Sunset Energy Limited

(ACN 123 591 382)

Financial Report

For the Financial Year ended 30 June 2010

CONTENTS

CORPORATE DIRECTORY

NON EXECUTIVE CHAIRMAN
Michael Fry

MANAGING DIRECTOR
Paul Bilston

EXECUTIVE DIRECTOR
David Prentice

COMPANY SECRETARY
Adrien Wing

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ASX Codes: SEY: SEYO

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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 2010. 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.

Paul Bilston, BE, PhD- Managing Director *(appointed 20 April 2010)*
Mr Paul Bilston is a qualified engineer, and has worked across most facets of the oil and gas sector for the last 18 years. Paul has a degree in Mechanical Engineering and a doctorate in Structural Engineering, and has worked in a number of senior technical, commercial and management roles for a range of companies including Worley Parsons, GHD, AGL Energy and the AJ Lucas Group.
Mr Paul Bilston has a strong blend of technical, commercial and business skills and has had involvement in all aspects of prospect identification, exploration, appraisal and development in the oil and gas industry.

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 *(resigned 31 May 2010)*
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
	Norwest Energy NL	8 June 2009 to date
	Winchester Resources Limited	14 July 2008 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
Paul Bilston	Nil	-
David Morris[1]	Winchester Resources Limited	14 July 2008 to date

[1] Resigned 31 May 2010

DIRECTORS' REPORT (CONT'D)

Company Secretary

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

Adrien Wing, CPA *(appointed 1 July 2010)*

Mr Wing is Certified Practicing Accountant qualified. He practised in the audit and corporate divisions of a chartered accounting firm before working with a number of public companies listed on the Australian Stock Exchange as a corporate/accounting consultant and company secretary.

Cecilia Chiu, CPA *(resigned 1 July 2010)*
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.

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 subsidiaries Sunset Energy LLC and Sunset Texas Exploration LLC incorporated in the United States and Bundu Oil & Gas Exploration (Pty) Ltd incorporated in South Africa, 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.

OPERATING AND FINANCIAL REVIEW

Overview
The principal activity and purpose of the company is investment in oil and gas projects including exploration, appraisal, development and production.

Texas, USA
Triple Crown – Edwards County, Texas
In June 2010 the Company incorporated Sunset Energy Texas LLC in the state of Texas, USA and entered into a lease purchase and exploration agreement with a private exploration company based in Texas to acquire an 80% working interest (100% before payout) in leases and an area of mutual interest covering the Triple Crown prospect located in Edwards Country, Texas.

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. At the date of this report the company (in consultation with its Texas based partners) has identified two potential drilling locations. The Company will look to commence drilling a new well to test the exiting Ellenberger Structure before the end of 2010.

South Africa
On the 20th of April 2010, the Company completed the acquisition of Bundu Gas & Oil Exploration (Pty) Ltd ("Bundu"), a company registered in South Africa. Bundu has an existing exploration right (Thelma 1) and two existing exploration applications, Thelma 2 and Cranemere.

After a refusal to grant Cranemere by the Department of Mineral Resources ("DMR"), the company resubmitted a new application for a larger area (approximately 1,040,000 acres) in the prospective southern Karoo Basin. The new application included the area of the initial smaller application (85,000 acres). The new application has been

OPERATING AND FINANCIAL REVIEW (CONT'D)

accepted by the Agency of South Africa ("PASA"). It is expected that the area covered by the application will ultimately be slightly reduced to account for existing game parks and reserves.

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.

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.

California, USA

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).

Production from the Wellington #6 well continued at good rates of oil and low rates of water. Total of 8,933 barrels of oil were sold at an average of approximately US$70.38 per barrel during the year. Improved oil prices during the year have had a beneficial effect on the project with Sunset's share of revenue from the sales for the year being A$352,925.

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 for a more sophisticated and cost effective water disposal system are progressing. 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.

Sunset Energy (together with its joint venture partner Solimar Energy) has several future well locations identified, and consideration is also being given to drilling a horizontal well. A new geologic review has also been undertaken to identify further new drilling locations to increase potential production. Given the recent acquisitions in South Africa and Texas, the Company is evaluating the future of this project and how it fits in with the Companies plans and objectives.

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

At Deer Creek, the Company is currently evaluating the future of the project and how it fits in with the Company's plans and objectives. 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 work on receiving assignments on the lease at Silverthread and are 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.

OPERATING AND FINANCIAL REVIEW (CONT'D)

Future Strategy
The Group is working to identify, explore and appraise conventional and unconventional oil and gas formations leveraging off its holdings in the United States of America and its projects in South Africa, as well as continuing to evaluate other opportunities to grown the Company. . 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 partners, provides the Group with a significant competitive advantage. The Group is focused on building the value of its projects through targeted exploration drilling programs.

Financial position
The Group has cash funds on hand of $1,716,000 (2009: $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 United States and South Africa.

Operating results for the year
Sunset Energy participated in the production of oil and gas in the Midway-Sunset Oil Field, California, and finalised the agreement to acquire a working interest in the Triple Crown project, Edwards County, Texas, U.S.A and added to its investments with the acquisition of Bundu Oil & Gas Exploration (Pty) Ltd in April 2010, an South African company with exploration projects in South Africa.

FINANCIAL RESULT
The operating results for the financial year ended 30 June 2010 for the Group was an after tax loss of $1,076,854 (2009: $488,807).

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 and continues to be focused on exploration for conventional and unconventional oil and gas.

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

1. On 3 July 2009, the Group announced a placement of 5,750,000 shares at $0.05 each to raise $287,500 (before costs).

2. Pursuant to shareholder approval obtained at Sunset Energy's Annual General Meeting, the Company issued a total of 3,500,000 unlisted options exercisable at $0.10 on or before 30 June 2012 to its Board of Directors.

3. On 18 February 2010 the Company finalised the placement of 10 million new ordinary shares at $0.12 per share raising $1.2 million, before costs, in accordance with a condition of the Bundu Oil & Gas Exploration (Pty) Ltd acquisition.

4. On 20 April 2010, Sunset Energy Limited completed the acquisition of 100% wholly owned, Bundu Oil & Gas Exploration (Pty) Ltd, a company incorporated in South Africa.

5. Mr Paul Bilston was appointed as Managing Director of the Company effective 20 April 2010 in accordance with the settlement of the Share Sale Agreement with Bundu Oil & Gas Exploration (Pty) Ltd.

6. On 10 June 2010, Sunset Texas Exploration LLC, a 100% wholly owned subsidiary of Sunset Energy Limited was incorporated and acquired 80% of the working interest in the Triple Crown prospect located in Edwards County, Texas, USA.

7. On 28 June 2010, Sunset Energy Limited, completed a share placement of 16,042,000 ordinary shares raising $1,363,570, before costs.

AFTER BALANCE DATE EVENTS

1. On 1 July 2010, Ms Cecilia Chiu resigned as Company Secretary of Sunset Energy Limited.
2. On 1 July 2010, Mr Adrien Wing was appointed Company Secretary of Sunset Energy Limited.
3. On 1 July 2010, the Group issued the remaining 6,651,706 ordinary shares pursuant to a placement of 16,042,000 shares at $0.085.
4. On 6 July 2010, the Group announced a non-renounceable rights issue of 1 for 2 at $0.015 per option to raise up to $922,426. The proceeds from the rights issue will be used towards working capital of the Group's production activities in California, USA and exploration of its South African and Texas, USA projects. The offer was subsequently completed 4 August 2010. Shortfall relating to the Offer was closed out on 2nd September 2010. In total, the Company issued 64,222,171 options.
5. At the EGM held 18 August 2010 approval was received by shareholders for the issue of "Director Options" to Mr Paul Bilston pursuant to a condition in the Bundu Oil & Gas Exploration (Pty) Ltd share sale agreement and the ratification for the placement of 16,042,000 ordinary shares and the issue of 2,727,133 options to Redhill Capital Partners.

The Directors are not aware of other matter or circumstances that has arisen since 30 June 2010 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.

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 owned Exploration permits in both the US and South Africa
* Reviewing and potentially acquiring other exploration projects : 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 directors will reassess this position as and when the need arises.

REMUNERATION REPORT (Audited)

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

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

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 $0.08 and a high of $0.18. 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
Paul Bilston – Managing Director *(appointed 20 April 2010)*
David Prentice – Executive Director
David Morris – Non-Executive Director *(resigned 31 May 2010)*

(ii) Executives

Adrien Wing – Company Secretary *(appointed 1 July 2010)*
Cecilia Chiu – Company Secretary *(resigned 1 July 2010)*

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'D)

The value of remuneration received by key management personnel for the financial year ended 30 June 2010 is as follows:

	Primary		Equity Compensation	Post-employment			Performance Related %
2010	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Termination Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	71,779	-	-	131,779	0
Paul Bilston[1]	69,973	-	-	4,976	-	74,949	0
David Prentice	129,231	-	143,559	10,800	-	283,590	0
David Morris[2]	30,000	-	35,890	6,075	-	71,965	0
Executives							
Cecilia Chiu[3] *	55,674	-	-	-	-	55,674	0
Total 2010	344,878	-	251,228	21,851	-	617,957	

[1] Appointed 20 April 2010
[2] Resigned 31 May 2010
[3] Resigned 1 July 2010

	Primary		Equity Compensation	Post-employment			Performance Related %
2009	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Termination Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	0
David Prentice	130,800	-	-	-	-	130,800	0
David Morris	30,000	-	-	2,700	-	32,700	0
Executives							
Cecilia Chiu *	42,000	-	-	-	-	42,000	0
Total 2009	262,800	-	-	2,700	-	265,500	

* 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 2010

During the financial year ended 30 June 2010, there were 3,500,000 options granted to directors and executive officers of the Group. They are as follows:

Directors	**Granted**	**Grant Date**	**Vesting Date**	**Value at Grant Date**	**Exercise Price**	**Expiry Date**
Michael Fry	1,000,000	4 Dec 09	4 Dec 09	$0.07	$0.10	30 June 12
David Prentice	2,000,000	4 Dec 09	4 Dec 09	$0.07	$0.10	30 June 12
David Morris[1]	500,000	4 Dec 09	4 Dec 09	$0.07	$0.10	30 June 12
	3,500,000					

[1] Resigned 31 May 2010

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

At the EGM held 18 August 2010 approval was received by shareholders for the issue of 4,000,000 "Director Options" to Mr Paul Bilston pursuant to a condition in the Bundu Oil & Gas Exploration (Pty) Ltd share sale agreement.

No options were granted to directors and executive officers of the Group in the financial year ended 30 June 2009.

(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	2,175,000
Paul Bilston[2]	3,880,268	5,940,134
David Prentice	2,250	5,501,125
David Morris[1]	-	1,000,000
	5,232,518	14,616,259

[1] Resigned 31 May 2010

[2] Appointed 20 April 2010

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 15 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 Including Circular Resolutions	
Director	Meetings Attended	Number Eligible to Attend
Michael Fry	17	17
Paul Bilston	10	10
David Prentice	17	17
David Morris	14	14

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
Listed Options	30 June 2012	$0.20	64,222,171
Unlisted Options	30 September 2010	$0.20	5,000,000
Unlisted Options	30 June 2012	$0.10	3,500,000
Unlisted Options – “Director A”	28 February 2013	$0.25	2,000,000
Unlisted Options- “Director B”	28 February 2015	$0.35	2,000,000

No ordinary shares were issued as a result of the exercise of options during or since the financial year ended 30 June 2010.

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 $30,120 had been paid for cover period from 1 May 2010 to 30 April 2011. 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 2010 has been received and can be found on page 12 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 2010.

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

Paul Bilston

Paul Bilston
Managing Director

23 September 2010

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 2010, 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**
23 September 2010	**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 1 July 2008. 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 2010 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 2010 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 out 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 managing 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 Mr Paul Bilston. The Board Charter summarises the roles and responsibilities of the Chairman, Mr Michael Fry and the Managing Director, Mr Paul Bilston.

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

The Board has assessed the independence of 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.

The Group does not satisfy Recommendation 2.1 in that the majority of directors are not independent. Given the skills and experience of the board and the size of the Group this structure is effective and efficient.

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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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.

Diversity Policy
Due to its size and scale of operations, the Company does not have an existing diversity policy as recommended in Recommendation 3.2. Details of each of the Board members and Company Secretary are disclosed in the Directors' Report.

The Board has determined that the composition of the current Board represents the best mix of directors that have an appropriate range of qualifications and expertise, can understand and competently deal with current and emerging business issues and can effectively review and challenge the performance of the company.

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.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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 a total of 1,000,000 options to non-executive directors in September 2007 and December 2009. Neither the non-executive directors nor executives of the company receive any retirement benefits other than superannuation.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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	Compli-ance 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 13
Rec 1.2	Companies should disclose the process for evaluation the performance of senior executives.	Yes	Website and Page 13
Rec 1.3	Companies should provide the information indicated in the Guide to reporting to Principle 1.	Yes	Website and Page 13
Pr 2	**Structure the board to add value**		
Rec 2.1	A majority of the board should be independent directors.	No	Website and Page 13
Rec 2.2	The Chairman should be an independent director.	Yes	Website and Page 13
Rec 2.3	The roles of chairman and chief executive officer should not be exercised by the same individual.	Yes	Website and Page 13
Rec 2.4	The board should establish a nomination committee	No	Website and Page 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 14
Rec 2.6	Companies should provide the information indicated in the Guide to reporting to Principle 2	Yes	Website and Page 14
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 14
Rec 3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually both the objectives and progress in achieving them.	No	
Rec 3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress	No	

CORPORATE GOVERNANCE STATEMENT (CONT'D)

	towards achieving them.		
Rec 3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board	No	
Rec 3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3.	No	
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 15
Rec 6.2	Company should provide the information indicated in the Guide to reporting on Principle 6.	Yes	Website and Page 15
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

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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	The remuneration committee should be structured so that it: - consists of a majority of independent directors - is chaired by an independent director - has at least three members	No	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

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Revenue			
Sales Revenue	2	**352,925**	**417,118**
Cost of sales	2	**(243,845)**	**(453,833)**
Gross Profit /(Loss)		**109,080**	**(36,715)**
Other revenue	2	**15,926**	**21,973**
Depreciation expense	2	**(3,221)**	**(2,890)**
Consultants fees		**(55,987)**	**(26,494)**
Legal and compliance		**(268,552)**	**(103,088)**
Administration expenses		**(102,391)**	**(82,072)**
Occupancy expenses		**(18,441)**	**(78,900)**
Salaries, directors fees and employee benefits	2	**(639,580)**	**(223,500)**
Foreign exchange gain/(loss)		**(19,798)**	**42,879**
Exploration write-off expense	2	**(48,144)**	**-**
Impairment of exploration assets		**(45,746)**	**-**
LOSS BEFORE INCOME TAX EXPENSE	3	**(1,076,854)**	**(488,807)**
Income Tax Expense	3	**-**	**-**
Net Loss for the Period		**(1,076,854)**	**(488,807)**
Other comprehensive income:			
Exchange differences on translation of foreign operations	14	**(23,587)**	**316,782**
Other comprehensive income/loss for the year		**(23,587)**	**316,782**
Total comprehensive loss for the year		**(1,100,441)**	**(172,025)**
Basic loss per share (cents)	17	(1.78)	(1.52)

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
CURRENT ASSETS			
Cash and cash equivalents	5	**1,716,000**	**373,432**
Trade and other receivables	6	**57,964**	**69,540**
Other financial assets	6	**25,089**	**25,155**
TOTAL CURRENT ASSETS		**1,799,053**	**468,127**
NON-CURRENT ASSETS			
Trade and other receivables	6	**16,475**	**-**
Property, plant and equipment	7	**8,350**	**8,671**
Deferred exploration and evaluation costs	8	**9,552,394**	**1,997,638**
Production assets	9	**1,361,158**	**1,527,371**
TOTAL NON-CURRENT ASSETS		**10,938,377**	**3,534,040**
TOTAL ASSETS		**12,737,430**	**4,002,167**
CURRENT LIABILITIES			
Trade and other payables	10	**523,869**	**153,531**
TOTAL CURRENT LIABILITIES		**523,869**	**153,531**
NON CURRENT LIABILITIES			
Provisions	11	**22,362**	**24,796**
TOTAL NON-CURRENT LIABILITIES		**22,362**	**24,796**
TOTAL LIABILITIES		**546,231**	**178,327**
NET ASSETS		**12,191,199**	**3,823,840**
EQUITY			
Issued capital	12	**13,388,382**	**4,171,810**
Reserves	14	**681,029**	**453,388**
Accumulated losses	13	**(1,878,212)**	**(801,358)**
TOTAL EQUITY		**12,191,199**	**3,823,840**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

Consolidated 2010	**Option Reserves**	**Foreign Currency Reserve**	**Issued Capital**	**Accumulated Losses**	**Total**
	$	**$**	**$**	**$**	**$**
At 1 July 2009	136,606	316,782	4,171,810	(801,358)	3,823,840
Loss for the period				(1,076,854)	(1,076,854)
Exchange differences on foreign currency translation	-	(23,587)	-	-	(23,587)
Total comprehensive (loss)/profit for the period	-	(23,587)	-	(1,076,854)	(1,100,441)
Shares issued during the year	-	-	2,285,675	-	2,285,675
Applications for share issue	-	-	565,362	-	565,362
Share based payments	-	-	6,543,995	-	6,543,995
Options issued during the year	251,228	-	-	-	251,228
Transaction costs	-	-	(178,460)	-	(178,460)
Balance at 30 June 2010	387,834	293,195	13,388,382	(1,878,212)	12,191,199

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
Loss for the period	-	-	-	(488,807)	(488,807)
Exchange differences on foreign currency translation	-	316,782	-	-	316,782
Total comprehensive (loss)/profit for the period	-	316,782	-	(488,807)	(172,025)
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

The accompanying notes form part of these financial statements

STATEMENT OF CASH FLOWS
For the year ended 30 June 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**378,470**	**484,447**
Payments to suppliers and employees		**(593,819)**	**(758,072)**
Interest received		**15,926**	**26,723**
NET CASH FLOWS FROM OPERATING ACTIVITIES	5(b)	**(199,423)**	**(246,902)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of project		**(522,117)**	**-**
Payments for exploration activities		**(488,533)**	**(884,001)**
Payments for production activities		**(163,432)**	**(739,252)**
Payments for property, plant and equipment		**(2,901)**	**-**
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,176,983)**	**(1,623,253)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		**2,851,037**	**670,743**
Transaction costs on issue of shares		**(95,351)**	**(10,656)**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**2,755,686**	**660,087**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,379,280**	**(1,210,068)**
Cash and cash equivalents at beginning of the period		**373,432**	**1,540,620**
Foreign currency translation		**(36,712)**	**42,880**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	5(a)	**1,716,000**	**373,432**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Sunset Energy Limited is a listed public 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 23 September 2010.

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).

(b) Adoption of new and revised standards

Adoption in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2010, 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'
- AASB 3 'Business Combinations'
- AASB 8 'Operating Segments'

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 2010. 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.

(c) Basis of Consolidation

The consolidated financial statements comprise the separate financial statements of Sunset Energy Limited ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group"). Control is achieved where the company 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 subsidiaries is prepared for the same reporting period as the parent Company, using consistent accounting policies.

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

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations have been accounted for using the acquisition method of accounting (refer note 1(o)).
Investments in subsidiaries held by Sunset Energy Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

(d) 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, as at the end of the reporting period.

Deferred income tax is provided on all temporary differences as at the end of the reporting period 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 the end of each reporting period 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 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, as at the end of the reporting period.

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.

(e) 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:

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(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.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development.
Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Exploration and evaluation expenditure is reclassified to development expenditure once the technical feasibility and commercial viability of extracting the related mineral resource is demonstrable. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life according to the rate of depletion of the economically recoverable reserves. Changes in factors such as estimates of proved and probable reserves that affect the calculations are dealt with on a prospective basis.

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.

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.

(f) 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 reporting period, 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.

(g) 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.

(h) 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 statement of financial position.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) 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 Flows 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.

(j) 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 end of the reporting period.

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$), South African (ZAR) 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 end of the reporting period and their statements of income 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.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Sunset Energy Limited.

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in a change in the number of reportable segments presented by the Group as operating segments are reported in a manner that is consistent with internal reporting provided to the chief operating decision maker.

(m) 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.

The amount of the impairment loss is recognised in the statement of comprehensive income 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 statement of comprehensive income.

(n) 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.

(o) Business Combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or business under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expenses as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as either equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in accounting policy
A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes. All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the group's net profit after tax.

(p) 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.

(q) 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.

(r) 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.

(s) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 statement of comprehensive income in the cost of sales line item.

(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.

(t) 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.

(u) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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 24.

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).

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 statement of comprehensive income 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.

(v) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.
Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(w) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date, They are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) 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.

(y) 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 $1,076,854 (2008:$488,807). Net assets as at 30 June 2010 were $12,191,199 (2009: $3,823,840).

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$30,000 from the sale of oil and gas.
- On 8 August 2010, the Company completed a pro-rate non-renounceable rights issue of 61,495,038 options expiring 30 June 2012 @ $0.20 with acceptances totaling $699,595 and a shortfall of $222,875.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

		Consolidated 2010 $	Consolidated 2009 $
2.	**REVENUES AND EXPENSES**		
	Oil and gas sales	352,925	417,118
	Interest received	15,926	21,973
(a)	**Cost of sales**		
	Production costs	164,265	312,032
	Amortisation expense	79,580	141,801
		243,845	453,833
(b)	**Employee benefit expense**		
	Salary and wages	388,352	223,500
	Director equity-settled payments	251,228	-
		639,580	223,500
(c)	**Depreciation expense**	3,221	2,890
(d)	**Exploration written off**	48,144	-

3. INCOME TAX

		Consolidated 2010 $	Consolidated 2009 $
a.	The components of tax expense comprise:		
	Current tax	-	-
	Deferred tax	-	-
	Income tax expense reported in statement of comprehensive income	-	-
b.	The prima facie tax benefit on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
	Net loss from ordinary activities before income tax expense	(1,076,854)	(488,807)
	Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2009: 30%)	(323,056)	(146,642)
	Add:		
	Tax effect of:		
	- Revenue losses not recognised	187,272	146,933
	- Share based payments	75,368	-
	- Other non-allowable items	61,152	14,633
	- Other deferred tax balances not recognised	2,648	-
		3,384	14,924
	Less:		
	Tax effect of:		
	- Other deferred tax balances not recognised	-	14,924
	- Other non-assessable items	3,384	-
	Income tax expense	-	-

	Consolidated	Consolidated

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

4. DEFERRED TAX

The following deferred tax balances have not been recognised:

	2010 $	2009 $
Deferred Tax Assets: At 30%:		
Carry forward revenue losses	424,671	237,399
Capital raising costs	105,800	75,903
Provisions and accruals	10,925	4,410
Other	20,590	816
	561,986	318,528

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.

5. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash:

	2010 $	2009 $
Cash balances comprises		
- Cash at bank	**1,628,865**	**364,824**
- US Dollar account	**80,278**	**8,608**
- ZAR account	**6,857**	**-**
	1,716,000	**373,432**

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

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

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.
Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2010 $	2009 $
Net loss	**(1,125,086)**	**(488,807)**
Non cash items		
Depreciation	**3,221**	**2,890**
Share based payments	**251,228**	**-**
Unrealised foreign (gain)/loss	**36,712**	**(42,879)**
Impairment of assets	**45,746**	**-**
Exploration written off	**48,144**	**-**
Amortisation	**79,580**	**141,801**
Changes in assets and liabilities		
(Increase)/decrease in receivables	**(15,460)**	**67,976**
Increase/(decrease) in payables and accruals	**863,170**	**64,429**
Increase/(decrease) in provisions	**12,168**	**7,688**
Net cash flows (used in) / from operating activities	**(199,423)**	**(246,902)**

5. CASH AND CASH EQUIVALENTS (CONT'D)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

(c) Non cash financing and investing activities

During the financial year, 48,474,038 shares were issued to the vendors of Bundu Oil & Gas Exploration (Pty) Ltd as consideration for the purchase of Bundu Oil & Gas Exploration (Pty) Ltd.

No other non cash investing activities have occurred during the financial year ended 2010.

6. TRADE & OTHER RECEIVABLES

	Consolidated 2010 $	Consolidated 2009 $
Current		
Oil sales receivable	23,099	54,420
Other debtors	34,865	40,275
	57,964	94,695
Prepayments	25,089	-
Non Current		
Deposits and Bonds	16,475	-

There are no impaired trade debtors as at 30 June 2010.

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. PLANT AND EQUIPMENT

	2010	2009
Computer Equipment		
At cost	2,901	-
Amortisation	(331)	-
Leasehold Improvement		
At cost	14,451	14,451
Amortisation	(8,671)	(5,780)
	8,350	8,671

There are no impaired property, plant and equipment as at 30 June 2010.

8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs carried forward in respect of petroleum exploration areas of interest

	2010	2009
Pre-production		
- Exploration and evaluation phases	9,552,395	1,997,638
Movement in carrying amounts		
Opening balance	1,997,638	1,727,137
Additions	7,260,291	-
Transfer to production assets	-	(952,330)
Expenditure incurred during the period	272,296	1,104,325
Provision for impairment	(45,567)	-
Foreign exchange translation movement	67,736	118,506
Closing balance	9,552,394	1,997,638

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

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 2010 $	Consolidated 2009 $
9. PRODUCTION ASSETS		
Production Phase	**1,361,158**	**1,527,731**
Movement in carrying amounts		
Opening balance	**1,527,731**	**-**
Transfer from exploration and evaluation costs	**-**	**952,330**
Additions	**10,741**	**575,898**
Accumulated amortisation	**(79,580)**	**(141,801)**
Foreign exchange translation movement	**(97,734)**	**141,304**
Closing balance	**1,361,158**	**1,527,731**
10. TRADE & OTHER PAYABLES		
Current		
Trade creditors (a)	**235,417**	**36,834**
Employee benefits	**30,102**	**3,714**
Other creditors and accruals	**258,350**	**112,983**
	523,869	**153,531**

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

11. PROVISIONS		
Restoration Costs		
Balance at beginning of period	**22,362**	**20,822**
Foreign exchange translation	**-**	**3,974**
Balance at end of period	**22,362**	**24,796**
12. ISSUED CAPITAL		
Issued and paid up capital		
116,338,369 (2008: 28,750,001) Ordinary shares	**13,388,382**	**4,171,810**
(a) Movements in shares on issue		
At the beginning of the reporting period	**4,171,810**	**3,511,724**
Shares issued during the period:		
- Non-Renounceable Rights Issue at $0.05 each	**-**	**670,742**
- Equity based payments	**-**	**27,960**
- Placement at $0.05	**287,500**	**-**
- Placement at $0.12	**1,200,000**	**-**
- Bundu Acquisition Vendors at $0.135	**6,543,995**	**-**
- Placement at $0.085[4]	**798,175**	**-**
-Share issue costs	**(178,460)**	**(38,616)**
- Share application received, not yet allotted[4]	**565,362**	**-**
At end of reporting period	**13,388,382**	**4,171,810**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

12. ISSUED CAPITAL (CONT'D)

	Consolidated 2010 Number of Shares	Consolidated 2009 Number of Shares
At the beginning of the reporting period	**42,724,037**	**28,750,001**
Shares issued during the period:		
- Non-Renounceable Rights Issue at $0.05 each	**-**	**13,414,836**
- Equity based payments	**-**	**559,200**
- Placement at $0.05	**5,750,000**	**-**
- Placement at $0.12	**10,000,000**	**-**
- Bundu Acquisition Vendors at $0.135	**48,474,038**	**-**
- Placement at $.085[4]	**9,390,294**	**-**
At end of reporting period	**116,338,369**	**42,724,037**

1. On 8 August 2009, the Group issued 5,750,000 ordinary shares at $0.05 via placement.
2. On 23 February 2010, the Group issued 10,000,000 ordinary shares at a price of $0.12 in accordance with a condition in the acquisition agreement of Bundu Oil & Gas Exploration (Pty) Ltd.
3. On 20 April 2010, the Group issued 48,474,038 ordinary shares at a deemed price of $0.135 per share to the vendors in respect to the acquisition of the Bundu Oil & Gas Exploration (Pty) Ltd.
4. On 28 June 2010 the Group completed a placement of 16,042,000 ordinary shares at $0.085 and had issued 9,390,294 shares at 30 June 2010 with the remaining 6,651,706 issued 1 July 2010.

Terms and conditions of shares and options

(b) Shares and Options

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
At the end of the financial year ended 30 June 2010, 8,500,000 unlisted options are on issue. Further details of the terms and conditions of these options are provided in note 15(c) and the Remuneration Report.

At the end of the reporting year, there are 8,500,000 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
Unlisted Options	30 June 2012	$0.10	3,500,000

During the financial year ended 30 June 2010, no ordinary shares were issued as a result of the exercise of options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

13. ACCUMULATED LOSSES

	Consolidated 2010 $	Consolidated 2009 $
Balance at the beginning of reporting period	(801,358)	(312,551)
Net loss for the period	(1,076,854)	(488,807)
Balance at end of reporting period	(1,878,212)	(801,358)

14. RESERVES

Reserves

(a) Share based payment reserve	387,834	136,606
(b) Foreign currency translation reserve	293,195	316,782
	681,029	453,388
(a) Share based payment reserve		
At beginning of reporting period	136,606	136,606
Equity settled payments	251,228	-
Balance at end of reporting period	387,834	136,606
(b) Foreign currency translation reserve		
At beginning of reporting period	316,782	-
Foreign currency translation reserve	(23,587)	316,782
Balance at end of reporting period	293,195	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 and South African ZAR) into presentation currency at balance date.

15. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors
David Prentice– Executive Director
Paul Bilston – Managing Director *(Appointed 20 April 2010)*
Michael Fry – Non-Executive Director
David Morris – Non-Executive Director *(Resigned 31 May 2010)*

(ii) Executives
Cecilia Chiu – Company Secretary *(Resigned 1 July 2010)*

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 15 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 2010

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

(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 one executive director.

	Primary		Equity Compensation	Post-employment		
2010	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Termination Benefits $**	**TOTAL $**
Directors						
Michael Fry	60,000	-	71,779	-	-	131,779
Paul Bilston[1]	69,973	-	-	4,976	-	74,949
David Prentice	129,231	-	143,559	10,800	-	283,590
David Morris[2]	30,000	-	35,890	6,075	-	71,965
Executives						
Cecilia Chiu[3] *	55,674	-	-	-	-	55,674
Total 2010	344,878	-	251,228	21,851	-	617,957

[1] Appointed 20 April 2010
[2] Resigned 31 May 2010
[3] Resigned 1 July 2010

	Primary		Equity Compensation	Post-employment		
2009	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Termination Benefits $**	**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

* 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.

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

Financial year ended 30 June 2010

During financial period ended 30 June 2010, the company granted 3,500,000 options to Directors as disclosed below:

(i) 3,500,000 options expiring 30 June 2012 exercisable at $0.10.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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 30 November 2009 of $0.15 discounted at 30% due to lack of marketability, a volatility factor of approximately 100% and an annual risk-free rate of 4.65%. These options have vested immediately.

2010	Granted Number	Vested Number	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Directors							
Michael Fry	1,000,000	1,000,000	30.11.09	0.072	0.10	30.11.09	30.06.12
David Prentice	2,000,000	2,000,000	30.11.09	0.072	0.10	30.11.09	30.06.12
David Morris	500,000	500,000	30.11.09	0.072	0.10	30.11.09	30.06.12
	3,500,000	3,500,000					

Financial year ended 30 June 2009
No options were granted as part of remuneration to Directors and Executive Officers.

(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 2010

	Balance at 1.7.09	Shares Issued	Options Exercised	Bought & (Sold)	Balance at 30.06.10
Directors					
Michael Fry	1,350,000	-	-	(300,000)	1,050,000
David Prentice	2,250	-	-	-	2,250
Paul Bilston[1]	-	3,400,000	-	480,268	3,880,268
David Morris[2]	-	-	-	-	-
Executives					
Cecilia Chiu	-	-	-	-	-
	1,352,250	3,400,000	-	180,268	4,932,518

[1] Appointed 20 April 2010
[2] Resigned 31 May 2010

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 2010

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

Options Held By Key Management Personnel

Year ended 30 June 2010

	Balance at 1.7.09	Received as Remuneration	Exercise of Options	Bought & (Sold)	Balance at retirement	Balance at 30.06.10	Total Vested	Total Exercisable
Directors								
Michael Fry	500,000	1,000,000	-	-	-	1,500,000	1,500,000	1,500,000
David Prentice	3,500,000	2,000,000	-	-	-	5,500,000	5,500,000	5,500,000
Paul Bilston[1]	-	-	-	-	-	-	-	-
David Morris[2]	500,000	500,000	-	-	1,000,000	1,000,000	1,000,000	1,000,000
Executives								
Cecilia Chiu	-	-	-	-	-	-	-	-
	4,500,000	3,500,000	-	-	1,000,000	8,000,000	8,000,000	8,000,000

[1] Appt 20 April 2010
[2] Resigned 31 May 2010

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

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 2010 are as described in Note 15 (c) above.

Options issued as Part of Remuneration for the year ended 30 June 2010

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 an Executive 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 an Executive Director of the Company.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

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

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.

On 22 February 2010, the Group entered into an executive services agreement with Mr Paul Bilston under which Mr Bilston will receive a salary package of $200,000 per annum exclusive of superannuation for Mr Bilston's services as a managing director of the Group. It is a term of his executive services agreement that in the event the fully diluted market capitalization of the Company exceeds $25,000,000 for two consecutive months, Mr Bilston's salary will be increased to $300,000.

Pursuant to the settlement of the Share Sale Agreement with Bundu Oil & Gas Exploration (Pty) Ltd, Mr Bilston was appointed Managing Director. As part of his remuneration package, and as approved by shareholders at the EGM held 18 August 2010, Mr Bilston was issued 2,000,000 Director A options, exercisable at $0.25 each on or before 28 February 2013, provided that the fully diluted market capitalization of the Company has exceeded $30 million for 2 consecutive months, and 2,000,000 Director B options, exercisable at $0.35 each on or before 28 February 2015, provided that the fully diluted market capitalization of the Company has exceeded $45 million for 2 consecutive months.

In the event that Mr Bilston's consultancy agreement with the Company is terminated within 2 years of the date of such agreement, those Director Options which have not become exercisable shall automatically lapse.

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 (resigned 31 May 2010) provided 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.

16. 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.

South Africa

The South African ("SA") is the location of the wholly owned subsidiary, Bundu Oil & Gas Exploration (Pty) Ltd, exploration and production activities and licence interests are held.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. SEGMENT INFORMATION (CONT'D)

	USA	SA	Australia	Total
	$	$	$	$
(i) Segment performance				
Twelve months ended 30.06.2010				
Total segment revenue	352,925	-	15,926	368,851
Reconciliation of segment revenue to total revenue				
Inter-segment elimination	-	-	-	-
Total revenue	352,925	-	15,926	368,851
Segment net profit/(loss) before tax	109,081	-	(1,185,935)	(1,076,854)
Net loss before tax from continuing operations	109,081	-	(1,185,935)	(1,076,854)
Amounts not included in segment result but reviewed by the Board:				
• Depreciation and amortisation	79,580	-	3,221	82,802
Twelve months ended 30.06.2009				
Total segment revenue	417,118	-	21,973	439,091
Reconciliation of segment revenue to total revenue				
Inter-segment elimination	-	-	-	-
Total revenue	417,118	-	21,973	439,091
Segment net profit/(loss) before tax	(36,714)	-	(452,093)	(488,807)
Net loss before tax from continuing operations	(36,714)	-	(452,093)	(488,807)
Amounts not included in segment result but reviewed by the Board:				
• Depreciation and amortisation	-	-	1,445	1,445

	USA	SA	Australia	Total
	$	$	$	$
30.06.2010				
Segment assets	3,970,761	7,054,751	1,711,918	12,737,430
Segment asset increases/ (decreases) for the 12 month period:				
• Acquisitions	522,117	6,789,521	2,901	7,314,539
• Exploration & evaluation expenditure	(156,031)	(70,699)	-	(226,730)
Total assets from continuing operations	3,970,761	7,054,751	1,711,918	12,737,430

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

16. SEGMENT INFORMATION (CONT'D)

30.06.2009

Segment assets	3,590,711	-	411,456	4,002,167
Segment asset increases/ (decreases) for the 6 month period:				
• Acquisitions	-	-	-	-
• Exploration and evaluation expenditure	1,654,267	-	-	1,654,267
Total assets from continuing operations	3,590,711	-	411,456	4,002,167

(iii) Segment liabilities

30.06.2010

Segment liabilities	35,223	79,422	1,044,467	1,159,122
Total liabilities from continuing operations	35,223	79,422	1,044,467	1,159,122

30.06.2009

Segment liabilities	57,524	-	120,803	178,327
Total liabilities from continuing operations	57,524	-	120,803	178,327

(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 states of California and Texas, USA and in South Africa.

		Consolidated 2010 $	Consolidated 2009 $
17. LOSS PER SHARE			
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		**(1,076,854)**	**(488,807)**
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	(i)	**60,387,635**	**33,362,475**

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

18. DIVIDENDS

No dividends have been declared or issued for the financial year ended 30 June 2010.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

19. RELATED PARTY DISCLOSURE

(a) Interest in subsidiaries

Name	Country of Incorporation	Percentage of equity interest held by Consolidated Entity		Investment
		2010	**2009**	
Sunset Energy LLC[1]	USA	100%	100%	-
Bundu Oil & Gas Exploration (Pty) Ltd[2]	South Africa	100%	-	$6,780,541
Sunset Texas LLC[3]	USA	100%	-	-

[1]Sunset Energy LLC was incorporated on 17 August 2008 via the issue of 1 share at US$1 per share.
[2]Bundu Oil & Gas Exploration (Pty) Ltd was acquired 1April 2010 via issue of 48,474,038 shares with a deemed value of $0.135 per share.
[3]Sunset Texas LLC was incorporated 11 June 2010 via the issue of 1 share at US$1 per share.

(b) Loans to subsidiaries

	Parent	
	2010 $	**2009 $**
Sunset Energy LLC	94,817	4,859
Bundu Oil & Gas Exploration (Pty) Ltd	374,964	-
Sunset Texas LLC	526,998	-
	996,779	4,859

These loans to subsidiaries are interest free and are repayable on call.

No other related party transactions have incurred for the financial year ended 30 June 2010.

20. AUDITORS' REMUNERATION

	Consolidated	Consolidated
	2010 $	**2009 $**
Amounts received or due and receivable by :		
- HLB Mann Judd- an audit or review of the financial reports of the Company	**25,350**	**19,300**
	25,350	**19,300**

21. 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 2010

21. 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 Statement of Financial Position.

2010

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	-	23,099	-	-	-	23,099
Variable interest rates instruments	0.7%	1,716,000	-	-	-	1,716,000
		1,739,099	-	-	-	1,739,099
FINANCIAL LIABILITIES						
Non-interest bearing	-	(541,295)	-	-	-	(541,295)
NET FINANCIAL ASSETS		(541,295)	-	-	-	(541,295)

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

(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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2010

21. FINANCIAL INSTRUMENTS (CONT'D)

(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 allowance for doubtful debts, of those assets as indicated in the Statement of Financial Position. The maximum credit risk exposure of the Group at 30 June 2010 is $23,099 (2009: $54,420). There are no impaired receivables at 30 June 2010.

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 2010, 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 and South African currencies. 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.

The carrying amount of US denominated financial instrument are:

	2010	2009
FINANCIAL INSTRUMENTS	**US $**	**US $**
Cash and cash equivalent	68,421	8,609
Trade debtors and other receivables	23,099	54,420
Trade creditors and other payables	17,582	32,924

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

22. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets.

23. EMPLOYEE BENEFITS

At 30 June 2010 Sunset Energy has only the Managing Director and Executive Director employed. (2009: nil).

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.

8,500,000 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.

24. 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 23. 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.

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

	2010		2009	
	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	5,000,000	0.20
Granted during the year	3,500,000	0.10	-	
Outstanding at the end of the year	8,500,000		5,000,000	
Exercisable at the end of the year	8,500,000		5,000,000	

(i) The options outstanding at 30 June 2010 had a weighted average exercise price of $0.16 (2009:$0.20).
(ii) Options outstanding at 30 June 2010 had a weighted average remaining life of 0.97 years (2009:1.25 years).
(iii) The weighted average fair value of options granted during the year was $0.20 (2009:$0.20).

(iv) Included under employee benefits expense in the statement of comprehensive income that relates to equity-settled share-based payment transaction is $251,228 (2009:$nil).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

24. SHARE BASED PAYMENT PLANS (CONT'D)

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 2010.
No options were issued in the year ended 30 June 2009

	2010 Director Options
Expected volatility (%)	100%
Risk-free interest rate (%)	4.65%
Expected life of option (years)	2.58
Exercise price (cents)	$0.10
Grant date share price	$0.15

25. BUSINESS COMBINATION

Acquisition of Bundu Oil & Gas Exploration (Pty) Ltd

On 1 April 2010, Sunset Energy Limited acquired 100% of the voting shares of Bundu Oil & Gas Exploration (Pty) Ltd.
The total cost of the combination was $6,793,995 and comprised of the issue of equity instruments. The Group issued 48,474,038 ordinary shares with a fair value of $0.135 each, based on the quoted price of the shares of Sunset Energy Limited at the date of exchange.
The Group has provisionally recognised the fair values of the identifiable assets and liabilities of Bundu Oil & Gas Exploration (Pty) Ltd based upon the best information available as of the reporting date. Provisional business combination accounting is as follows:

	Consolidated	
	Fair value at acquisition date $	*Carrying value* $
Cash and cash equivalents	6,535	6,535
Exploration expenditure	80,613	80,613
Trade and other payables	(267,870)	(267,870)
Net liabilities acquired	(180,722)	(180,722)
Goodwill on consolidation[1]	6,974,717	6,974,717
Total consideration	6,793,995	6,793,995
Acquisition date fair value of consideration transferred:		
Shares issued, at fair value	6,543,995	6,543,995
Contingent consideration liability	250,000	250,000
Consideration transferred	-	-
Direct costs relating to the acquisition	6,793,995	6,793,995

[1]Goodwill on consolidation has been capitalised as additions to the exploration and evaluation expenditure for the year. Refer Note 9.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

25. BUSINESS COMBINATION (CONT'D)

	Consolidated $
The cash outflow on acquisition is as follows:	
Cash paid	-
Net cash acquired with the subsidiary	6,535
Net cash inflow	6,535

26. PARENT ENTITY DISCLOSURES

Financial position	2010 $	2009 $
Assets		
Current Assets		
Cash & cash equivalents	1,628,866	371,181
Trade & other receivables	68,562	69,540
Other current assets	25,089	25,155
Non-current assets		
Other receivables	16,475	-
Inter-company Loans[1]	803,800	4,859
Plant & Equipment	8,350	8,671
Investment in subsidiaries	6,780,541	-
Exploration assets	1,970,397	2,120,853
Production assets	1,361,158	1,404,516
Total assets	**12,663,240**	**4,004,775**
Liabilities		
Current liabilities		
Trade & other creditors	419,575	149,816
Employee Benefits	30,102	3,714
Non-current liabilities		
Provisions	22,362	24,796
Total liabilities	**472,039**	**178,326**
Net Assets	**12,191,199**	**3,826,449**
Equity		
Issued capital	13,388,382	4,171,810
Accumulated Losses	(1,875,638)	(799,264)
Reserves		
Option Reserves	387,834	136,606
Foreign currency translation	290,621	317,297
Total equity	**12,191,199**	**3,826,449**

[1] Includes a provision for impairment of $192,979 as recoverability of investment loans to subsidiaries is dependent upon the commercial exploration or sale of exploration and production assets.

Financial performance

	2010 $	2009 $
Losses for the year	(883,668)	(486,713)
Other comprehensive income	-	-
Total comprehensive loss	(883,668)	(486,713)

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

27. SUBSEQUENT EVENTS

1. On 1 July 2010, Ms Cecilia Chiu resigned as Company Secretary of Sunset Energy Limited.
2. On 1 July 2010, Mr Adrien Wing was appointed Company Secretary of Sunset Energy Limited.
3. On 1 July 2010, the Group issued the remaining 6,651,706 ordinary shares pursuant to a placement of 16,042,000 shares at $0.085.
4. On 6 July 2010, the Group announced a non-renounceable rights issue of 1 for 2 at $0.015 per option to raise up to $922,426. The proceeds from the rights issue will be used towards working capital of the Group's production activities in California, USA and exploration of its South African and Texas, USA projects. The offer was subsequently completed 4 August 2010. Shortfall relating the Offer was closed out on 2nd September 2010. In total, the Company issued 64,222,171 options.
5. At the EGM held 18 August 2010 approval was received by shareholders for the issue of "Director Options" to Mr Paul Bilston pursuant to a condition in the Bundu Oil & Gas Exploration (Pty) Ltd share sale agreement and the ratification for the placement of 16,042,000 ordinary shares and the issue of 2,727,133 options to Redhill Capital Partners.

The Directors are not aware of any other matter or circumstances that has arisen since 30 June 2010 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.

28. COMMITMENTS FOR EXPENDITURE

The Group is committed to a 50% share of well expenditure with its joint venture partner, Solimar Energy Limited. Other than below, the directors are not aware of any other commitments for expenditure for the financial year ended 30 June 2010.

The Group has entered into office premises lease in Melbourne VIC. This lease has a life of 6 months with a 3 month notice clause. There are no restrictions placed upon the lessee by entering into these leases.
Future minimum rentals payable under the lease as at 30 June are as follows:

	Consolidated	
	2010	**2009**
	$	**$**
Within one year	14,388	-
After one year but not more than five years	-	-
More than five years	-	-
	14,388	-

29. 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.

DIRECTORS' DECLARATION

1. The directors of the Group declare that:
   a. the financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:

      i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year then ended; and

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

   b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

   c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2010.

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

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Mr Paul Bilston
Managing Director

23 September 2010

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 statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the consolidated entity as set out on pages 19 to 51. The consolidated entity comprises the company and the entities it controlled at the year's end 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 the consolidated financial statements of the Sunset Energy Limited group and the separate financial statements of Sunset Energy Limited comply 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 control relevant to the company'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 company's internal control. 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 opinions.

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HLB Mann Judd

Accountants | Business and Financial Advisers

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 consolidated entity's financial position as at 30 June 2010 and of its performance for the year 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 statements also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report
We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2010. 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 2010 complies with section 300A of the *Corporations Act 2001*

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

Perth, Western Australia
23 September 2010

N G NEILL
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 1 September 2010:

Shareholder	Number
Serec Pty Ltd	16,227,764
Farm 1342 Pty Ltd	14,227,764

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
30 June 2010 option - $0.10	3,500,000	3
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
30 June 2012 options - $0.10	2,000,000	Mr David Prentice
30 June 2012 options - $0.10	1,000,000	Mr Michael Fry
30 June 2012 options - $0.10	500,000	Mr David Morris

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

Class of Equity Security	Number	Holder
30 June 2012 option - $0.20	8,113,882	Serec Pty Ltd <Family A/C>

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

There are 380 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are 118 holders of options exercisable at $0.20 expiring 30 June 2012.
There are a total of 39,454,050 listed options and 8,500,000 unlisted options on issue. Each shareholder is entitled to one vote per share held upon exercise.

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'd.)

4. *Distribution schedule of the number of holders in each class of equity security as at 1 September 2010.*

Distribution	Holders of Ordinary Shares	Holders of Listed Options
1-1,000	7	1
1,001 - 5,000	23	9
5,001 – 10,000	61	12
10,001 - 100,000	161	44
100,001 and over	128	52
TOTALS	380	118

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 1 September 2010) is as follows:

Ordinary Shares

Name	No. Of Ordinary Shares	%
Serec Pty Ltd <Family A/C>	16,227,764	13.19%
Farm 1342 Pty Ltd	14,227,764	11.57%
Ravenhill Investments Pty Ltd <House of Equity A/C>	4,500,000	3.66%
Bodie Inv Pty Ltd	3,780,000	3.07%
Karakoram No2 Pty Ltd <S/F A/C>	3,708,500	3.02%
Tamlib Inv Pty Ltd	3,606,170	2.93%
Brandfort Cap Corp	3,606,170	2.93%
Sinclair Petroleum Eng Investments	3,606,170	2.93%
Bilston Paul & Susan <Family A/C>	3,400,000	2.76%
Hawthorn Grove Investment Pty Ltd	3,386,667	2.75%
Prals Pty Ltd	3,101,765	2.52%
Dalny Pty Ltd	2,600,000	2.11%
JMN Services Pty Ltd	2,500,000	2.03%
Kelfield Investments Pty Ltd	2,365,807	1.92%
Ausepen Pty Ltd	2,000,000	1.63%
Redhill Partners PTE Ltd	1,400,000	1.14%
Equity Trustees Ltd <Lowell Res Fund A/C>	1,200,000	.98%
Pitt Street Absolute Return Fund	1,200,000	.98%
Hixon Pty Ltd	1,182,283	.96%
UBS Wealth Management Aust Nominee	1,110,268	.90%
Total	**78,709,328**	**63.98%**

6. Twenty largest holders of each class of quoted equity security (Cont'd)

Listed Options

Name	No. Of Options	%
Serec Pty Ltd <Family A/C>	8,113,882	20.57%
Farm 1342 Pty Ltd	5,563,882	14.10%
Ravenhill Investments Pty Ltd <House of Equity A/C>	2,250,000	5.70%
Karakoram No2 Pty Ltd <S/F A/C>	1,854,250	4.70%
Tamlib Inv Pty Ltd	1,803,085	4.57%
Brandfort Cap Corp	1,803,085	4.57%
Bilston Paul & Susan <Family A/C>	1,700,000	4.31%
JMN Services Pty Ltd	1,100,000	2.79%
Arbon Michael & Anne <S/F A/C>	950,000	2.41%
Kelfield Investments Pty Ltd	742,904	1.88%
Equity Trustees Ltd <Lowell Res Fund A/C>	600,000	1.52%
Pitt Street Absolute Return Fund	600,000	1.52%
Mr Michael John Fry	525,000	1.33%
Walker Matthew Donald	500,000	1.27%
McElroy Brad	500,000	1.27%
Krause Russell Henry	500,000	1.27%
Three Zebras Pty Ltd	450,000	1.14%
Hillstowe Holdings Pty Ltd <Vogel Super Fund>	442,500	1.12%
Kelfield Investment Pty Ltd	440,000	1.12%
Kartel Tom	361,471	.92%
Total	**30,800,059**	**78.08%**

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)

C. OTHER DETAILS

1. Company Secretary

The name of the company secretary is Adrien Wing.

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 has no restricted securities on issue.

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 13 AUGUST 2010

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**

Cranemere Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Karoo Basin	**1,040,000**	**100%**	**Application**

Thelma I Project

Location	*Gross Acreage*	*Working Interest*	*Status*
• **Ruston-Savango**	• **16,000**	**100%**	**Committed**

Triple Crown Project

Location	*Gross Acreage*	*Working Interest*	*Status*
• **Edwards County**	• **45,000**	**80%**	**Committed**