Policy

The Securities Trading policy for Employees and Directors sets out the rules relating to dealings by employees and directors in securities issued by the Group. Directors and employees may only trade in Sunset Energy securities during prescribed trading windows and only then if they are not in possession of inside information. All directors and employees are required to seek approval before trading in Sunset Energy securities during the trading windows.

Sunset Energy has instituted prohibitions on employees and directors from using derivatives or hedging arrangements that operate or are intended to operate to limit the economic risk of security holdings over unvested Group securities.

The Group will publicly disclose all derivatives or hedging arrangements over vested Sunset Energy securities taken out by a director of the Group.

The Securities Trading policy reflects the matters set out in the commentary and guidance for Recommendation 3.2.

The Code of Conduct and a summary of the Securities Trading policy for Employees and Directors are available on the Sunset Energy website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit Committee

Due to the size and scale of operations of the Group the full Board undertakes the role of the Audit Committee. Below is a summary of the role and responsibilities of an Audit Committee.

The Audit Committee is responsible for reviewing the integrity of the Group's financial reporting and overseeing the independence of the external auditors.

As the whole Board only consists of three (3) members, the Group does not have an audit committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues and an audit committee cannot be justified based on a cost-benefit analysis. However, in accordance with the ASX Listing Rules, the Group is moving towards establishing an audit committee consisting primarily of Independent Directors.

In the absence of an audit committee, the Board sets aside time to deal with issues and responsibilities usually delegated to the audit committee to ensure the integrity of the financial statements of the Group and the independence of the external auditor.

The Audit Committee or as at the date of this report the full Board of the Group reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Group is also responsible for establishing policies on risk oversight and management.

External auditor

The Audit and Risk Committee or as at the date of this report the full Board of the company reviews the external auditor's terms of engagement and audit plan, and assesses the independence of the external auditor. The current practice, subject to amendment in the event of legislative change, is for the rotation of the engagement partner to occur every five years.

The Group's independent external auditor is HLB Mann Judd (WA) ("Mann Judd"). The appointment of Mann Judd was ratified by members at the Annual General Meeting held on 8 September 2007.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Continuous Disclosure Policy sets out the key obligations of the directors and employees in relation to continuous disclosure as well as the Group's obligations under the Listing Rules and the Corporations Act. The Policy also provides procedures for internal notification and external disclosure, as well as procedures for promoting understanding of compliance with the disclosure requirements for monitoring compliance. The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 5.1.
The Continuous Disclosure Policy is available on Sunset Energy's website.

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

The Shareholder Communication Policy sets out the Group's aims and practices in respect of communicating with both current and prospective shareholders. The Policy reinforces the Group's commitment to promoting investor confidence by requiring:

(a) compliance with the continuous disclosure obligations;
(b) compliance with insider trading laws;
(c) compliance with financial reporting obligations;
(d) compliance with shareholder meeting requirements, including the provision of an opportunity for shareholders and other stakeholders to hear from and put questions to the Board, management and auditor of the Group;
(e) communication with shareholders in a clear, regular, timely and transparent manner; and
(f) response to shareholder queries in a prompt and courteous manner.

The Policy reflects the matters set out in the commentary and guidance for Recommendation 6.1.

The Shareholder Communication Policy is available on Sunset Energy's website.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk Management Policy

Sunset Energy recognises that risk is inherent to any business activity and that managing risk effectively is critical to the immediate and future success of the Group. As a result, the Board has adopted a Risk Management and Internal Compliance and Control Policy which sets out the Group's system of risk oversight, management of material business risks and internal control.

Risk oversight

The Board's Charter clearly establishes that it is responsible for ensuring there is a sound system for overseeing and managing risk. As the whole Board only consists of three (3) members, the Group does not have a Risk Management Committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues. At the date of this report the full Board of the Group is responsible for establishing policies on risk oversight and management.

Reporting and assurance

As detailed in responsibilities of the Audit Committee the full Board of the Group reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee or as at the date of this report the full Board of the Company is also responsible for establishing policies on risk oversight and management.

The Risk Management and Internal Compliance and Control Policy is available on the Sunset Energy website.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Nomination and Remuneration Committee

The Nomination and Remuneration Committee has delegated responsibilities in relation to the Group's remuneration policies as set out in the Nomination and Remuneration Committee Charter. The Charter reflects the matters set out in the commentary and guidance for Recommendation 8.1.

As the whole Board only consists of three (3) members, the Group does not have a Nomination and Remuneration Committee because it would not be a more efficient mechanism than the full Board for focusing the Group on specific issues. The responsibilities of a Nomination and Remuneration Committee are currently carried out by the board.

Non-executive directors' remuneration policy

The structure of non-executive directors' remuneration is clearly distinguished from that of executives.

Remuneration for non-executive directors is fixed. Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Group.

Non-executive directors generally do not receive performance related compensation. However, shareholders approved the grant of 1,000,000 options to non-executive directors in September 2007. Neither the non-executive directors nor executives of the company receive any retirement benefits other than superannuation.

Executive directors' remuneration policy

As noted previously, executive directors are employed pursuant to employment agreements. Summaries of these employment agreements are set out in the Remuneration Report.

Further details regarding the remuneration arrangements of the Group are set out in the Remuneration Report.

The checklist below summarises the Group's compliance with the Recommendations.

Principles	Recommendations	Compliance Yes/No	Reference/ Explanation
Pr 1	**Lay solid foundations for management and oversight**		
Rec 1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose the functions.	Yes	Website and Page 12
Rec 1.2	Companies should disclose the process for evaluation the performance of senior executives.	Yes	Website and Page 12
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website and Page 12
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	Yes	Website and Page 12
Rec 2.2	The Chairman should be an independent director.	Yes	Website and Page 12
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website and Page 12
Rec 2.4	The board should establish a nomination committee	No	Website and Page 12, 13
Rec 2.5	Companies should disclose the process of evaluating the performance of the board, its committees and individual directors.	Yes	Website and Page 12, 13
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2	Yes	Website and Page 12, 13
Pr 3	**Promote ethical and responsible decision making**		
Rec 3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: - the practices necessary to maintain confidence in the company's integrity - the practices necessary to take account of their legal obligations and reasonable expectations of their stakeholders; and - the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website and Page 13
Rec 3.2	Companies should establish a policy concerning trading in company securities by directors, officers and employees and disclose the policy or a summary of that policy.	Yes	Website and Page 13
Rec 3.3	Companies should provide the information indicated in the Guide to reporting on Principle 3.	Yes	Website and Page 13

Principles	Recommendations	Compliance Yes/No	Reference/ Explanation
Pr 4	**Safeguard integrity in financial reporting**		
Rec 4.1	The board should establish an audit committee.	No	Website and Page 14
Rec 4.2	The audit committee should be structured so that it: - consists only of non-executive directors; - consists of a majority of independent directors; - is chaired by an independent chair, who is not the chair of the board; and - has at least three members.	No	Website and Page 14
Rec 4.3	The audit committee should have a formal charter.	Yes	Website and Page 14
Rec 4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes	Website and Page 14
Pr 5	**Make timely and balanced disclosure**		
Rec 5.1	Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior level for that compliance and disclose those policies or a summary of those policies.	Yes	Website and Page 14
Rec 5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	Yes	Website and Page 14
Pr 6	**Respect the rights of shareholders**		
Rec 6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Website and Page 14
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website and Page 14
Pr 7	**Recognise and manage risk**		
Rec 7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Website and Page 15
Rec 7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks.	No	Website and Page 15
Rec 7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Website and Page 15
Rec 7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	Yes	Website and Page 15

Principles	Recommendations	Compliance Yes/No	Reference/ Explanation
Pr 8	**Remuneration fairly and responsibly**		
Rec 8.1	The board should establish a remuneration committee.	No	Website and Page 15
Rec 8.2	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Website and Page 15
Rec 8.3	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes	Website and Page 15

INCOME STATEMENT
For the year ended 30 June 2009

	Note	Consolidated 2009 $	Company 2009 $	Company 18 Months Ended 30 June 2008 $
Revenue				
Sales Revenue	2	**417,118**	**417,118**	**96,821**
Cost of sales	2	**(453,833)**	**(453,833)**	**(12,102)**
Gross Profit /(Loss)		**(36,715)**	**(36,715)**	**84,719**
Other revenue	2	**21,973**	**21,973**	**70,157**
Depreciation expense		**(2,890)**	**(2,890)**	**(2,890)**
Consultants fees		**(26,494)**	**(26,494)**	**(34,314)**
Legal and compliance		**(103,088)**	**(103,088)**	**(39,464)**
Administration expenses		**(82,072)**	**(79,978)**	**(12,911)**
Salaries, directors fees and employee benefits	2	**(223,500)**	**(223,500)**	**(308,261)**
Foreign exchange gain/(loss)		**42,879**	**42,879**	**(1,963)**
Occupancy expenses		**(78,900)**	**(78,900)**	**(54,279)**
Exploration expenses incurred		**-**	**-**	**(13,345)**
LOSS BEFORE INCOME TAX EXPENSE	2	**(488,807)**	**(486,713)**	**(312,551)**
Income Tax Benefit / (Expense)	3	**-**	**-**	**-**
NET LOSS	14	**(488,807)**	**(486,713)**	**(312,551)**
Basic loss per share (cents)	19	(1.5)	(1.5)	(2.4)

The accompanying notes form part of these financial statements.

BALANCE SHEET
As at 30 June 2009

	Note	Consolidated 2009 $	Company 2009 $	Company 2008 $
CURRENT ASSETS				
Cash and cash equivalents	5	**373,432**	**371,181**	**1,540,620**
Trade and other receivables	6	**94,695**	**94,695**	**162,671**
TOTAL CURRENT ASSETS		**468,127**	**465,876**	**1,703,291**
NON-CURRENT ASSETS				
Trade and other receivables	6	**-**	**4,860**	**-**
Investments	7	**-**	**1**	**-**
Property, plant and equipment	8	**8,671**	**8,671**	**11,561**
Deferred exploration and evaluation costs	9	**1,997,638**	**1,997,638**	**1,727,137**
Production assets	10	**1,527,371**	**1,527,371**	**-**
TOTAL NON-CURRENT ASSETS		**3,534,040**	**3,538,901**	**1,738,698**
TOTAL ASSETS		**4,002,167**	**4,004,777**	**3,441,989**
CURRENT LIABILITIES				
Trade and other payables	11	**153,531**	**153,531**	**85,388**
TOTAL CURRENT LIABILITIES		**153,531**	**153,531**	**85,388**
NON CURRENT LIABILITIES				
Provisions	12	**24,796**	**24,796**	**20,822**
TOTAL NON-CURRENT LIABILITIES		**24,796**	**24,796**	**20,822**
TOTAL LIABILITIES		**178,327**	**178,327**	**106,210**
NET ASSETS		**3,823,840**	**3,826,450**	**3,335,779**
EQUITY				
Issued capital	13	**4,171,810**	**4,171,810**	**3,511,724**
Reserves	15	**453,388**	**453,904**	**136,606**
Accumulated losses	14	**(801,358)**	**(799,264)**	**(312,551)**
TOTAL EQUITY		**3,823,840**	**3,826,450**	**3,335,779**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2009

Consolidated 2009	**Option Reserves**	**Foreign Currency Reserve**	**Issued Capital**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**
At 1 July 2008	136,606	-	3,511,724	(312,551)	3,335,779
Foreign currency translation	-	316,782	-	-	316,782
Loss attributable to members	-	-	-	(488,807)	(488,807)
Shares issued during the year	-	-	698,702	-	698,702
Capital raising costs	-	-	(38,616)	-	(38,616)
Balance at 30 June 2009	136,606	316,782	4,171,810	(801,358)	3,823,840

Company 2009	**Option Reserves**	**Foreign Currency Reserve**	**Issued Capital**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**
At 1 July 2008	136,606	-	3,511,724	(312,551)	3,335,779
Foreign currency translation	-	317,298	-	-	317,298
Loss attributable to members	-	-	-	(486,713)	(486,713)
Shares issued during the year	-	-	698,702	-	698,702
Capital raising costs	-	-	(38,616)	-	(38,616)
Balance at 30 June 2009	136,606	317,298	4,171,810	(799,264)	3,829,450

2008	**Option Reserves**	**Issued Capital**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**
At incorporation	-	1	-	1
Equity settled transactions	136,606	-	-	136,606
Loss attributable to members	-	-	(312,551)	(312,551)
Shares issued during the period	-	3,850,000	-	3,850,000
Capital raising costs	-	(338,277)	-	(338,277)
Balance at 30 June 2008	136,606	3,511,724	(312,551)	3,335,779

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT
For the year ended 30 June 2009

	Note	Consolidated 2009 $	Company 2009 $	Company 18 months ended 30 June 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**484,447**	**484,447**	**-**
Payments to suppliers and employees		**(758,072)**	**(755,461)**	**(279,616)**
Interest received		**26,723**	**26,723**	**65,407**
NET CASH FLOWS FROM OPERATING ACTIVITIES	16(a)	**(246,902)**	**(244,291)**	**(214,209)**
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of project		**-**	**-**	**(510,710)**
Payments for exploration activities		**(1,623,253)**	**(1,623,253)**	**(1,229,772)**
Payment to subsidiary		**-**	**(4,861)**	**-**
Payments for property, plant and equipment		**-**	**-**	**(14,451)**
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,623,253)**	**(1,628,114)**	**(1,754,933)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares and options		**670,743**	**670,742**	**3,850,001**
Transaction costs on issue of shares		**(10,656)**	**(10,656)**	**(338,277)**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**660,087**	**660,086**	**3,511,724**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(1,210,068)**	**(1,212,319)**	**1,542,582**
Cash and cash equivalents at beginning of the period		**1,540,620**	**1,540,620**	**-**
Foreign currency translation		**42,880**	**42,880**	**(1,962)**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	16(b)	**373,432**	**371,181**	**1,540,620**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(a) Basis of preparation

Sunset Energy Limited is a company limited by shares that is incorporated and domiciled in Australia.

The financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report was authorised for issue on 30 September 2009.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

In the year ended 30 June 2009, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for current reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Group has also adopted the following Standards as listed below which only impacted on the Group's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2009. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group's accounting policies.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the accounting policies adopted by the Group in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

(b) Basis of Consolidation

The financial statement of controlled entity is included in the consolidated financial statement from the date control commences until the date control ceases. Control exists where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statement of the subsidiary is prepared for the same reporting period as the parent Company, using consistent accounting policies.

Transactions Eliminated on Consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with the controlled entity are eliminated in full on consolidation.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(c) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

• when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(d) Exploration, Evaluation, Development and Production Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

(ii) exploration and evaluation activities in the area have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area are continuing.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit in the year in which the decision to abandon the area is made.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(d) Exploration, Evaluation, Development and Production Expenditure (Cont.)

When production commences, the accumulated costs of the relevant area of interest are amortised over 10 years, being the expected life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(e) Restoration

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the balance sheet date, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities.

The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(f) Trade and Other Payables

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. Amounts are unsecured and are usually paid within 30 to 45 days of recognition.

(g) Cash and Cash Equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

For the purpose of the Statement of Cash Flows, cash includes on hand and other funds held at call net of bank overdrafts.

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). 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 statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flow on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(i) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(i) Foreign Currency Translation (Cont.)

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency and presentation currency of the Group are United States dollars (US$) and Australian dollars (AUD) respectively.

As at the reporting date the assets and liabilities of the subsidiary are translated into the presentation currency of Sunset Energy at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity.
On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(j) Earnings Per Share

Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for an bonus element.

Diluted EPS is calculated as net earnings attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that would have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(k) Segment Reporting

Individual business segments have been identified on the basis of grouping individual assets with similar risks and returns.

(l) Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(l) Trade and Other Receivables (Cont.)

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(m) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Group. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest
Interest revenue is recognised when control of the right to receive the interest payment.
(ii) Sale of Goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

(p) Interests In Joint Venture

The Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the Group's financial statements.

(q) Property, Plant & Equipment

Property, Plant & Equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight line basis on all property, plant and equipment over 5 years.The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment
The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the cost of sales line item.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) Property, Plant & Equipment (Cont.)

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(r) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(s) Share-based payment transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to directors and senior executives.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black & Scholes option pricing model, further details of which are given in Note 25.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Sunset Energy Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. S UMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(s) Share-based payment transactions (Cont.)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires the Group's management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to impairment calculations, production assets and restoration provisions.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Carrying Value of Exploration Assets

The Group assesses 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.

Contingencies

By their nature, contingencies will only be resolved when one of more future events occur of fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

Share-based Payments

The company measures share-based payments at fair value at the grant date using the Black & Scholes formula taking into account the terms and conditions upon which the instruments were granted.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(u) Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The loss of the Group for the financial year amounted to $488,807 (2008:$312,551). Net assets as at 30 June 2009 were $3,823,840.

In considering whether the going concern basis is appropriate for preparing this financial report, the directors recognise that current levels of working capital may be insufficient to meet the required level of funding in relation to the operating costs associated with the oil and gas assets in California, USA.

However, in the informed opinion of the directors, it has been concluded that the going concern basis is the appropriate basis for preparing the financial statements based on the following key considerations:

- The directors expect that its major shareholders will continue to support fund raising as has been demonstrated in the past via share issues to the existing shareholder base.
- Maricopa project in San Joaquin Basin, California USA is expected to continue generating an average monthly cash inflow of approximately US$40,000 from the sale of oil and gas.
- Subsequent to 30 June 2009, Sunset has successfully raised a total of $287,500 through a placement of 5,750,000 shares at $0.05 each.

	Consolidated	Company	Company
	2009 $	2009 $	18 Months Ended 30 June 2008 $
2. REVENUES AND EXPENSES			
Oil and gas sales	417,118	417,118	96,821
Interest received	21,973	21,973	70,157
(a) Cost of sales			
Production costs	312,032	312,032	12,102
Amortisation expense	141,801	141,801	-
	453,833	453,833	12,102
(b) Employee benefit expense			
Salary and wages	223,500	223,500	171,655
Director equity-settled payments	-	-	136,606
	223,500	223,500	308,261
(c) Depreciation expense	2,890	2,890	2,890
(d) Exploration expense incurred	-	-	13,345

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated 2009 $	Company 2009 $	Company 18 Months Ended 30 June 2008 $
3. INCOME TAXES			
The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:			
Net loss	**(488,807)**	**(486,713)**	**(312,551)**
Income tax expense calculated at 30%	**(146,642)**	**(146,014)**	**(93,765)**
Add tax effect of:			
Revenue losses not recognised	**146,933**	**146,933**	**90,466**
Share based payments	**-**	**-**	**40,982**
Non-assessable non-exempt net loss	**11,910**	**11,910**	**-**
Other non-allowable items	**2,723**	**2,095**	**155**
	14,924	**14,924**	**37,838**
Less tax effect of:			
Other deferred tax balances not recognised	**14,924**	**14,924**	**17,015**
Non-assessable non-exempt net income	**-**	**-**	**20,823**
Income tax expense	**-**	**-**	**-**

4. DEFERRED TAXES

(a) Deferred Assets

The following deferred tax assets have not been recognised:

	Consolidated 2009 $	Company 2009 $	Company 18 Months Ended 30 June 2008 $
Carry forward revenue losses	**237,399**	**237,399**	**90,466**
Capital raising costs	**75,903**	**75,903**	**81,622**
Provisions and accruals	**4,410**	**4,410**	**3,203**
Other	**816**	**816**	**1,069**
	318,528	**318,528**	**176,360**

The tax benefits of the above deferred tax assets will only be obtained if:

(a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;

(b) the company continues to comply with the conditions for deductibility imposed by law; and

(c) no changes in income tax legislation adversely affect the company in utilising the benefits.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	Consolidated 2009 $	Company 2009 $	Company 2008 $
4. DEFERRED TAXES (CONT.)			
(b) Deferred Liabilities			
Deferred Tax Liabilities at 30%:			
Other	**-**	**-**	**1,425**
	-	**-**	**1,425**

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward losses for which the Deferred Tax Asset has not been recognised.

5. CASH AND CASH EQUIVALENTS

	Consolidated 2009 $	Company 2009 $	Company 2008 $
Cash at bank – A$ Accounts	**364,824**	**364,824**	**1,412,758**
Cash at bank – USD Account	**8,608**	**6,357**	**127,862**
	373,432	**371,181**	**1,540,620**

Cash at bank earns interest at floating rates based on a daily bank deposit rates.

6. TRADE & OTHER RECEIVABLES

	Consolidated 2009 $	Company 2009 $	Company 2008 $
Current			
Oil sales receivable	**54,420**	**54,420**	**96,821**
Other debtors and prepayments	**40,275**	**40,275**	**65,850**
	94,695	**94,695**	**162,671**
Non Current			
Loan to subsidiary	**-**	**4,860**	**-**

There are no impaired trade debtors as at 30 June 2009.

Terms and conditions relating to the above financial instruments:
a) Oil sales receivable is non-interest bearing and is generally settled within 60 days;
b) Other debtors are non-interest bearing

7. INVESTMENT

	Consolidated 2009 $	Company 2009 $	Company 2008 $
Investment in subsidiary			
At cost	**-**	**1**	**-**
	-	**1**	**-**

8. PLANT AND EQUIPMENT

	Consolidated 2009 $	Company 2009 $	Company 2008 $
Leasehold Improvement			
At cost	**14,451**	**14,451**	**14,451**
Amortisation	**(5,780)**	**(5,780)**	**(2,890)**
	8,671	**8,671**	**11,561**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

		Consolidated As at 30 June 2009 $	Company As at 30 June 2009 $	Company As at 30 June 2008 $
9.	**DEFERRED EXPLORATION AND EVALUATION EXPENDITURE**			
	Exploration and evaluation costs carried forward in respect of petroleum exploration areas of interest			
	Pre-production			
	- Exploration and evaluation phases	**1,997,638**	**1,997,638**	**1,727,137**
	Movement in carrying amounts			
	Opening balance	**1,727,137**	**1,727,137**	**-**
	Transfer to production assets	**(952,330)**	**(952,330)**	**-**
	Expenditure incurred during the period	**1,104,325**	**1,104,325**	**1,727,137**
	Foreign exchange translation movement	**118,506**	**118,506**	**-**
	Closing balance	**1,997,638**	**1,997,638**	**1,727,137**

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the petroleum exploration areas of interest.

		Consolidated 30 June 2009 $	Company 30 June 2009 $	Company 30 June 2008 $
10.	**PRODUCTION ASSETS**			
	Production Phase	**1,527,731**	**1,527,731**	**-**
	Movement in carrying amounts			
	Opening balance	**-**	**-**	**-**
	Transfer from exploration and evaluation costs	**952,330**	**952,330**	**-**
	Additions	**575,898**	**575,898**	**-**
	Accumulated amortisation	**(141,801)**	**(141,801)**	**-**
	Foreign exchange translation movement	**141,304**	**141,304**	**-**
	Closing balance	**1,527,731**	**1,527,731**	**-**
11.	**TRADE & OTHER PAYABLES**			
	Current			
	Trade creditors (a)	**36,834**	**36,834**	**45,921**
	Employee benefits	**3,714**	**3,714**	**-**
	Other creditors and accruals	**112,983**	**112,983**	**37,103**
		153,531	**153,531**	**85,388**

(a) Terms and conditions
Trade creditors are non-interest bearing and are normally settled on 60 day terms.

		Consolidated 30 June 2009 $	Company 30 June 2009 $	Company 30 June 2008 $
12.	**PROVISIONS**			
	Non current			
	Rehabilitation costs	**24,796**	**24,796**	**20,822**
	Rehabilitation Costs			
	Balance at beginning of period	**20,822**	**20,822**	**-**
	Additional provision recognised	**-**	**-**	**20,822**
	Foreign exchange translation	**3,974**	**3,974**	**-**
	Balance at end of period	**24,796**	**24,796**	**20,822**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

	As at 30 June 2009 $	As at 30 June 2008 $
13. ISSUED CAPITAL		
Issued and paid up capital		
42,724,037 (2008:28,750,001) Ordinary shares	**4,171,810**	**3,511,724**

(a) Movements in shares on issue

	As at 30 June 2009 $	As at 30 June 2008 $
At the beginning of the reporting period	**3,511,724**	**-**
Shares issued during the period:		
- Non Renounceable Rights Issue at $0.05 each	**670,742**	**-**
- Equity based payments	**27,960**	**-**
- At incorporation	**-**	**1**
- Promoter shares at $0.01 each	**-**	**40,000**
- Seed capital at $0.01 each	**-**	**60,000**
- IPO at $0.20 each (1)	**-**	**3,000,000**
- Placement at $0.20 each (2)	**-**	**750,000**
Share issue costs	**(38,616)**	**(338,277)**
At end of reporting period	**4,171,810**	**3,511,724**

	As at 30 June 2009 Number of Shares	As at 30 June 2008 Number of Shares
At the beginning of the reporting period	**28,750,001**	**-**
Shares issued during the period:		
- Non Renounceable Rights Issue at $0.05 each	**13,414,836**	**-**
- Equity based payments	**559,200**	-
- At incorporation	**-**	**1**
- Promoter shares at $0.01 each	**-**	**4,000,000**
- Seed capital at $0.01 each	**-**	**6,000,000**
- IPO at $0.20 each (1)	**-**	**15,000,000**
- Placement at $0.20 each (2)	**-**	**3,750,000**
At end of reporting period	**42,724,037**	**28,750,001**

1. On 6 March 2009, the Group successfully raised a total of $670,711.80 via non renounceable rights issue of 13,414,836 shares at $0.05 each.
2. On 30 June 2009, the Group issued 559,200 ordinary shares at deemed price of $0.05 to its consultant as consideration for services rendered during rights issue.

Terms and conditions of contributed equity

Ordinary shares
Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Group, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Group.

Options over ordinary shares
During the financial year ended 30 June 2009, 5,000,000 options are on issue. These options are exercisable at $0.20 on or before 30 September 2010. Further details of the terms and conditions of these options are provided in note 13(b) and the Remuneration Report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2009

13. ISSUED CAPITAL (CONT.)

(b) Options

At the end of the reporting year, there are 5,000,000 options over unissued shares as follows:

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted Options	30 September 2010	$0.20	5,000,000

During the financial year ended 30 June 2009, no ordinary shares were issued as a result of the exercise of options.

14. ACCUMULATED LOSSES

	Consolidated	Company	Company
	30 June 2009 $	30 June 2009 $	18 Months Ended 30 June 2008 $
Balance at the beginning of reporting period	(312,551)	(312,551)	-
Net loss for the period	(488,807)	(486,713)	(312,551)
Balance at end of reporting period	(801,358)	(799,264)	(312,551)

15. RESERVES

(a) Share based payment reserve	136,606	136,606	136,606
(b) Foreign currency translation reserve	316,782	316,782	-
	453,388	453,388	136,606
(a) Share based payment reserve			
At beginning of reporting period	136,606	136,606	-
Employee equity settled payments	-	-	136,606
Balance at end of reporting period	136,606	136,606	136,606
(b) Foreign currency translation reserve			
At beginning of reporting period	-	-	-
Foreign currency translation reserve	316,782	316,782	-
Balance at end of reporting period	316,782	316,782	-

i) Share based payment reserve is used to record the value of equity benefits provided to the directors and consultants as part of their remuneration or services provided.

ii) Foreign currency translation reserve records exchange differences arising on translation of the Group's functional currency (United State of America Dollars) into presentation currency at balance date.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

16. CASH FLOW INFORMATION

(a) Reconciliation of net loss after tax to the net cash flows from operations:

	Consolidated	Company	Company
	30 June 2009	30 June 2009	18 Months Ended 30 June 2008
	$	$	$
Net loss	**(488,807)**	**(486,713)**	**(312,551)**
Non cash items			
Depreciation	**2,890**	**2,890**	**2,890**
Exploration expense incurred	**-**	**-**	**13,345**
Share based payments	**-**	**-**	**136,606**
Unrealised foreign (gain)/loss	**(42,879)**	**(42,879)**	**1,962**
Amortisation	**141,801**	**141,801**	**-**
Changes in assets and liabilities			
(Increase)/decrease in receivables	**67,976**	**68,493**	**(162,671)**
Increase/(decrease) in payables and accruals	**64,429**	**64,429**	**85,388**
Increase/(decrease) in provisions	**7,688**	**7,688**	**20,822**
Net cash flows (used in) / from operating activities	**(246,902)**	**(244,291)**	**(214,209)**

(b) Reconciliation of cash:

	Consolidated	Company	Company
Cash balances comprises			
- Cash at bank	**364,824**	**364,824**	**1,412,758**
- US Dollar account	**8,608**	**6,357**	**127,862**
	373,432	**371,181**	**1,540,620**

(c) Non cash financing and investing activities

During the financial year, 559,200 shares were issued to Chess Capital Partners Pty Ltd as consideration for services rendered during the Group's capital raising activities. No non cash investing activities have occurred during the financial year ended 30 June 2009.

17. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors

David Prentice– Executive Director
Michael Fry – Non-Executive Director
David Morris – Non-Executive Director

(ii) Executives

Cecilia Chiu – Company Secretary.

Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the period, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (e) to Note 17 no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Group or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

17. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

(b) Compensation of Key Management Personnel

Remuneration Policy

The Board of Directors, mainly comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements for the executive team. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Key Management Personnel is set out below. The Group has 1 executive director.

	Primary		Equity Compensation	Post-employment	
2009	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**TOTAL $**
Directors					
Michael Fry	60,000	-	-	-	60,000
David Prentice	130,800	-	-	-	130,800
David Morris	30,000	-	-	2,700	32,700
Executives					
Cecilia Chiu*	42,000	-	-	-	42,000
Total 2009	262,800	-	-	2,700	265,500

	Primary		Equity Compensation	Post-employment	
2008	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options (i) $**	**Superannuation Contributions $**	**TOTAL $**
Directors					
Michael Fry	39,000	-	13,661	-	52,661
David Prentice	111,400	-	95,624	-	207,024
David Morris	19,500	-	13,661	1,755	34,916
David Parker (resigned 13 August 2007)	-	-	13,660	-	13,660
Executives					
Cecilia Chiu*	21,000	-	-	-	21,000
Total 2008	190,900	-	136,606	1,755	329,261

***** Ms Chiu does not receive the above fees. Athena Corporate Pty Ltd, a company Ms Chiu has an interest in, receives these fees from Sunset Energy Limited for corporate, accounting and secretarial services.

(i) In accordance with AASB 2, options issued to Directors during the period and in previous periods have been valued using a Black & Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Although a value is ascribed and included in total Directors Remuneration, it should be noted that the Directors have not received this amount and the option may have no actual financial value unless the options achieve their exercise price. The calculation of the option valuation included the share price on 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%. These options vested immediately on grant date.

NOTES TO THE FINANCIAL STATEMENTS
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17. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

(c) Remuneration Options: Granted and vested during the year

Financial year ended 30 June 2009

No options were granted as part of remuneration to Directors and Executive Officers.

Financial period ended 30 June 2008

During financial period ended 30 June 2008, the company granted 5,000,000 options to Specified Directors as disclosed below:-
(i) 5,000,000 options expiring 30 September 2010 exercisable at $0.20

The options were issued free of charge, and were valued at grant date using the Black & Scholes valuation model. The calculation of all option valuation included the share price on 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%. These options have vested immediately.

2008	Granted Number	Vested Number	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Directors							
Michael Fry	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Prentice	3,500,000	3,500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Morris	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Parker (resigned 13 August 2007)	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
	5,000,000	5,000,000					

(d) Shares Issued on Exercise of Compensation Options
No shares were issued on exercise of compensation options during the financial year.

(e) Share and Option holdings
All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

Shares held by Key Management Personnel

Year ended 30 June 2009

	Balance at 1.7.08	Shares Issued	Options Exercised	Bought & (Sold)	Balance at 30.06.09
Directors					
Michael Fry	100,000	-	-	1,250,000	1,350,000
David Prentice	1,500	-	-	750	2,250
David Morris	-	-	-	-	-
Executives					
Cecilia Chiu	-	-	-	-	-
	101,500	-	-	1,250,750	1,352,250

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

17. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT'D)

Period ended 30 June 2008

	Balance at incorporation	Shares Issued	Options Exercised	Bought & (Sold)	Balance at retirement	Balance at 30.06.08
Directors						
Michael Fry	-	-	-	100,000	-	100,000
David Prentice	-	-	-	1,500	-	1,500
David Morris	-	-	-	-	-	-
David Parker (resigned 13 August 2007)	1	-	-	225,000	225,001	-
Executives						
Cecilia Chiu	-	-	-	-	-	-
	1	-	-	326,500	225,001	101,500

Options Held By Key Management Personnel

Year ended 30 June 2009

	Balance at 1.7.08	Received as Remuneration	Exercise of Options	Bought & (Sold)	Balance at retirement	Balance at 30.06.09	Total Vested	Total Exercisable
Directors								
Michael Fry	500,000	-	-	-	-	500,000	500,000	500,000
David Prentice	3,500,000	-	-	-	-	3,500,000	3,500,000	3,500,000
David Morris	500,000	-	-	-	-	500,000	500,000	500,000
Executives								
Cecilia Chiu	-	-	-	-	-	-	-	-
	4,500,000	-	-	-	-	4,500,000	4,500,000	4,500,000

Period ended 30 June 2008

	Balance at incorporation	Received as Remuneration	Exercise of Options	Bought & (Sold)	Balance at retirement	Balance at 30.06.08	Total Vested	Total Exercisable
Directors								
Michael Fry	-	500,000	-	-	-	500,000	500,000	500,000
David Prentice	-	3,500,000	-	-	-	3,500,000	3,500,000	3,500,000
David Morris	-	500,000	-	-	-	500,000	500,000	500,000
David Parker (resigned 13 August 2007)	-	500,000	-	-	500,000	-	500,000	500,000
Executives								
Cecilia Chiu	-	-	-	-	-	-	-	-
	-	5,000,000	-	-	500,000	4,500,000	5,000,000	5,000,000

Refer to note (b) for terms of options granted to directors.

Terms and conditions of options received as compensation by Directors up to 30 June 2009 are as described in Note 17 (c) above.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

17. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT'D)

Options issued as Part of Remuneration for the year ended 30 June 2009

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to all directors of Sunset Energy to increase goal congruence between executives, directors and shareholders.

Service Agreements

On 1 July 2009, the Group entered into an executive services agreement with Mr David Prentice under which Mr Prentice will receive a salary package of $120,000 per annum exclusive of superannuation for Mr Prentice's services as a managing director of the Group. The Group is obliged to reimburse him for all reasonable expenses incurred by him in performance of his duties.

The agreement may be terminated by either party by providing 3 months written notice and upon payment of any outstanding fees for services rendered.

The Services Agreement continues for a period of 2 years with an option to extend for a further period of 1 year term unless terminated in accordance with the relevant provisions of the Services Agreement.

This agreement supersedes the agreement executed on 13 August 2007 with Vista Libera Pty Ltd (a Company in which Mr. David Prentice is a sole director), where Vista Libera received a consulting fee of $130,800 per annum exclusive of GST for Mr. Prentice's services as a Managing Director of the Company.

Pursuant to an agreement executed on 20 August 2008, Michael Fry provides services to the Group as a Non-executive Chairman. The broad terms of this agreement include remuneration payable on and from the Listing Date of $60,000 per annum.

The agreement may be terminated by either party by providing 3 months written notice and upon payment of any outstanding fees for services rendered.

Pursuant to an agreement executed on 20 August 2008, David Morris provides services to the Group as a Non-executive Director. The broad terms of this agreement include remuneration payable on and from the Listing Date of $30,000 per annum plus superannuation.

The agreement may be terminated by either party by providing 3 months written notice and upon payment of any outstanding fees for services rendered.

18. SEGMENT INFORMATION

(a) Primary Segment - Geographical Segments

The Group has the following geographical segments:

United States of America

The United States of America ("USA") is the location of the Group's exploration and production activities and licence interests held.

Australia

Australia is the location of the central management and control of Sunset Energy Limited, including where company secretarial services, accounting and cash management operations are performed.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

18. SEGMENT INFORMATION (CONT'D)

30 June 2009 Primary Reporting – Geographical Segments	$ **USA**	$ **Australia**	$ **Eliminations**	$ **Consolidated**
Revenues from ordinary activities	**417,118**	**21,973**	**-**	**439,091**
Segment results	**(36,714)**	**(452,093)**	**-**	**(488,807)**
Segment assets	**3,590,711**	**411,456**	**-**	**4,002,167**
Segment liabilities	**57,524**	**120,803**	**-**	**178,327**
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	**1,654,267**	**-**	**-**	**1,654,267**
Depreciation and amortisation	**141,801**	**2,890**	**-**	**144,691**

30 June 2008 Primary Reporting – Geographical Segments	$ **USA**	$ **Australia**	$ **Eliminations**	$ **Total**
Revenues from ordinary activities	**96,821**	**70,157**	**-**	**166,978**
Segment results	**84,718**	**(397,269)**	**-**	**(312,551)**
Segment assets	**1,823,958**	**1,618,031**	**-**	**3,441,989**
Segment liabilities	**32,924**	**73,286**	**-**	**106,210**
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	**1,706,315**	**-**	**-**	**1,706,315**
Depreciation and amortisation	**-**	**2,890**	**-**	**2,890**

(b) Secondary Segment - Business Segments

Petroleum Exploration
The Group operates solely in the Oil and Gas Exploration and Production, with interests in oil and gas in the USA state of California.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

19. LOSS PER SHARE

		Consolidated 2009 $	Company 2009 $	Company 18 Months Ended 30 June 2008 $
The following reflects the income and share data used in the calculation of basic and diluted loss per share:				
Earnings used in calculation of basic and diluted earnings per share		**(488,807)**	**(486,713)**	**(312,551)**
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	(i)	**33,362,475**	**33,362,475**	**13,163,169**

(i) Share options are not considered dilutive, as their impact would be to decrease the net loss per share.

20. RELATED PARTY DISCLOSURE

Other Related Party Transactions

No other related party transactions have incurred for the financial year ended 30 June 2009. In the 2008 financial year, Mr David Parker received $10,750 as placement commission on capital raised through the Company Prospectus by Delta Securities Pty Ltd, a company which Mr David Parker was employed as an authorised representative.

These costs have not been included in directors' remuneration as these fees were not paid to individual directors in relation to the management of the affairs of the Group. All transactions are made at normal commercial terms.

21. AUDITORS' REMUNERATION

	Consolidated 30 June 2009 $	Company 30 June 2009 $	Company 18 Months Ended 30 June 2008 $
Amounts received or due and receivable by :			
- HLB Mann Judd- an audit or review of the financial report of the Company at the financial year end	**19,300**	**19,300**	**13,500**
- preparation of Independent Accountant's Report	**-**	**-**	**5,000**
	19,300	**19,300**	**18,500**

22. FINANCIAL INSTRUMENTS

(a) Financial risk management and risk policies

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to hold finance for the entity's operations. The entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the entity's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

22. FINANCIAL INSTRUMENTS (CONT'D)

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(c) Interest rate risk

The Group is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The Group does not have short or long term debt, and therefore this risk is minimal.

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts might not reconcile to the balance sheet.

30 June 2009

Consolidated	Weighted Average Effective Interest Rate %	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS						
Non-interest bearing	-	54,420	-	-	-	54,420
Variable interest rates instruments	0.66%	371,182	-	-	-	371,182
		425,602	-	-	-	425,602
FINANCIAL LIABILITIES						
Non-interest bearing	-	(149,817)	-	-	-	(149,817)
NET FINANCIAL ASSETS		275,785	-	-	-	275,785

30 June 2008

Company	Weighted Average Effective Interest Rate %	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS						
Non-interest bearing	-	61,100	96,821	-	-	157,921
Variable interest rates instruments	2.58%	333,782	-	-	-	333,782
Fixed interest rates instruments	7.59%	204,513	1,021,941	-	-	1,226,454
		599,395	1,118,762	-	-	1,718,157
FINANCIAL LIABILITIES						
Non-interest bearing	-	(85,388)	-	-	-	(85,388)
NET FINANCIAL ASSETS		514,007	1,118,762	-	-	1,632,769

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

22. FINANCIAL INSTRUMENTS (CONT'D)

(i) Interest Rate Sensitivity Analysis

At reporting date, if interest rates had been 5% higher or lower than the prevailing rates realised, with all other variable held constant, there would have been an immaterial change in post tax loss for the year. The impact on equity would have been the same.

(d) Net fair values of financial assets and liabilities

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.

Receivables and payables: The carrying amount approximates fair value.

(e) Credit risk exposures

The Group's maximum exposure to credit risk at each balance date in relation to each class of recognised financial assets is the carrying amount, net of any provision for doubtful debts, of those assets as indicated in the balance sheet. The maximum credit risk exposure of the Group at 30 June 2009 is $54,420 (2008: $96,821). There are no impaired receivables at 30 June 2009.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the audit committee annually. The Group measures credit risk on a fair value basis.

Concentration of Credit Risk

The Group is exposed to an individual customer being its joint venture operator, Solimar Energy Limited.

(f) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At 30 June 2009, the Group does not have any debt maturing in less than 12 months.

(g) Foreign exchange risk management

The Group undertakes its exploration and production transactions denominated in US currency. However, the Group's exposure to exchange rate fluctuation is minimal as it also generates oil and gas revenue in US currency. The policy is to maintain adequate cash flow in the Group's US currency account.

(h) Foreign Currency Risk Sensitivity Analysis

At reporting date, if interest rates had been 5% higher or lower than the prevailing rates realised, with all other variable held constant, there would have been an immaterial change in post tax loss for the year. The impact on equity would have been the same.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

22. FINANCIAL INSTRUMENTS (CONT'D)

The carrying amount of US denominated financial instrument are:

	2009	**2008**
FINANCIAL INSTRUMENTS	**US $**	**US $**
Cash and cash equivalent	8,609	122,814
Trade debtors and other receivables	54,420	92,999
Trade creditors and other payables	32,924	11,901

(i) Capital Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being oil and gas exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the ``Group's capital risk management is to balance the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

23. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets.

24. EMPLOYEE BENEFITS

At 30 June 2009 (2008: Nil), Sunset Energy had no employees.

Employee Incentive Option Plan

The Group's Employee Incentive Scheme provides for the Board to elect to offer Options to an employee having regard to the potential contribution of the employee to the Group and any other matters the Board considers relevant.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the Scheme, is the price determined by the Board and advised to the employee when Options are offered to the employee.

All options expire on the earlier of their termination date or 30 days following termination of the employee's employment. Options vest on granting; however exercise can be conditional upon the Group achieving certain performance hurdles as determined by the Board of directors.

There are no voting or dividend rights attaching to the options. There are no voting rights attaching to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

5,000,000 options have been issued to Directors under this scheme to date. Details of shares and options issued to Directors are included in the Remuneration Report.

25. SHARE BASED PAYMENT PLANS

Options are issued to directors and executives as part of their remuneration under the Group's Employee Incentive Option Plan as described in Note 24. The options are not issued based on performance criteria, but are issued to all directors of Sunset Energy Limited to increase goal congruence between executives, directors and shareholders.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2009

25. SHARE BASED PAYMENT PLANS (CONT'D)

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2009		2008	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at beginning of the year	5,000,000	0.20	-	
Granted during the year	-		5,000,000	0.20
Outstanding at the end of the year	5,000,000		5,000,000	
Exercisable at the end of the year	5,000,000		5,000,000	

(i) The options outstanding at 30 June 2009 had a weighted average exercise price of $0.20 (2008:$0.20).
(ii) Options outstanding at 30 June 2009 had a weighted average remaining life of 1.25 years (2008:2.25 years).
(iii) The weighted average fair value of options granted during the year was $0.20 (2008:$0.20).
(iv) Included under employee benefits expense in the income statement that relates to equity-settled share-based payment transaction is nil (2008:$136,606).

The fair value of the equity-settled share options granted under both the option plan is estimated as at the date of grant using Black Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used for the year ended 30 June 2008.
No options were issued in the year ended 30 June 2009.

	2008 Director Options
Expected volatility (%)	60%
Risk-free interest rate (%)	6.2%
Expected life of option (years)	3
Exercise price (cents)	$0.20
Grant date share price	$0.124

26. SUBSEQUENT EVENTS

1. On 3 July 2009, the Group announced a placement of up to 5,750,000 shares at $0.05 each to raise $285,000 before costs. The proceeds from the placement will be used towards working capital of the Group's production activities in California, USA. The placement was subsequently completed on 12 August 2009.
2. On 12 August 2009, Sunset Energy announced that 3,500,000 incentive options will be issued to its Board of Directors, subject to shareholders' approval. These options are exercisable at $0.10 each on or before 30 June 2012. Shareholders approval will be sought at the Company's next Annual General Meeting in November 2009.

The Directors are not aware of any other matter or circumstances that has arisen since 30 June 2009 which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

27. COMMITMENTS FOR EXPENDITURE

The Group is committed to 50% share of well expenditure with its joint venture partner, Solimar Energy Limited. The directors are not aware of any other commitments for expenditure for the financial year ended 30 June 2009.

28. ECONOMIC DEPENDENCY

The Group's revenue income is dependent on one source, being oil and gas sales from its operations in US, operated by its Joint Venture Partner, Solimar Energy Limited.

29. INTEREST IN SUBSIDIARY

Name	Country of Incorporation	Percentage of equity interest held by Consolidated Entity		Investment
		2009	**2008**	
Sunset Energy LLC	USA	100%	-	-

Sunset Energy LLC was incorporated on 17 August 2008 via the issue of 1 share at US$1 per share.

DIRECTORS' DECLARATION

The directors of the Group declare that:

1. the financial statements and notes, as set out on pages 19 to 47, 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 2009 and of the performance for the year ended on that date of the company and the consolidated entity; and

2. the Chief Executive Officer and Chief Financial Officer have each declared that:

    (a) the financial records of the consolidated entity 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 directors' 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.

Mr David Prentice
Executive Director

30th September 2009

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of
SUNSET ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Sunset Energy Limited ("the Company") which comprises the balance sheet as at 30 June 2009, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the period ended on that date, and the directors' declaration for both the company and the consolidated entity as set out on pages 19 to 48. The consolidated entity comprises the company and the entity it controlled at the end of the financial year or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's Opinion

In our opinion:

(a) the financial report of Sunset Energy Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2009 and of their performance for the period ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 6 to 9 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Sunset Energy Limited for the year ended 30 June 2009 complies with section 300A of the Corporations Act 2001.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

Perth, Western Australia **N G NEILL**
30 September 2009 **Partner**

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Group has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting year is contained within the Director's Report.

B. SHAREHOLDING

1. Substantial Shareholders

The names of the substantial shareholders listed on the Group's register as at 15 September 2009:

Shareholder	Number
Ravenhill Investments Pty Ltd-<House of Equity A/C>	4,500,000
Mr Matthew Donald Walker	3,200,000

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
30 September 2010 option - $0.20	5,000,000	4

Names of persons holding greater than 20% of a class of unquoted securities:

Class of Equity Security	Number	Holder
30 September 2010 options - $0.20	3,500,000	Mr David Prentice
30 September 2010 options - $0.20	500,000	Mr Michael Fry
30 September 2010 options - $0.20	500,000	Mr David Morris
30 September 2010 options - $0.20	500,000	Mr David Parker

3. Number of holders in each class of equity securities and the voting rights attached

There are 329 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are no listed options.

On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

ADDITIONAL SHAREHOLDER INFORMATION (Cont.)

4. *Distribution schedule of the number of holders in each class of equity security as at 15 September 2009.*

Distribution	Holders of Ordinary Shares
1-1,000	6
1,001 - 5,000	27
5,001 – 10,000	73
10,001 - 100,000	142
100,001 and over	81
TOTALS	329

5. Marketable Parcel

There are 4 shareholders with less than a marketable parcel.

6. Twenty largest holders of each class of quoted equity security

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 15 September 2009) is as follows:

Ordinary Shares

Name	No. Of Ordinary Shares	%
Ravenhill Investments Pty Ltd <House of Equity A/C>	4,500,000	9.28%
Mr Matthew Donald Walker	3,200,000	6.60%
Hawthorn Grove Investment Pty Ltd	2,380,000	4.91%
Karakoram No2 Pty Ltd	2,200,000	4.54%
Green Frog Nominees Pty Ltd <Nominee A/C>	1,900,000	3.92%
Dalny Pty Ltd	1,400,000	2.89%
Prals Pty Ltd	1,365,000	2.82%
ANZ Nominees Limited <Cash Income A/C>	1,133,448	2.34%
Mr Michael John Fry	1,050,000	2.17%
Mr Brad Mcelroy	1,000,000	2.06%
Kelfield Investments Pty Ltd	1,000,000	2.06%
Beauby Investments Pty Ltd	1,000,000	2.06%
Mr Michael John Hynes	1,000,000	2.06%
Banksia Investments Pty Ltd <Banksia Invest Corp S/F A/C>	986,000	2.03%
Paul Fielding	900,000	1.86%
Dr Leon Eugene Pretorius	750,000	1.55%
Hixon Pty Ltd	625,000	1.29%
Mr Tom Kartel	620,000	1.28%
Tyche Investments Pty Ltd	600,000	1.24%
Yogi Bear Investments Pty Ltd	560,000	1.16%
Total	**28,169,448**	**58.12%**

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)

C. OTHER DETAILS

1. Company Secretary

The name of the company secretary is Cecilia Chiu.

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Level 2, 79 Hay Street
Subiaco Western Australia 6008

Telephone: +(61) 8 9200 4472
Facsimile: +(61) 8 9200 4475

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Security Transfers Registrar
770 Canning Highway
Applecross Western Australia 6153
Telephone: +(61) 8 9315 2333
Facsimile: +(61) 8 9315 2233

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the ASX.

5. Restricted Securities

The Company issued the following restricted securities:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Ordinary shares	7,600,000	7 November 2009
20 cent 30 September 2010 Options (ASX restricted)	4,500,000	7 November 2009

6. Review of Operations

A review of operations is contained in the Directors' Report.

7. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

SCHEDULE OF OIL AND GAS LEASES AS AT 15 SEPTEMBER 2009

Maricopa Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Section 8, 11N, R23W	**120**	**50%**	**Committed**

Deer Creek Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Section 12, 23S, R28E	**160**	**50%**	**Committed**

Silverthread Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Section 8, 4N, R21W	**600**	**20%**	**Committed**

Aliso Canyon Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Ventura Basin	**1,200**	**8%**	**Committed**