

Sunset Energy Limited

(ABN 45 123 591 382)

Half Year Report

31 December 2008

COMPANY DIRECTORY

Non Executive Chairman

Michael Fry

Executive Director

David Prentice

Non Executive Director

David Morris

Company Secretary

Cecilia Chiu

Principal and Registered Office

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SUBIACO WA 6008

Telephone: (08) 9200 4472

Facsimile: (08) 9200 4476

Auditors

HLB Mann Judd Chartered Accountants

15 Rheola Street

WEST PERTH WA 6005

Share Registrar

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Stock Exchange Listing

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

Code: SEY

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2008. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Michael Fry	Non executive Chairman
David Prentice	Executive Director
David Morris	Non executive Director

Review of Operations

CORPORATE ACTIVITIES

During the half year ended 31 December 2008, Sunset Energy LLC, a fully owned subsidiary of Sunset Energy Ltd was incorporated in California USA.

On 3 December 2008, the Company announced a non-renounceable Rights Issue of New Shares at an issue price of \$0.05 per share on the basis of one share for every two held at the record date raising up to \$718,750 before costs.

PROJECTS

During the half year, the Company continued with its joint venture and operating partner Solimar Energy Limited ("Solimar Energy") (ASX:SGY) to explore and develop its assets in California.

Maricopa Project: 50% Working Interest (San Joaquin Basin)

Sunset Energy and its joint venture partner, Solimar Energy, have made two oil discoveries at the Maricopa Project.

The Wellington Maricopa #7 well was the first appraisal well drilled in September 2008 at the Maricopa Project and follows the discovery well, Wellington Maricopa #6, which was drilled in March 2008. Oil production from the Wellington Maricopa #6 and #7 wells has been averaging above 40 bopd. The latter #7 well has been shut-in due to the high cost of water disposal at the current oil prices.

The company has increased its acreage position from 40 to 120 acres providing an additional 80 acres that may have further potential for subsequent follow-up drilling. Solimar Energy has conducted an expanded geological study which is assisting in identifying possible drilling opportunities and enhancing the joint venture's understanding of the area.

During the half year, a total of 5,690 barrels of oil were sold to Kern Oil & Refining Co. from the Maricopa Project. Sunset Energy's share of revenue in the half year, after royalty payments, was approximately US\$178,602. The average price of oil sold during the half year ranges from US\$49 to US\$109 per barrel.

On 6 March 2009, the Company announced that the testing of Wellington Maricopa #4 well has commenced at the Maricopa Project in the San Joaquin Basin, California. This well is located to the west and up dip of both the Wellington Maricopa #6 and #7 wells.

The testing program involves re-entering and performing a workover procedure on the Wellington Maricopa #4 well, which was drilled in about 1930 and produced oil from the Contact Sands until 1938. In this year the well was temporarily abandoned in the Contact Sands and recompleted to test the heavy oil sands further up the hole. However, the Contact Sands were never reopened after an unsuccessful test of the heavy oil sands.

The workover procedure involves moving a rig in and cementing off the existing perforations, and then cleaning out the well through the Contact Sands. A small acid stimulation procedure on the Contact Sands is then proposed before placing the well on test.

This procedure is considered a low cost way to access reserves and production rather than drilling a new third well at the Maricopa Project. The estimated cost for this procedure ranges from US\$40,000 to US\$120,000 depending on the level of success, versus US\$600,000 to drill and complete a new well. Considering the age of the well bore, there is a risk that the re-entry will fail however the risk/return equation looks attractive.

Sunset Energy has already drilled two successful wells in the project area and has several future wells planned including horizontal drilling. The Company expects the Maricopa Project to provide a growing long-term production stream for many years as production from other wells in this area have been stable.

Review of Operations (continued)

Sunset Energy has a 50% interest in the Maricopa Project, with Solimar Energy holding 50% interest. Solimar Energy is also the Operator.

The Silverthread Project: 18.5% - 20% Working Interest (Ventura Basin)

As announced to the ASX on 3 June 2008, the Saugus Formation logs (associated with the Nesbitt #5 well at the Silverthread Project) identified approximately 800 feet of potentially oil-bearing section. Approximately 500 feet of this potentially oil-bearing section was perforated and tested. Initial analysis indicates this area contains several productive oil intervals as well as several unproductive layers. Production testing has yielded mixed results. The well has retrieved significantly differing qualities of oil over the testing period, which ranged from an estimated 13o to 30o API gravity, potentially indicating several different oil formations.

More detailed petrophysical evaluation has been conducted to determine further completion programs. As a result, an acid treatment program has been proposed for the Nesbitt #5 well. Solimar Energy and its joint venture partners are currently evaluating the best options to move forward with a program to extract the oil given the current oil prices.

Sunset Energy has secured an 18.5% interest in a further 200 acres in addition to the Company's 20.0% interest in the original 400 acres.

Partners in the Silverthread Project (and their respective working interests) are:

Mirada Petroleum Inc. (Operator) and Partners:	63.0% to 60.0%
Solimar Energy Limited (ASX Code: SGY):	18.5% to 20.0%
Sunset Energy Limited:	18.5% to 20.0%

Deer Creek Project: 50% Working Interest (San Joaquin Basin)

Leasing work is still continuing at the Deer Creek project with approximately 313 net acres already leased. At this stage, drilling plans for a new exploration well have been put on hold given the current oil price environment. Lower risk opportunities at Maricopa and Southeast Lost Hills have taken priority.

Aliso Canyon Project: 10% Working Interest (Ventura Basin)

Solimar Energy announced to the ASX on 6 October 2008 that directional drilling had commenced at the Sesnon Fee #7 Redrill No.1 well using the Kenai Rig #44. On 22 October 2008, Solimar Energy further announced that the Sesnon Fee #7 Redrill No.1 well had reached a total depth of 10,222 feet without encountering commercial hydrocarbons and a decision was made to plug and abandon the well. No further activity at this prospect is expected at this time.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the directors of the company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 4 and forms part of this directors' report for the half-year ended 31 December 2008.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.



Mr. David Prentice
Executive Director

Dated this 16th day of March 2009



Auditor's Independence Declaration

As lead auditor for the review of the financial report of Sunset Energy Limited for the half-year ended 31 December 2008, 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 review; and
- b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Sunset Energy Limited.

A handwritten signature in blue ink, appearing to read 'Norman G. Neill', is written over a faint, circular blue stamp.

Perth, Western Australia
16 March 2009

N G NEILL
Partner, HLB Mann Judd

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CONDENSED INCOME STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Notes	Consolidated 31 December 2008 \$	Company 31 December 2007 \$
Revenue			
Sales Revenue		230,303	-
Cost of Sales		(185,408)	-
Gross Profit		44,895	-
Other revenue		20,648	27,041
Amortisation and Depreciation expense		(70,844)	-
Consultant fees		(39,000)	(813)
Legal and compliance		(60,930)	(23,636)
Administration expenses		(35,043)	(10,099)
Salaries, director fees and employee expenses		(111,750)	(196,511)
Foreign exchange gain		43,950	-
Exploration costs incurred		-	(13,345)
Loss before income tax expense	2	(208,074)	(217,363)
Income tax expense		-	-
Net loss attributable to members		(208,074)	(217,363)
Basic earnings per share (cents per share)		(0.72)	(1.70)
Options on issue are not considered to be dilutive as their exercise would not show an inferior loss per share			

The accompanying notes form part of these financial statements

CONDENSED BALANCE SHEET AS AT 31 DECEMBER 2008

	Notes	Consolidated 31 December 2008 \$	Company 30 June 2008 \$
Assets			
Current Assets			
Cash and cash equivalents		190,319	1,540,620
Trade and other receivables		76,932	138,026
Other assets		9,858	24,645
Total Current Assets		277,109	1,703,291
Non-Current Assets			
Property, plant and equipment		10,116	11,561
Deferred exploration, evaluation and development costs	3	1,890,258	1,727,137
Production Assets	3	1,374,122	-
Total Non-Current Assets		3,274,496	1,738,698
Total Assets		3,551,605	3,441,989
Liabilities			
Current Liabilities			
Trade and other payables		85,659	85,388
Other financial liabilities		53,138	-
Provision		3,040	-
Total Current Liabilities		141,837	85,388
Non Current Liabilities			
Provision		20,822	20,822
Total Non Current Liabilities		20,822	20,822
Total Liabilities		162,659	106,210
Net Assets		3,388,946	3,335,779
Equity			
Issued capital	4	3,504,752	3,511,724
Reserves	5	404,819	136,606
Accumulated losses		(520,625)	(312,551)
Total Equity		3,388,946	3,335,779

The accompanying notes form part of these financial statements

**CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2008**

	Issued Capital	Accumulated Losses	Option Reserve	Foreign Currency Reserve	Total
	\$	\$	\$		\$
Balance at 1 July 2008	3,511,724	(312,551)	136,606	-	3,335,779
Shares issued during the half year	-	-	-	-	-
Transaction costs	(6,972)	-	-	-	(6,972)
Loss attributable to members	-	(208,074)	-	-	(208,074)
Foreign currency loss	-	-	-	268,213	268,213
Balance at 31 December 2008	3,504,752	(520,625)	136,606	268,213	3,388,946
Balance at 1 July 2007	22,547	(16,156)	-	-	6,391
Shares issued during the half year	3,060,000	-	-	-	3,060,000
Transaction costs	(269,516)	-	-	-	(269,516)
Loss attributable to members	-	(217,363)	-	-	(217,363)
Recognition of share based payments	-	-	136,606	-	136,606
Balance at 31 December 2007	2,813,031	(233,519)	136,606	-	2,716,118

The accompanying notes form part of these financial statements

CONDENSED CASH FLOW STATEMENT FOR THE HALF YEAR ENDED 31 DECEMBER 2008

	Note	Consolidated 31 December 2008 \$	Company 31 December 2007 \$
Cash flows from operating activities			
Receipts from sales		261,841	-
Payment for production costs		(197,511)	
Payments to suppliers and employees		(192,558)	(98,874)
Interest received		25,398	24,936
Net cash (used in) operating activities		(102,830)	(73,938)
Cash flows from investing activities			
Payments for exploration and evaluation		(1,290,557)	(259,776)
Net cash (used in) investing activities		(1,290,557)	(259,776)
Cash flows from financing activities			
Proceeds from issue of shares		-	3,060,000
Payment for share issue costs		-	(278,848)
Net cash provided by financing activities		-	2,781,152
Net increase/(decrease) in cash and cash equivalents held		(1,393,387)	2,447,438
Cash and cash equivalents at 1 July		1,540,620	10,037
Foreign currency translation		43,086	-
Cash and cash equivalents at end 31 December		190,319	2,457,475

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

The half-year report has been prepared on an accruals basis and is based on historical costs.

It is recommended that this financial report be read in conjunction with the financial report for the period ended 30 June 2008 and any public announcements made by Sunset Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the group as in the full financial report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial period ended 30 June 2008.

Basis of Preparation

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

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Significant Accounting Judgments, Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

Exploration and evaluation costs

Acquisition, exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

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.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2008 annual financial report for the financial year ended 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Adoption of New and Revised Accounting Standards

In the half-year ended 31 December 2008, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 January 2008.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

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 period amounted to \$208,074 (2007:\$ 217,363). Net assets as at 31 December 2008 were \$3,388,946.

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 share via 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\$30,000 from the sale of oil and gas.
- Subsequent to 31 December 2008, Sunset has successfully raised a total of \$670,336 through a Rights Issue Entitlement Offer and subsequent shortfall.

The directors of the Group are confident that the necessary funds will be raised as required. Should the funding not be obtained when required then the Group may not be able to meet its planned and proposed levels of expenditure for the forthcoming year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated 31 December 2008	Company 31 December 2007
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(i) Interest revenue	20,648	27,041
(ii) Oil and gas revenue	230,303	-
(iii) Cost of sales	(254,807)	-

NOTE 3: DEFERRED EXPLORATION, EVALUATION

	Consolidated 31 December 2008	Company 30 June 2008
	\$	\$
Costs carried forward in respect of areas of interest in the following phases	3,264,380	-
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	1,727,137	-
Expenditure incurred	1,117,374	1,727,137
Transfer to production assets	(954,253)	-
Balance at end of reporting period	1,890,258	1,727,137
Production Assets – at cost		
Balance at beginning of reporting period	-	-
Additions	489,269	-
Transfer from exploration and evaluation	954,253	-
Accumulated depreciation	(69,400)	-
Balance at end of reporting period	1,374,122	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 4: ISSUED CAPITAL

	Consolidated 31 December 2008 \$	Company 30 June 2008 \$
<i>Ordinary shares</i>		
28,750,001 Issued and fully paid ordinary shares	3,504,752	3,511,724
	31 December 2008	
<i>Movements in ordinary shares on issue</i>	Number	\$
	28,750,001	3,511,724
Issue costs	-	(6,972)
At 31 December 2008	28,750,001	3,504,752

(b) Options

At 31 December 2008, there were 5,000,000 un-issued ordinary shares for which options were outstanding.

NOTE 5: RESERVES

	Consolidated 31 December 2008 \$	Company 30 June 2008 \$
<i>Option reserves</i>	136,606	136,606
<i>Foreign exchange reserves</i>	268,213	-
	404,819	136,606

NOTE 6: EARNINGS PER SHARE

	Consolidated 31 December 2008 \$	Company 31 December 2007 \$
(a) Loss used in the calculation of basic earnings per share	(208,074)	(217,363)
	Number of Shares	
(b) Weighted average number of ordinary shares outstanding during the reporting period used in calculation of basic earnings per share:	28,750,001	12,152,175

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2008

NOTE 7: SEGMENT REPORTING

Geographical segments

The following table presents the revenue and profit information regarding geographical segments for the half-year period ended 31 December 2008.

	Continuing operations		
	Australia	USA	Total
	\$	\$	\$
31 December 2008			
Segment revenue	20,648	230,303	250,951
Segment results	(206,731)	(1,343)	(208,074)
Segment assets	283,851	3,267,754	3,551,605
Segment liabilities	(141,837)	(20,822)	(162,659)
31 December 2007			
Segment revenue	27,041	-	27,041
Segment results	(217,363)	-	(217,363)
Segment assets	2,497,592	246,431	2,744,023
Segment liabilities	(9,905)	-	(9,905)

NOTE 8: CONTINGENT LIABILITIES

The directors are not aware of any significant contingent liabilities as at 31 December 2008.

NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

On 3 December 2008, the Company announced a non-renounceable Rights Issue of New Shares at an issue price of \$0.05 per share on the basis of one share for every two held at the record date raising up to \$718,750 before costs. The fundraising was subsequently completed on 6 March 2009 with Sunset Energy successfully raising a total of \$670,336 from the issue of 13,407,336 shares.

DIRECTORS' DECLARATION

The directors of the consolidated entity declare that:

1. The financial statements and notes thereto, as set out on 5 to 13:
 - a. comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations; and
 - b. give a true and fair view of the Consolidated Entity's financial position as at 31 December 2008 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.



David Prentice
Executive Director

Dated this 16th day of March 2008



INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of

Sunset Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the condensed balance sheet as at 31 December 2008, the condensed income statement, condensed statement of changes in equity, condensed cash flow statement and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Sunset Energy Limited and the entities it controlled during the half-year ended 31 December 2008 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Sunset Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Sunset Energy Limited on 16 March 2009.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Sunset Energy Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



HLB MANN JUDD
Chartered Accountants



N G NEILL
Partner

Perth, Western Australia
16 March 2009