30 January 2009

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ASX : SEY

SECOND QUARTER ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2008

HIGHLIGHTS

Maricopa

- Oil production from Maricopa #6 and #7 wells has been averaging above 40 BOPD
- Work commenced on a possible re-entry of an existing (historic) well bore with the aim of re-establishing production
- Maricopa acreage increased from 40 to 120 acres which will provide further drilling opportunities
- Further drilling opportunities will be assessed during the first half of calendar 2009

Silverthread

- Electric logging of the Nesbitt #5 well identified approximately 800 feet of potentially oil-bearing section. Approximately 500 feet of this potentially oil-bearing section was perforated and tested
- Significantly differing qualities of oil over the testing period, which ranged from an estimated 13° to 30° API gravity, potentially indicating several different oil formations
- Acid treatment program has been developed and is being considered for the March quarter 2009

Deer Creek

- Leasing is continuing at this project with approximately 313 net acres already leased

Aliso Canyon

- Sesnon Fee # 7 Redrill No.1 plugged and abandoned

Sales Production

- During the December quarter, a total of 3,397 barrels of oil were sold from the Maricopa Project, an increase of 32.5% on the previous quarter

DRILLING AND DEVELOPMENT PROGRAM

During the Quarter Sunset Energy Limited ("Sunset Energy" or "the Company") (ASX:SEY) continued with its joint venture and operating partner Solimar Energy Limited ("Solimar Energy") (ASX:SGY) to explore and develop its assets in California.

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

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

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

It is anticipated that the joint venture will drill either a re-entry well or a new well in the first half of calendar 2009, where the current oil price economics support such drilling activity. The Company expects the Maricopa Project to provide a growing long-term production stream for many years as production from other wells in this area have been stable.

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

During the December quarter, a total of 3,397 barrels of oil were sold to Kern Oil & Refining Co. from the Maricopa Project. The average price of oil sold in the December quarter was about US$49.0 per barrel, although current oil prices are below US$40 per barrel which will impact the current quarter's revenues.

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

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

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

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

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

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

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

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

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

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

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

CORPORATE

On 3 December 2008, Sunset Energy announced a non-renounceable Rights Issue of New Shares at an issue price of $0.05 per share on the basis of one share for every two held at the record date raising up to $718,750 before costs. The Offer was subsequently closed on 5 January 2009, raising a total of $204,291.18 and the Directors have agreed (subject to appropriate documentation) to place the shortfall in accordance to section 1.9 of the Offer Document dated 3 December 2008.

Yours faithfully

David Prentice
Director

Rule 5.3

Appendix 5B

Mining exploration entity quarterly report

Name of entity

SUNSET ENERGY LIMITED

ABN

45 123 591 382

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

			Current quarter $A'000	Year to date (6 months) $A'000
Cash flows related to operating activities				
1.1	Receipts from sales		255	255
1.2	Payments for	(a) exploration and evaluation	(713)	(1,291)
		(b) development	-	-
		(c) production	(183)	(183)
		(d) administration	(72)	(201)
1.3	Dividends received		-	-
1.4	Interest and other items of a similar nature received		3	25
1.5	Interest and other costs of finance paid		-	-
1.6	Income taxes paid		-	-
1.7	Other (GST)		-	-
	Net Operating Cash Flows		(710)	(1,395)
	Cash flows related to investing activities			
1.8	Payment for purchases of:	(a)prospects	-	-
		(b)equity investments	-	-
		(c) other fixed assets	-	-
1.9	Proceeds from sale of:	(a)prospects	-	-
		(b)equity investments	-	-
		(c)other fixed assets	-	-
1.10	Loans to other entities		-	-
1.11	Loans repaid by other entities		-	-
1.12	Other (provide details if material)		-	-
	Net investing cash flows		-	-
1.13	Total operating and investing cash flows (carried forward)		(710)	(1,395)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(710)	(1,395)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share issue	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(710)	(1,395)
1.20	Cash at beginning of quarter/year to date	863	1,540
1.21	Exchange rate adjustments to item 1.20	37	45
1.22	**Cash at end of quarter**	190	190

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

		Current quarter $A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	64
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees

Non-cash financing and investing activities

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

None

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

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available $A'000	Amount used $A'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

Estimated cash outflows for next quarter

		$A'000
4.1	Exploration and evaluation	50
4.2	Development	50
	Total	**100**

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter $A'000	Previous quarter $A'000
5.1	Cash on hand and at bank	190	863
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
	Total: cash at end of quarter (item 1.22)	190	863

Changes in interests in mining tenements

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

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current quarter

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

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	**Preference +securities** *(description)*				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	**+Ordinary securities**	28,750,001	21,150,001		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	**+Convertible debt securities** (*description)*				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	**Options** *(description and conversion factor)*	5,000,000	-	**Exercise price** $0.20	**Expiry Date** 30/09/2010
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	**Debentures** *(totals only)*				
7.12	**Unsecured notes** *(totals only)*				

+ See chapter 19 for defined terms.

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).

2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: 30 January 2009
(Company secretary)

Print name: Cecilia Chiu

Notes

1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.

2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.

3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.

4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.

5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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