



sunset energy Ltd

29 October 2010

ASX Companies Announcements Office
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ASX : SEY

FIRST QUARTER ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2010

HIGHLIGHTS

Triple Crown

- Contract Operator Appointed
- Rig Secured
- Road upgrades and Pad completed
- Drilling Permit obtained
- Drilling expected to commence first week of November

South Africa

- Black Empowerment Partners Finalised
- Environmental Management Plan submitted
- Ongoing interest and activity from International companies in the area.

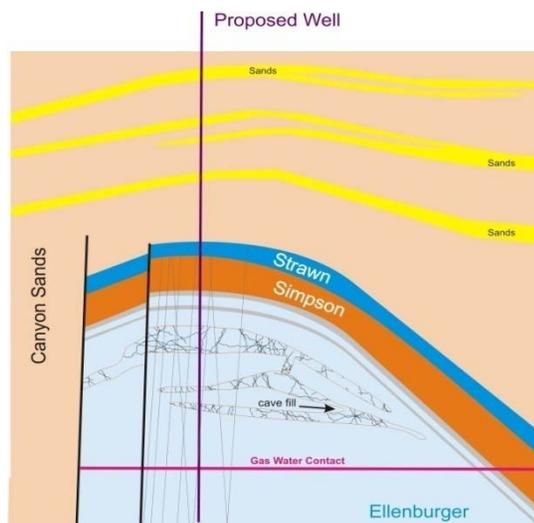
Maricopa

- Oil sales for the September Quarter of 1,989 barrels
- Wellington Maricopa #6 continued at good rates of oil producing 26 bopd.

Triple Crown prospect – Edward County, Texas 80% WI

The Triple Crown Prospect possesses three independent exploration opportunities across over 45,000 acres of leasehold. The first and primary opportunity is to explore for potentially huge gas production in the vertically fractured Ellenburger Dolomite trapped on 3 large-scale, anticlinal closures. The second opportunity consists of complementary exploration for multiple

Lower Canyon Sand gas reservoirs deposited around and over the Ellenburger structures. The third is to develop an unconventional gas play within the prospect area.



Sunset has engaged an experienced Midland based contract operator to assist with operations. This operator is being supported by Sunset's own Texas based personnel and technical staff from our partner in this project. As of the end of September, the Operator has staked and obtained the drilling permit for the first well, and upgrades to the access road have been completed. Pad construction has been completed which will enable the rig to move onto location when it has finished its current drilling program. Sunset has been advised this should be during the first week of November, as a result of drilling issues on the current hole.

Figure 1 – Schematic Cross Section across Prospect

The well has been designed to test the primary opportunity which is potentially huge gas production from the vertically fractured Ellenburger Dolomite trapped on the largest of the known anticlinal closures. The well is also expected to intersect the secondary target which is some of the known Canyon Sand gas reservoirs deposited around and over the Ellenburger structures. In addition to these targets samples to be taken from the well will also provide important information about the new unconventional gas play which provides further upside for the project.

South Africa 90%

Sunset has finalised an agreement which provides for Sunset to meet the requirement of the Broad Based Black Economic Empowerment Act 2003 ("BEE") for all of its activities in South Africa. Under this act, Sunset is required to provide that 10% of its interests are owned by BEE compliant entities.

Sunset has been fortunate to identify two exceptionally well regarded and connected partners Mr Donald Ncube and Mr H Thompson to join in its activities in South Africa. These individuals not only allow Sunset to meet its obligations under the BEE act but will also provide strong support for its activities through their extensive experience and contacts. Mr Ncube and Mr Thompson will each become owners of 5% of the issued capital in Sunset's previously wholly owned subsidiary Bundu Gas and Oil Exploration (Pty) Ltd ("Bundu").

Bundu has completed its initial consultation process, and submitted the EMP within the time periods dictated by PASA. The consultation process raised a number of concerns which have been incorporated into the EMP, and Bundu intends to continue its ongoing consultation process over the coming months to better inform the community about its activities.

Bundu and Sunset have engaged and consulted extensively with PASA with the assistance and support of its new BEE partners to address the concerns raised in its refusal of the previous

application. The EMP is the final documentation required by PASA before finalising its assessment of Bundu's application which is expected to take between 3 and 6 months.

The CR 1/68 well located within the application area flowed high rates of gas of more than 8 MMcf/day of natural gas from the Fort Brown shale during testing in 1968.

The Karoo basin has recently become an area of interest for a number of major international companies, including Shell, Falcon Oil & Gas, Chesapeake and Statoil. At Cranemere, the Company is targeting the Fort Brown shales, a massive (up to 5000 ft thick) lower Permian carbonaceous shale.

In the time since Bundu submitted its original application for the smaller Cranemere project area, the Karoo Basin has become an area of very significant interest for a number of major international companies, including Shell, Falcon Oil & Gas, Chesapeake and Statoil. A number of these have taken an initial 12 month Technical Co-Operation Permit (TCP) which only permits desktop evaluation of existing data over large areas surrounding Bundu's application area as shown in Figure 1.

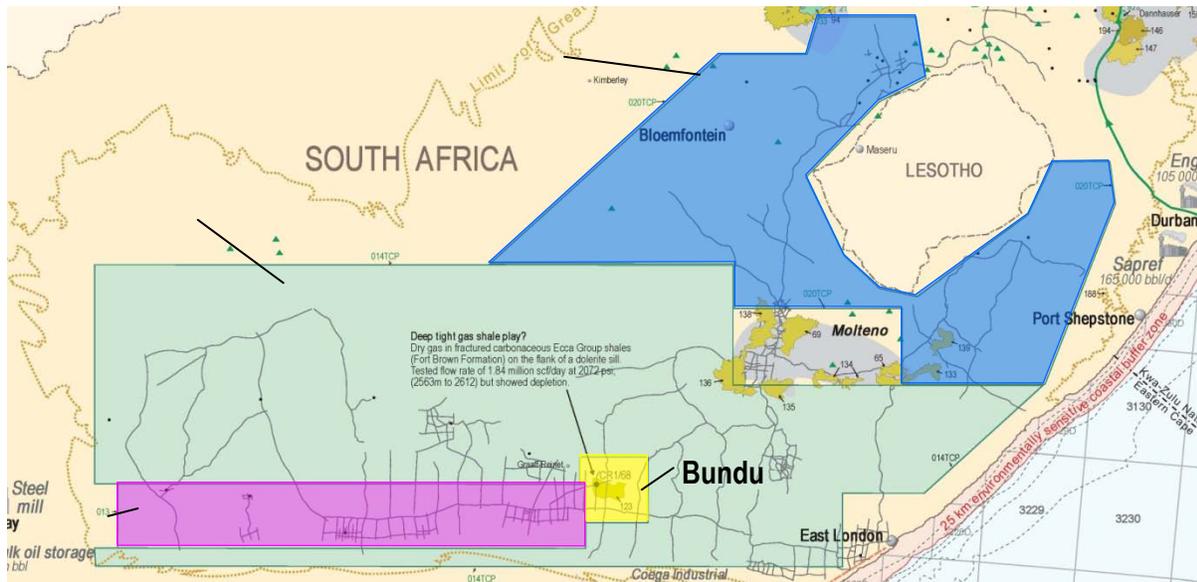


Figure 2 – Current Applications in the Southern Karoo Basin.

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

The Maricopa #6 well averaged a rate of 26 bopd during the quarter.

Improved oil prices over the last two quarters have had a beneficial effect on the project with average prices of approximately US\$72.4 per barrel being achieved in the September quarter.

Sunset Energy has a 50% Working Interest. Solimar Energy holds a 50% Working Interest and is the operator.

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

Solimar Energy is continuing to work on receiving assignments on the lease at Silverthread and is hopeful that a settlement can be reached shortly with the operator Mirada Petroleum Inc. This would provide the opportunity to re-enter, stimulate and re-test the oil zone penetrated in the Nesbitt #5 well.

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

The Company is currently evaluating the future of the Deer Creek project and how it fits in with the Company's plans and objectives.

Sales Production

During the September quarter 2010, a total of 1,989 barrels of oil were sold from the Maricopa Project. The average price of oil received from the Kern Oil Refinery in the September quarter 2010 was approximately US\$72.4/bbl. The Company's share of revenue from sales for the quarter was US\$144,000.

CORPORATE

During the quarter the company was pleased to confirm the appointment of Chief Operating Officer, Mr David Woodley.

David Woodley has over 22 years experience in the oil and gas sector, gained in Australia, North America, United Kingdom and Europe. He commenced his career with Santos before working for a number of companies overseas, returning to Australia in 1997 to join Origin. He has considerable experience in drilling and completion, well testing, reservoir modeling, field development planning and asset management and evaluation.

In past roles with Origin he has been responsible for the preparation and implementation of appraisal and development programs for a number of conventional and CSG fields. These CSG fields are now producing in excess of 70 TJ/day. Whilst in these roles he was also accountable for driving and improving the health, safety and environmental performance of these assets.

He is currently the Appraisal and Development Manager of Origin Energy's Queensland coal seam gas business for the Upstream business portion of the Australia Pacific LNG Project; a CSG to LNG joint venture with Conoco Phillips. He is responsible for the appraisal plans for proving up reserves from the resource base, which is in excess of 26,000 PJe, and the associated field development plan to achieve gas production rates over 525 PJ/annum. He is additionally responsible for ensuring technical excellence in the production engineering practices associated with APLNG's CSG producing fields, which currently have a production capacity greater than 300 TJ/day.

He holds a Bachelor of Chemical Engineering degree (Honours) degree from the University of Adelaide, graduating in 1987. He is also a long standing member of the Society of Petroleum Engineers.

In addition, the Company successfully undertook a non-renounceable rights issue of listed options to existing shareholders with the offer of one option for every two shares held on a record date. The options have an issue price of \$0.015 with a \$0.20 exercise price and a 30 June 2012 expiry. The Offer raised \$922,426 before associated costs.

Yours faithfully



Paul Bilston
Managing Director

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Sunset Energy Limited

ABN

45 123 591 382

Quarter ended (öcurrent quarterö)

30 September 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$Aö000	Year to date (3 months) \$Aö000
1.1 Receipts from product sales and related debtors	47	47
1.2 Payments for (a) exploration & evaluation	(299)	(299)
(b) development	(10)	(10)
(c) production	(36)	(36)
(d) administration	(363)	(363)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	14	14
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(647)	(647)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(647)	(647)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(647)	(647)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	922	922
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share/option issues	(108)	(108)
	Net financing cash flows	814	814
	Net increase (decrease) in cash held	167	167
1.20	Cash at beginning of quarter/year to date	1,716	1,716
1.21	Exchange rate adjustments to item 1.20	(34)	(34)
1.22	Cash at end of quarter	1,849	1,849

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	99
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees and salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$Aø000	Amount used \$Aø000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$Aø000
4.1 Exploration and evaluation	1,330
4.2 Development	-
4.3 Production	-
4.4 Administration	238
Total	1,568

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$Aø000	Previous quarter \$Aø000
5.1 Cash on hand and at bank	1,849	1,151
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Share issues not yet allotted)	-	565
Total: cash at end of quarter (item 1.22)	1,849	1,716

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	122,990,075	122,990,075		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	3,500,000 64,222,171 2,000,000 2,000,000 2,000,000 2,000,000	- 64,222,171 - - - -	<i>Exercise price</i> 10 cents 20 cents 25 cents 35 cents 25 cents 35 cents	<i>Expiry date</i> 30/06/2012 30/06/2012 28/2/2013 28/2/2015 01/02/2014 01/02/2015
7.8 Issued during quarter	64,222,171 2,000,000 2,000,000 2,000,000 2,000,000	64,222,171 - - - -	20 cents 25 cents 35 cents 25 cents 35 cents	30/06/2012 28/2/2013 28/2/2015 1/2/2014 1/2/2015
7.9 Exercised during quarter				
7.10 Expired during quarter	5,000,000	-	20 cents	30/9/2010
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 29 October 2010

Managing Director

Print name: Paul Bilston

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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