



sunset energy Ltd

22 December 2009

Manager Announcements
Company Announcements Office
Australian Securities Exchange Limited
4th Floor, 20 Bridge Street
Sydney NSW 2000

Sunset Energy Set to Acquire Significant Oil & Gas Assets in South Africa

Highlights

- **Sunset Energy to acquire 100% interest in approximately 2,276 square kilometres of highly prospective projects in South Africa**
- **Thelma Project structure could contain up to 25 Million Barrels of oil in place**
- **Core testing at the Thelma Project to commence in the 1st Quarter of calendar 2010**
- **Exploration well drilled at the Cranmere Project in the late 1960's tested at approximately 8 MMcf/day of gas from shale**
- **Mr Paul Bilston to be appointed as Managing Director**
- **Placement of A\$1.2 million to be undertaken to fund initial test work and to provide working capital**

The Board of Directors is pleased to advise that Sunset Energy Limited ("Sunset Energy" or "the Company") has entered into a share sale agreement ("Share Sale Agreement") with Bundu Gas and Oil Exploration (Pty) Limited ("Bundu") (a company registered in South Africa) to acquire all of the issued shares in the capital of Bundu.

Bundu holds 100% of the exploration permits and applications covering approximately 2,276 square kilometres of highly prospective acreage in South Africa. This comprises the Thelma Project, an oil and gas exploration project located in the northeast edge of the northern Karroo Basin of South Africa (and includes the Thelma 2 project application) and the Cranmere project located in the Eastern Cape Province, north of the port city of Port Elizabeth.

The Share Sale Agreement is subject to and conditional upon a number of conditions precedent, including but not limited to the Company obtaining all shareholder, regulatory and other consents and approvals; and the parties obtaining all necessary governmental consents and approvals in South Africa; including approval of the Petroleum Agency of South Africa.

Project Overview

Summary

Bundu holds oil and gas rights to the Thelma Project where an oil discovery was made during 1968. Historical engineering evaluations indicate recoverable reserves of 1.7 to 6 million barrels of oil from approximately 17 million barrels of oil in place. Subsequent reports from the Geological Survey of South Africa indicate that the structure could contain up to 25 million barrels of oil in place, with correspondingly higher recoverable reserves.

Bundu has also lodged applications on the Cranmere Project, a significant shale gas prospect located in the Eastern Cape Province where drilling during 1968 produced a gas flow rate of up to 8 million cubic feet of gas per day during drill stem testing. After initial testing, the well was plugged and abandoned and no further exploration work has been carried out on the project area since that time. Cranmere covers approximately 346 square kilometres and geological interpretation indicates that it covers a strategically important portion of a very substantial shale gas basin where recent activity has been seen Chesapeake, Statoil, Sasol and Falcon Oil & Gas making applications for exploration permits.

Thelma Project (80 square kilometres)

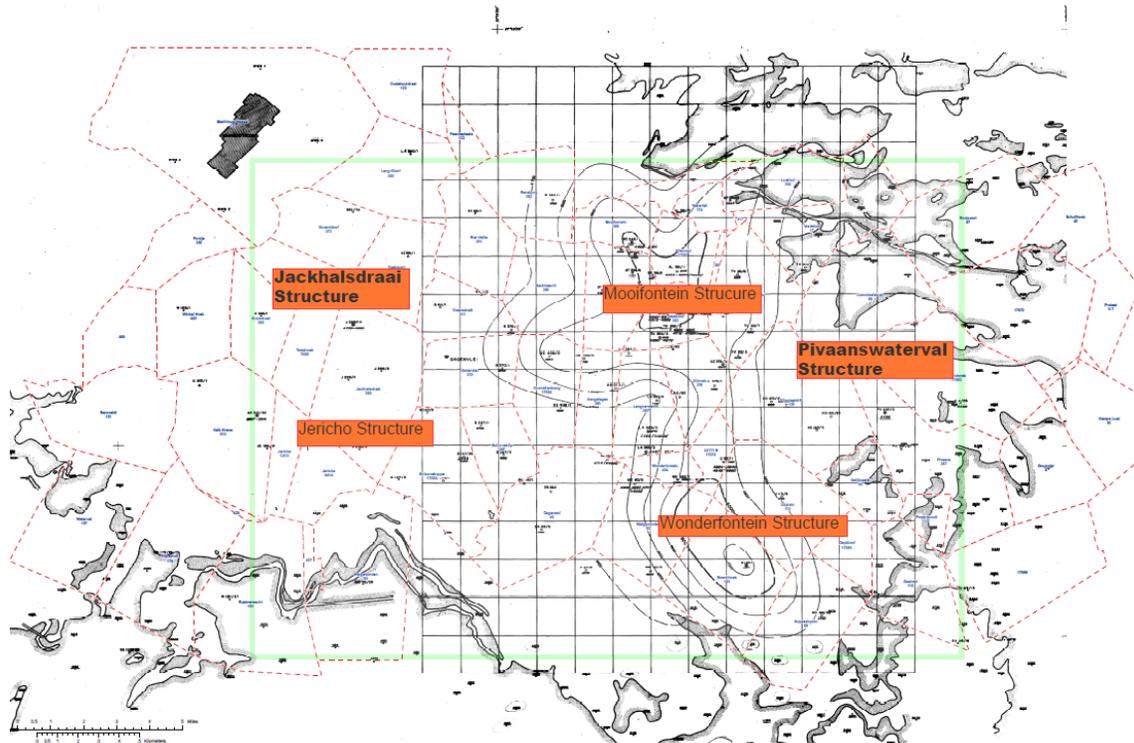
The Thelma Project is a shallow oil prospect located on the well documented Ruston-Sevango dome in the Danhauser area on the northeast edge of the northern Karroo Basin of South Africa. The prospect covers about 2.6 km² of the 80km² project area. The dome is a draping of Ecca age sediments over a paleo-relief high and has a well defined closure of about 30 metres.



Above: Core recovered from Thelma drilling

Previous engineering evaluations indicate recoverable reserves of 1.7 to 6 million barrels of oil. Government geologic reports suggest that the structure could be at least twice as large, thereby containing more than 25 million barrels of oil in place with correspondingly higher recoverable reserves. The primary objectives of this project are the Mid-Lower Ecca Sandstones found at depths of 90 to 180 metres. The project is easily accessible and is located within a few miles of an oil pipeline that runs directly to an oil refinery. This refinery is dependent on imported crude and it is currently operating at less than full capacity.

The project is located on a well-defined geologic structure with approximately 30 metres of closure, and approximately 27 metres of oil column. Government geologic reports suggest that the target sands are present over most if not all of this structure. Previous geologic work indicates that the Mid-Ecca sand is approximately 18 metres thick, the Lower-Ecca is 14 metres thick, and the lowermost sand is 5.5 metres thick. In a corehole well drilled on the edge of this structure (the RU-1/73 well, see below) the upper sand appears to be oil-saturated based on core analyses and the lower sand appears to have 5.5 metres of oil saturated sand. In addition to these two zones, drilling records indicate the deepest zone at 180 metres is oil-bearing also, and a “large show of oil” was reported in it when drilled. Independent laboratory studies show that the oil in this area is 30-38° API gravity, with most tests showing higher values.



Above: Licence Area and Identified Structural closes of the Thelma Project

This well-delineated geologic structure is defined by approximately a dozen corehole tests drilled by the Government Geologic Survey while exploring for coal in 1925. In addition to these core holes, the RU-173 well was drilled in 1973 by Soekor, the government oil company. This well was cored and logged but no completion attempt was made in spite of the excellent oil shows described above. The state’s report points toward low permeability values as the reason no completion attempt was made. This report shows permeability values ranged from zero to 0.26 md, with porosity values of 6% to 12%, with an average of 9.26% porosity in the Upper and Mid-Ecca sandstones. A small section of the lowermost zone at 590’ was cored and analysis indicated 11.9% to 13.9% porosity with 0.26 to 6.1 md of permeability. It should be noted that the above core analyses were done by the state in their mobile lab on the drill site location. This same report states that Core Laboratories, a U.S. company, conducted separate tests of the same cores. These studies indicate much higher permeability than those established by Soekor.

address Level 2, 79 Hay Street, Subiaco WA 6008
postal address PO Box 1424, West Perth WA 6872
telephone + 61 8 9200 4472 **facsimile** +61 8 9200 4476
email admin@sunsetenergy.com.au
website www.sunsetenergy.com.au

Thelma 2 (1,850 square kilometres – under application)

Oil occurs in the middle Ecca sandstones in two main structures known as the Jackhalsdraai structure or “dome” in the western part of this area and the double-crested “Mooifontein-Wonderfontein” anticlinal structure to the east. It is also present in a number of boreholes on the flanks of or off these structures.

Most of the oil shows found to date have been between the coal seams, especially between the Alfred and Eland seams, or sometimes above them. Minor traces of oil and occasional gas shows have been found in the lower Middle Ecca. Many of the boreholes were drilled by coal mining companies, and most were stopped just below the coals. Only a few of the boreholes-drilled by the state oil and gas company Soekor- penetrated to basement.

Cranmere (346 square kilometres - under application)

The Cranmere Prospect is located in the Eastern Cape Province, north of the port city of Port Elizabeth. Geologically, the prospect is in the deep part of the southern Karroo Basin and just north of the Cape Fold Belt.

This prospect is set up by the CR 1/68 well drilled by the South African state oil and gas company, SOEKOR, in 1968. This well was the first well to be drilled in this part of the Karroo basin and was designed primarily to evaluate the Bokkeveld sediment at their northern limits. While drilling this well, SOEKOR encountered numerous gas shows (fairly common in the Karroo basin), but one of particular note at about 8300 feet where “a considerable volume of high pressure gas was encountered and the well attempted to blow out.”

The Blowout Preventers were engaged and the well began to flare gas. The operator recorded rates in excess of 8 million cubic feet per day and eventually killed the well with 10.5 pound mud. After testing the well, SOEKOR discounted the gas from the fractured shale and continued drilling to total depth.

Although the presence of gas in the Cranmere area has been known for over forty years, it has been assumed that the gas shows in the area test wells were from small fractured, high pressure shale reservoirs that contained limited and non-commercial amounts of gas. With the advent of commercial gas production from carbonaceous shale’s in the U.S., the oil and gas industry has gained a greater understanding of the commercial potential of shale’s. Bundu considers that the gas shows encountered in the CR 1/68 well are encouraging and must be further explored.



Above: Cranmere Project – Gas Flare 1968

The Cranmere Project was identified and applied for prior to any other substantial applications being made within South Africa on shale oil prospects. Recently, Chesapeake, Statoil, Sasol and Falcon Oil & Gas have all lodged significant applications within South Africa over areas that are prospective for unconventional shale gas.

Appointment of Managing Director

The Board of Sunset Energy is also pleased to announce that it has resolved to appoint Mr Paul Bilston as Managing Director of the Company, subject to settlement of the Share Sale Agreement.

As a qualified engineer, Paul 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, GHD, AGL Energy and the AJ Lucas Group. Within Worley and GHD his roles included engineer, project management, project development, and importantly Paul was involved with the development of a number of projects for clients such as Santos, Origin Energy, Exxon Mobil, Oilsearch and OMV.

In recent years Paul has worked extensively in the unconventional hydrocarbon space in Australia and Overseas, with AGL Energy where he was involved with the acquisition and ultimately management of AGL's interests in Sydney Basin, Moranbah Gas project, as well as a significant involvement with the PNG Gas Project. Most recently he was working for the AJ Lucas Group where he managed the exploration, appraisal and ultimately the disposal of the Gloucester Gas Project which was sold (by AJ Lucas Group and Molopo Limited) in December 2008 to AGL Energy for \$370 million.

address Level 2, 79 Hay Street, Subiaco WA 6008
postal address PO Box 1424, West Perth WA 6872
telephone + 61 8 9200 4472 **facsimile** +61 8 9200 4476
email admin@sunsetenergy.com.au
website www.sunsetenergy.com.au

The Board is very excited to have attracted a person of Paul's ability to Sunset Energy. Paul 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.

Placement

It is a condition of the Share Sale Agreement that the Company raises at least \$1 million as additional capital to be applied towards Bundu's work program for the Thelma Project. As a result, and subject to shareholder approval, the Company intends to undertake a proposed placement of 10,000,000 fully paid ordinary shares in the capital of the Company ("Shares") ("Placement Shares") to clients of Chess Capital Partners Limited and Melbourne Capital Limited at an issue price per Placement Share of \$0.12 to raise \$1,200,000 (before costs) ("Placement").

Share Sale Agreement

Consideration

The Company will issue 48,474,038 Shares ("Consideration Shares") to the Vendors in proportion to their respective interest in Bundu. None of the Vendors will receive greater than a 20% interest in the Company, nor will any of them be related parties of the Company. The Consideration Shares will be subject to a voluntary escrow period of 12 months from the date of issue.

Conditions Precedent

The Share Sale Agreement is subject to and conditional upon the following conditions precedent ("Conditions Precedent") being satisfied on or before 16 March 2010:

- (a) the Company being satisfied with the result of its due diligence investigations in relation to Bundu and the validity of Bundu's rights in respect of the Thelma Project and applications for the proposed Thelma 2 and Cranmere projects;
- (b) the Company raising at least \$1 million (after costs) to be applied towards Bundu's work program for the Thelma Project;
- (c) the Company obtaining all shareholder, regulatory and other consents and approvals;
- (d) the parties obtaining all necessary governmental consents and approvals, including but not limited to the approval of the Petroleum Agency of South Africa; and
- (e) Bundu confirming that the terms of the Share Sale Agreement comply with the requirements of the Black Economic Empowerment Charter applying to Bundu.

Settlement

Settlement of the Share Sale Agreement ("Settlement") will occur on that date which is 5 business days following satisfaction of the above Conditions Precedent.

Capital Structure

The effect of the share sale pursuant to the Share Sale Agreement on the capital structure of the Company (on an undiluted basis) can be summarised as follows:

Shares	Number
Shares on issue as at the date of this Notice	48,474,037
Shares to be issued to the Vendors	48,474,038
Issue of Placement Shares pursuant to Placement	10,000,000
Total Shares	106,948,075

Options	
Options on issue	
- Exercisable at \$0.20 each on or before 30/9/2010	5,000,000
- Exercisable at \$0.10 each on or before 30/6/2012	3,500,000
Options to be issued to Mr Bilston	
- Director A Options (Exercisable at \$0.25 each)	2,000,000
- Director B Options (Exercisable at \$0.35 each)	2,000,000
Total Options	12,500,000

Indicative Timetable

Subject to the ASX Listing Rules and Corporations Act requirements, the Company anticipates completion of the Share Sale Agreement in accordance with the following timetable (which is subject to change by the Company):

Event	Date
General Meeting	10 February 2010
Issue of Placement Shares	28 February 2010
Satisfaction/waiver of all conditions in Share Sale Agreement	16 March 2010
Settlement of Share Sale Agreement	23 March 2010

The Company is currently preparing a Notice of Meeting, which will be dispatched to shareholders in the coming weeks.



Mr David Prentice
Executive Director
SUNSET ENERGY LIMITED

Forward Looking Statements

This announcement contains “forward-looking statements”. Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil & gas prices and foreign exchange rate movements; estimates of future oil & gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil & gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company’s plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company’s Annual Reports, as well as the Company’s other filings. The Company does not undertake any obligation to release publicly any revisions to any “forward looking statement” to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.