Sunset Energy Limited

(ACN 123 591 382)

Financial Report

For the period from 27 January 2007 to 30 June 2008

CONTENTS

CORPORATE DIRECTORY

NON EXECUTIVE CHAIRMAN
Michael Fry

EXECUTIVE DIRECTOR
David Prentice

NON-EXECUTIVE DIRECTOR
David Morris

COMPANY SECRETARY
Cecilia Chiu

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AUDITORS
HLB Mann Judd
Chartered Accountants
15 Rheola Street
WEST PERTH WA 6005

SHARE REGISTRY
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770 Canning Highway
APPLECROSS WA 6153
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STOCK EXCHANGE LISTING
Australian Stock Exchange
(Home Exchange: Perth, Western Australia)
ASX Codes: Ordinary shares SEY

BANKERS
Commonwealth Bank of Australia
150 St Georges Terrace
PERTH WA 6000

WEBSITE
www.sunsetenergy.com.au

DIRECTORS' REPORT

The Directors submit their report for the financial period ended 30 June 2008. 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 since the incorporation until the date of this report are as follows. Directors were in office for the entire period 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.

David Prentice Grad. Dip BA, MBA – Executive Director (appointed 13 August 2007)
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
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 is a member of the Australian Institute of Company Directors.

David Parker B.Comm SA Fin - Non-Executive Director (resigned 13 August 2007) & Company Secretary (resigned 10 December 2007)
Mr David Parker has completed a Bachelor of Commerce at Curtin University, is a Senior Associate of the Financial Services Institute of Australasia and is currently completing a Graduate Diploma in Applied Corporate Governance with Chartered Secretaries Australia.

Mr David Parker worked as a business analyst in London between 1999 and 2000, then worked for a national broking firm between 2001 and 2004. Mr Parker joined Delta Securities in 2004 as a member of the corporate department and as an Investment Manager. Mr David Parker is the company secretary of ASX listed Windy Knob Resources Limited and Pacific Ore Limited.

DIRECTORS' REPORT (CONT.)

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 (formerly known as Liberty Gold NL)	19 July 2005 to date
	Red Fork Energy Limited	20 April 2004 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	14 January 2005 – 28 November 2007
	Gleneagle Gold Limited	18 February 2003 - 4 March 2008
David Morris	-	-
David Parker	Pacific Ore Limited (formerly known as Trajan Minerals Limited)	9 February 2007 -29 November 2007

Company Secretary

The following persons have held the position of company secretary during or at the end of the financial period:

David Parker B.Comm SA Fin (resigned 10 December 2007)

Cecilia Chiu CPA (appointed 10 December 2007)

Ms Chiu was appointed Company Secretary on 18 December 2007. 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 ("Company" or "Sunset Energy") is a public company listed on the ASX (Code: SEY) and is incorporated and domiciled in Western Australia.

Nature of operations and principal activities

Sunset Energy Limited is an oil and gas exploration and production company whose primary purpose is to secure, find, develop, produce and sell hydrocarbons.

Employees

Sunset Energy Limited has no employees. The operations of the Company (including exploration, development, production, engineering, land administration and general administration) are managed by its joint venture partner, an ASX listed entity Solimar Energy Limited.

OPERATING AND FINANCIAL REVIEW

Overview

The Company was incorporated on 23 January 2007 and listed on the ASX on 7 November 2007, raising $3,000,000 in an Initial Public Offering.

The Company was established for the primary purpose of acquiring an interest in energy assets in the United States, principally in California. Upon listing, the Company acquired a 50% Working Interest in two projects, the Maricopa Project and Deer Creek Project. Both projects are located in the San Joaquin Basin.

During the period, the Company (together with its Joint Venture partner Solimar Energy Limited (ASX Code: SGY) ("Solimar Energy") commenced the exploration and development of the Maricopa Project (SEY 50% Working Interest). The first well at Maricopa (the Wellington Maricopa #6) was successfully drilled with the well reaching a total depth of 3.350 feet.

Electric logging indicated a potential oil pay of approximately 130 feet in the primary Contact Sand objective. Casing was run and the well was completed as a producer.

On 29 April 2008, the Company announced the successful testing of the Wellington Maricopa #6 well, which produced oil at an average daily rate of 35 barrels of oil per day. Electronic logging has indicated that the oil and gas being produced is potentially over a 130 feet net pay interval in the Contact Sand objective from 3,370 feet to 3,550 feet.

The successful production and sale of oil from the first well at the Maricopa Project resulted in the decision to proceed with a follow-up well (the Wellington Maricopa #7), with the well expected to be spudded in the fourth quarter of calendar 2008.

Additional follow-up locations in the Project have also been identified, including approximately up to 3 vertical well locations and possibly 2 horizontal locations. The Company has also increased their acreage from 40 to 120 acres providing an additional 80 acres that may have further potential for subsequent follow-up drilling.

At Deer Creek, work continued during the period on leasing. As outlined above, the Company holds a 50% interest in this project with Solimar Energy which holds the other 50% interest and is the operator.

In addition, the Company entered into an agreement with its partner Solimar Energy to acquire an interest in a new project in California (the Silverthread Project). The Company acquired 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.

On 7 May 2008, the first well at Silverthread, the Nesbit #5 was spudded. The well reached target depth of 7,134 feet on 31 May 2008. On the 3 June 2008, the Company announced that wireline logs had been obtained across the Saugus Sandstone reservoir at around 3,200 to 4,000 feet (measured depth) and the Upper and Lower Mohnian Sandstone (Monterey Formation) reservoir at around 7,000 feet. Wireline logging results and initial core examination indicated that the Saugus Formation was hydrocarbon bearing and the Upper and Lower Mohnian Sandstones were non-hydrocarbon bearing. The well encountered approximately 800 feet of potentially oil bearing section in the Saugus Formation. The net hydrocarbon column was estimated at approximately 280 feet.

The well was perforated over some 500 feet and early analysis indicates this area appears to include several productive oil layers as well as several unproductive layers which may include some water zones. The testing has thus yielded mixed results. The well has retrieved significantly differing qualities of oil over the past weeks of testing, which ranged from an estimated 13 to 30 deg API, potentially indicating several different oil formations. More detailed petrophysical evaluation is being planned before the well is stimulated for additional testing.

The Company also commenced selling oil during the period with gross proceeds amounting to approximately A$96,821.

Future Strategy

The Company is working to develop conventional oil and gas formations on its holdings in California in the United Sates. 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 partner (Solimar Energy), provides the Company with a significant competitive advantage. With the project acquisition program completed and with production success at Maricopa, the Company is focused on building on its production and cash flow by exploiting the potential of its acreage through drilling and development.

OPERATING AND FINANCIAL REVIEW (CONT.)

Financial position
The Company has cash funds on hand of $1,540,620 at period-end. The Company has been successful in the discovery and production of oil and gas and has established a highly prospective exploration portfolio in the Midway-Sunset Oil Field, California, U.S.A.

Operating results for the period
Sunset Energy participated in the exploration and production of oil and gas in the Midway-Sunset Oil Field, California, U.S.A.

FINANCIAL RESULT
The operating results for the financial period ended 30 June 2008 for the Company was an after tax loss of $312,551.

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 as a focused North American oil & gas exploration company.

The following summary of events marks significant milestones in the state of affairs of the Company during the financial period:

1. On 6 August 2007, the Company entered into an Exploration Agreement with Solimar Energy LLC, a wholly owned subsidiary of ASX listed entity Solimar Energy Limited to earn in a 50% interest on leases acquired and wells drilled within each of the Maricopa Prospect and Deer Creek Prospect by funding 100% of the exploration and development costs of two exploration wells, one well being drilled on each of the respective Prospects.

2. On 7 November 2007, the Company completed the Initial Public Offering process and successfully listed on Australian Stock Exchange (“ASX”). Under the Offer, the Company raised $3,000,000 of new equity capital by the issue of 15,000,000 fully paid ordinary shares at $0.20 each.

3. On 18 May 2008, the Company announced that it has entered into an agreement to acquire a 20% working interest in the Silverthread Project located in the prolific Ojai oil and gas producing areas of the Venture Basin, about 100km northeast of Los Angeles, California, United States. The Company has paid a non-refundable US$250,000 prospect fee to secure the working interest.

4. On 16 June 2008, the Company issued 3,750,000 fully paid ordinary shares at $0.20 raising $750,000, before costs of capital raising, to fund working capital of ongoing oil and gas exploration and development activities at the Maricopa and Silverthread projects in the San Joaquin Basin, California.

AFTER BALANCE DATE EVENTS

1. On 11 September 2008, the Company announced that it has agreed (subject to shareholder approval) to place up to 4,000,000 new fully paid ordinary shares at $0.20 per share, to raise up to $800,000 (before costs). This placement will be subject to shareholder approval, to be sought at the Company’s Annual General Meeting to be held on a date to be set in October 2008. Funds raised will be used to provide working capital and fund exploration and development at the Company’s projects in California.

The Directors are not aware of other matter or circumstances that has arisen since 30 June 2008 which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, 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. Whilst the Company has been undertaking primarily exploration activities to date, the addition of oil & gas production either through exploration success or acquisition is a primary objective.

The Company intends to offer investors further exposure to the USA oil and gas industry. The Company aims to achieve this goal through a combination of:

* Advancing exploration on current North American Licence interests.
* Aggressive pursuit of further prospective exploration in its North American interests;
* Reviewing and potentially acquiring other interests in the North American interests; and
* Utilising the Board and management's collective experience and skills to progress any discoveries to commercial production.

Environmental regulations and proceedings

Sunset Energy Limited 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.

REMUNERATION REPORT

Remuneration Policy

The remuneration policy of Sunset Energy Limited 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 Limited 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 Board's policy for determining the nature and amount of remuneration for board members is as follows:

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

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.

The Company 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 Company 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.

REMUNERATION REPORT (CONT.)

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

During the financial period the Company's share price traded between a low of $0.28 and a high of $0.45. 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
David Prentice – Executive Director (appointed 13 August 2007)
David Morris – Non-Executive Director
David Parker – Non-Executive Director (resigned 13 August 2007)

(ii) Executives
There are no executives.

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, 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 period, a benefit because of a contract made by the Company 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 is set out below. The Company has no specified executives.

The value of remuneration received by key management personnel for the financial period to 30 June 2008 is as follows:

2008	**Primary**		**Equity Compensation**	**Post-employment**	
	Base Salary and Fees	**Bonus and Non Monetary Benefits**	**Value of Options**	**Superannuation Contributions**	**Total**
Directors	**$**	**$**	**$**	**$**	**$**
David Prentice	111,400	-	95,624	-	207,024
Michael Fry	39,000	-	13,661	-	52,661
David Morris	19,500	-	13,661	1,755	34,916
David Parker	-	-	13,660	-	13,660
Total	169,900	-	136,606	1,755	308,261

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

(i) In accordance with AASB 2, options issued to Directors during the period 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. The calculation of the option valuation included the share price on 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%.

(ii) During the period ended 30 June 2008, Cobblestone Corporate Pty Ltd, an entity related to former director Mr David Parker received a total payment of $13,750 inclusive of GST for the provision of company secretarial and corporate work to the Company.

(iii) During the financial period, Mr David Parker received $10,750 as placement commission on capital raised through the Company Prospectus by Delta Securities Pty Ltd, a company which Mr David Parker was employed as an authorised representative.

All transactions (ii)-(iii) entered into on normal commercial terms have not been included as part of directors' remuneration.

(c) Compensation Options: Granted and vested during and since the financial period ended 30 June 2008

During and since the financial period ended 30 June 2008, the company granted 5,000,000 options to Specified Directors as disclosed below:

(i) 5,000,000 options expiring 30 September 2010 exercisable at $0.20 (refer note 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 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%. These options have vested immediately.

The following table discloses the value of options granted, exercised or lapsed during the period:

	Options Granted	Options Exercised	Options Lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the period	Percentage of total remuneration for the period that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
Director	$	$	$	$	$	%
Michael Fry	13,661	-	-	13,661	13,661	25.95%
David Prentice	95,624	-	-	95,624	95,624	46.19%
David Morris	13,661	-	-	13,661	13,661	39.13%
David Parker	13,660	-	-	13,660	13,660	100.00%
Total	136,606	-	-	136,606	136,606	

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT.)

(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 Company 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	100,000	500,000
David Prentice (appointed 13 August 2007)	1,500	3,500,000
David Morris	-	500,000
	101,500	4,500,000

(i) Refer to note (c) for terms of options granted to directors.

All options received as remuneration by Directors during the financial period ended 30 June 2008 were granted on 14 September 2007. The exercise price for the options is $0.20 expiring 30 September 2010. All these options have vested immediately.

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 Limited to increase goal congruence between executives, directors and shareholders.

Employment Contracts of Directors and Senior Executives

The Company entered into an agreement with Vista Libera Pty Ltd (a company in which Mr David Prentice is a sole director) on 13 August 2007 under which Vista Libera Pty Ltd will receive a consulting fee of $130,800 per annum exclusive of GST for Mr Prentice's services as an executive director of the company. The Company is obliged to reimburse him for all reasonable expenses incurred by him in performance of his duties.

The initial term of the contract is for a period of 2 years commencing on 13 August 2007. However, the term can be extended by mutual agreement from both parties.

Vista Libera Pty Ltd can terminate the engagement by giving a 3 month notice to the Company. If, during the term, Mr David Prentice is terminated as executive director of the Company, the Company shall pay Vista Libera Pty Ltd an equivalent of the fee that would otherwise be payable to Vista Libera Pty Ltd over a 6 month period if the engagement had not been terminated.

MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial period each director held office and the number of meetings attended by each director are:

	Directors Meetings	
Director	Meetings Attended	Number Eligible to Attend
Michael Fry	2	2
David Prentice	2	2
David Morris	1	2
David Parker	-	-

OPTIONS

At the date of this report the following options over new ordinary shares in the Company were on issue.

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted Options	30 September 2010	$0.20	5,000,000

OPTIONS (CONT.)

No ordinary shares were issued as a result of the exercise of options during or since the financial period ended 30 June 2008.

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 Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as officer, auditor or agent of the Company 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 Company currently has a directors' and officers' liability insurance in place. A total premium of $31,389.57 had been paid for cover period from 13 May 2008 to 30 April 2009. Under the terms of the policy, the Company 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 Company for loss from any US claim and an excess fee of $25,000 for loss from any other company reimbursement claim.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings

The Company was not a party to any such proceedings during the period.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the period ended 30 June 2008 has been received and can be found on page 13 and forms part of the directors' report.

NON AUDIT SERVICES

The Board of Directors is satisfied that the provision of non-audit services performed during the period by the Company's auditors is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reason:

- The nature of the services provided do not compromise the general principles relating to auditors independence as set out in the APES 110 (Code of Ethics for Professional Accountants)

Total other fees paid or payable to the auditors for non-audit services performed during the period ended 30 June 2008 was $5,000 for the preparation of Investigating Accountant's Report.

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

David Prentice
Executive Director

25 September 2008

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 period ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Sunset Energy Limited.

Norman Glade

Perth, Western Australia
25 September 2008

N G NEILL
Partner, HLB Mann Judd

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Corporate Governance Statement

Principle 1:

Lay solid foundations for management and oversight

1.1: Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Board of Directors is responsible for the overall Corporate Governance of the Company including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

The primary responsibilities of the Board include responsibility for:

- oversight of the company, including its control and accountability systems,
- appointing and removing the chief executive officer (or equivalent),
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the company secretary,
- input into and final approval of management's development of corporate strategy and performance objectives,
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance,
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available,
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures,
- approving and monitoring financial and other reporting.

Directors consider that the Company's procedures comply with Principle 1 of the Principles of Good Corporate Governance.

1.2: Companies should disclose the process for evaluating the performance of senior executives.

New senior executives are expected to participate fully and actively in management decision-making at the earliest possible opportunity to ensure appropriate understanding about the Company's financial position, strategies, operations, risks management policies and the respective responsibilities and duties of the Board and senior executives.

Due to the nature and size of the company, the company currently has no senior executives, only directors. The directors responsibilities are outlined in a formal board charter. The directors consider that the Company complies with the intention of Principle 1.2 of the Principles of Good Corporate Governance.

1.3: Companies should provide the information indicated in Guide to reporting on Principle 1

The company does not have senior executives for the reasons outlined in 1.2 above.

Any departures from best practice recommendations 1.1, 1.2 or 1.3 are included in those sections.

Principle 2:

Structure the board to add value

2.1: A majority of the board should be independent directors.

The names of the Directors of the Company in office at the date of this Statement are set out in the Directors' Report.

Directors are appointed based on their experience and on independence of their decision-making and judgement.

In considering the status of directors as independent directors the Company has regard to the following:

An independent director is a non-executive director (ie is not a member of management) and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the company.
- within the last three years has not been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment.
- within the last three years has not been a principal of a material professional adviser or a material consultant to the company or another group member, or an employee materially associated with the service provided.
- is not a material supplier or customer of the company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- has no material contractual relationship with the company or another group member other than as a director of the company.
- has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Having regard to the above criteria, and the particular circumstances of the Company and each director, the Directors consider that 2 directors are independent (David Morris and Michael Fry) and David Prentice as an Executive Director is not independent, therefore the Company complies with Principle 2.1 of the Principles of Good Corporate Governance.

2.2: The chair should be an independent director.
Mr Fry, the Chairman, is a non-executive of the company is considered to be an independent director.
The Company complies with Principle 2.2 of the Principles of Good Corporate Governance.

2.3: The roles of chair and chief executive officer should not be exercised by the same individual.
The functions of a chief executive officer are carried out by the Executive Director, Mr Prentice and the functions of the Chair are carried out by Mr Fry.
The Company complies with Principle 2.3 of the Principles of Good Corporate Governance.

2.4: The board should establish a nomination committee
The Company does not have a formal nomination committee due to the scale and nature of the Company's activities. The whole board meet to consider additional appointments to the Board.
Directors consider that the Company complies with the intentions of Principle 2.4 of the Principles of Good Corporate Governance.

2.5: Companies should disclose the process of evaluating the performance of the Board, its committee and individual directors.
New directors are expected to have a good deal of knowledge about the Company and the industry within which it operates. The Board will be provided full access to information it needs to discharge its responsibilities effectively to ensure all new directors are able to gain an understanding of:

- the company's financial, strategic, operational and risk management position
- the rights, duties and responsibilities of the directors
- the roles and responsibilities of senior executives
- the role of board committees

Directors consider that the company complies with Principle 2.5 of the Principles of Good Corporate Governance.

2.6: Provide the information indicated in Guide to reporting on Principle 2
The skills, experience and expertise relevant to the position of director, held by each director in office at the date of the Annual Report, are disclosed in the Directors' Report included in the Annual Report.
The majority of the directors are considered by the Board to constitute independent directors. The Company does not have fixed materiality thresholds.
Each Director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chair is required. Approval will not be unreasonably withheld.
No directors have fixed terms of office.
The company does not have a nomination committee for the reasons outlined in 2.4 above.
Any departures from best practice recommendations 2.1, 2.2, 2.3, 2.4, 2.5 or 2.6 are included in those sections.
The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. Where a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience.
Directors consider that the company complies with Principle 2.6 of the Principles of Good Corporate Governance.

Principle 3:

Promote ethical and responsible decision-making
3.1: Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:
3.1.1 the practices necessary to maintain confidence in the company's integrity
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.
The Board's policy for the Directors and management is to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.
The Company has adopted specific Code of Conduct which is communicated to all employees and officers of the Company.
Directors consider that the Company complies with Principle 3.1 of the Principles of Good Corporate Governance.

3.2: Establish and disclose the policy concerning trading in company securities by directors, officers and employees.
The policy is as follows:
Directors and senior executives (officers) must not buy or sell shares or securities in the company if they possess information which, if disclosed publicly, might have a material effect on the price or value of the Company's shares.

Directors through the Company Secretary must notify the ASX of any change in their share holdings within 3 business days of the transaction taking place.
The Company maintains a policy that requires all directors to seek the chairman's approval prior to trading in the Companies securities.
No transaction should take place if the directors (or officers) are aware of any information which, if disclosed publicly, might have a material effect on the price or value of the company's shares.
The Company has adopted a share trading policy base upon the ASX listing rules and Good Corporate Governance recommendations. This is communicated to all employees and officers of the Company.

Directors consider that the Company complies with Principle 3.2 of the Principles of Good Corporate Governance.

3.3: Provide the information indicated in Guide to reporting on Principle 3.
This information is provided in this statement.
Directors consider that the Company complies with Principle 3.3 of the Principles of Good Corporate Governance.

Principle 4:
Companies should have a structure to independently verify and safeguard the integrity of their financial reporting
4.1: The board should establish an audit committee.
Due to the company's size and structure at present it is not considered appropriate to have a formal audit committee.
Directors consider that the Company does not comply with Principle 4.1 of the Principles of Good Corporate Governance, however issues ordinarily reviewed by the audit committee are considered by the Board as a whole.

4.2: Structure the audit committee so that it consists of:
- only non-executive directors
- a majority of independent directors
- is chaired by an independent chair, who is not chairperson of the board
- at least three members.

Directors consider that Principle 4.2 of the Principles of Good Corporate Governance is not applicable.

4.3: The audit committee should have a formal charter.
Directors consider that Principle 4.3 of the Principles of Good Corporate Governance is not applicable.

4.4: Provide the information indicated in Guide to reporting on Principle 4.
Directors consider that the company complies with Principle 4.4 of the Principles of Good Corporate Governance to the extent applicable to the Company.

Principle 5:
Make timely and balanced disclosure
5.1: Establish written policies and disclose procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
All directors are required to have a general understanding of the matters that are to be, or not to be disclosed in accordance with the ASX Listing Rules.
All matters concerning compliance with the listing rules are to be reported to the chairman.
The Executive Director has primary responsibility for ensuring that the company complies with its disclosure obligations and is primarily responsible for deciding what information will be disclosed.
The Executive Director and the Company Secretary are responsible for promoting understanding of compliance and monitoring compliance.
Directors are required to maintain confidentiality of corporate information to avoid premature disclosure.
The Executive Director is responsible for media contact and comment, external communications such as analyst briefings and responses to shareholder questions.
Directors consider that the Company complies with Principle 5.1 of the Principles of Good Corporate Governance.

5.2: Provide the information indicated in Guide to reporting on Principle 5.
This information is provided in this statement.
Directors consider that the Company complies with Principle 5.2 of the Principles of Good Corporate Governance.

Principle 6:
Respect the rights of shareholders and facilitate the effective exercise of those rights
6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
Information is communicated to shareholders as follows:
- notices of all meetings of shareholders;

- all documents that are released publicly are made available on the Company's website at www.sunsetenergy.com.au

The Company has adopted a shareholder communications policy.
Directors consider that the company complies with Principle 6.1 of the Principles of Good Corporate Governance.

6.2: Provide the information indicated in the Guide to reporting on Principle 6.
This information is provided in this statement.
Directors consider that the company complies with Principle 6.2 of the Principles of Good Corporate Governance.

Principle 7:

Recognise and manage risk

7.1: The board or appropriate board committee should establish policies on material business risk oversight and management.
The Board monitors and if necessary, receives advice on areas of operational and financial risk, and considers strategies for appropriate risk management arrangements.
Specific areas of risk, which are identified, will be regularly considered at Board meetings include performance of activities, human resources, the environment and continuous disclosure obligations.

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.
Matters of risk management and compliance are currently addressed by the board as a whole at this stage of the development of the Company.
Directors consider that the Company complies with the intentions of Principle 7.2 of the Principles of Good Corporate Governance.

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.
Matters of risk management and internal control systems in relation to financial reporting are currently addressed by the board as a whole at this stage of the development of the Company.
Directors consider that the company complies with the intentions of Principle 7.3 of the Principles of Good Corporate Governance.

7.4: Provide the information indicated in Guide to reporting on Principle 7.
This information is provided in this statement.
The board has not received the report from management under recommendations 7.2 and 7.3 due to the reasons outlined above.
Any departures from best practice recommendations 7.1, 7.2, 7.3 or 7.4 are included in those sections.
Directors consider that the company complies with intentions of Principle 7.4 of the Principles of Good Corporate Governance.

Principle 8:

Remunerate fairly and responsibly

8.1: The board should establish a remuneration committee
At this stage of the development of the Company, the Company does not have a formal remuneration committee in place.
Directors consider that the Company does not comply with Principle 8.1 of the Principles of Good Corporate Governance although this non-compliance is not material due to the limited number of directors / employees.

8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.
The remuneration of each director is set out in the Directors' Report included in the Annual Report.
Directors consider that the Company complies with Principle 8.2 of the Principles of Good Corporate Governance.

8.3: Provide the information indicated in Guide to reporting on Principle 8.
This information is provided in this statement.
Directors consider that the Company complies with Principle 8.3 of the Principles of Good Corporate Governance.

INCOME STATEMENT
For the period ended 30 June 2008

	Note	Period 27 January 2007 to 30 June 2008 $
Revenue		
Sales Revenue		**96,821**
Cost of sales		**(12,102)**
Gross Profit		**84,719**
Other revenue		**70,157**
Depreciation expense		**(2,890)**
Consultants fees		**(34,314)**
Legal and compliance		**(39,464)**
Administration expenses		**(12,911)**
Salaries, directors fees and employee benefits	2	**(308,261)**
Foreign exchange loss		**(1,963)**
Occupancy expenses		**(54,279)**
Exploration expenses incurred		**(13,345)**
LOSS BEFORE INCOME TAX EXPENSE	2	**(312,551)**
Income Tax Benefit / (Expense)	3	**-**
NET LOSS	12	**(312,551)**
Basic loss per share (cents)	17	(2.4)

The accompanying notes form part of these financial statements.

BALANCE SHEET
As at 30 June 2008

	Note	2008 $
CURRENT ASSETS		
Cash and cash equivalents	5	**1,540,620**
Trade and other receivables	6	**162,671**
TOTAL CURRENT ASSETS		**1,703,291**
NON-CURRENT ASSETS		
Property, plant and equipment	7	**11,561**
Deferred exploration and evaluation costs	8	**1,727,137**
TOTAL NON-CURRENT ASSETS		**1,738,698**
TOTAL ASSETS		**3,441,989**
CURRENT LIABILITIES		
Trade and other payables	9	**85,388**
TOTAL CURRENT LIABILITIES		**85,388**
NON CURRENT LIABILITIES		
Provisions	10	**20,822**
TOTAL NON-CURRENT LIABILITIES		**20,822**
TOTAL LIABILITIES		**106,210**
NET ASSETS		**3,335,779**
EQUITY		
Issued capital	11	**3,511,724**
Reserves	13	**136,606**
Accumulated losses	12	**(312,551)**
TOTAL EQUITY		**3,335,779**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the period ended 30 June 2008

	Option Reserves	Issued Capital	Accumulated Losses	Total
	$	$	$	$
At incorporation	-	1	-	1
Equity settled transactions	136,606	-	-	136,606
Loss attributable to members	-	-	(312,551)	(312,551)
Shares issued during the period	-	3,850,000	-	3,850,000
Capital raising costs	-	(338,277)	-	(338,277)
Balance at 30 June 2008	136,606	3,511,724	(312,551)	3,335,779

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT
For the period ended 30 June 2008

	Note	Period 27 January 2007 to 30 June 2008 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers		**-**
Payments to suppliers and employees		**(279,616)**
Interest received		**65,407**
NET CASH FLOWS FROM OPERATING ACTIVITIES	14(a)	**(214,209)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of project		**(510,710)**
Payments for exploration activities		**(1,229,772)**
Payments for property, plant and equipment		**(14,451)**
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(1,754,933)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options		**3,850,001**
Transaction costs on issue of shares		**(338,277)**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**3,511,724**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,542,582**
Cash and cash equivalents at beginning of the period		**-**
Foreign currency translation		**(1,962)**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	14(b)	**1,540,620**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Sunset Energy Limited is a 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 25 September 2008.

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).

In the period from 27 January 2007 to 30 June 2008, the Company has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2007. 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 Company has also adopted the following Standards as listed below which only impacted on the Company's financial statements with respect to disclosure:

- AASB 101 'Presentation of Financial Instruments' (revised October 2006)
- AASB 7 'Financial Instruments: Disclosures'

The Company has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2008. 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 Company'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 Company in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

(b) 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 by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(b) Income Tax (Cont.)

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 each balance sheet date 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 sheet 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 at the balance sheet date.

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.

(c) Exploration, Evaluation and Development 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:

(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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(d) 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 balance sheet date, 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 capitalized 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.

(e) Trade and Other Payables

Trade payables and other accounts payable are recognised when the Company 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.

(f) 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 balance sheet.

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

(g) 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 flow 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.

(h) Foreign Currency Translation

Foreign currency transactions are converted to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable or receivable in foreign currencies are brought to account as exchange gains or losses in the operating result in the financial period in which the exchange rates change.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(h) Foreign Currency Translation (Cont.)

Exchange differences are recognised in profit or loss in the period in which they arise except that:

i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

ii. exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

iii. exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

(i) 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.

(j) Segment Reporting

Individual business segments have been identified on the basis of grouping individual assets with similar risks and returns.

(k) 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 income statement 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 income statement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(l) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(m) 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.

(n) 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.

(o) Interests In Joint Venture

The Company's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the Company's financial statements.

(p) 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 period 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.

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 income statement in the cost of sales line item.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(p) Property, Plant & Equipment (Cont.)

(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.

(q) Impairment of Assets

The Company 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 Company 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.

(r) Share-based payment transactions

Equity settled transactions:

The Company provides benefits to employees (including senior executives) of the Company 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.

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 23.

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).

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(r) Share-based payment transactions (Cont.)

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 Company'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 income statement 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.

(s) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The preparation of the financial statements requires the Company'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 Company assesses impairment at each reporting date by evaluating conditions specific to the Company 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(t) Comparatives

Comparative balances for the Company are not available as it was incorporated during the financial period, on 23 January 2007.

	Period from 27 January 2007 to 30 June 2008 $
2. REVENUES AND EXPENSES	
Oil and gas sales	96,821
Interest received	70,157
(a) Cost of sales	
Production costs	12,102
(b) Employee benefit expense	
Salary and wages	171,655
Director equity-settled payments	136,606
	308,261
(c) Amortisation expense	2,890
(d) Exploration expense incurred	13,345
3. INCOME TAXES	
The prima facie income tax expense on pre-tax accounting loss from operations reconciles to the income tax expense in the financial statements as follows:	
Net loss	(312,551)
Income tax expense calculated at 30%	(93,765)
Add tax effect of:	
Impairment allowance	
Other non-allowable items	
Share based payments	
Effect of lower rate of tax on overseas loss	
Revenue losses not recognised	87,308
Foreign losses not recognised	3,158
Share based payments	40,982
Other non-allowable items	155
	37,838

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

	Period from 27 January 2007 to 30 June 2008 $
3. INCOME TAXES (CONT.)	
Less tax effect of:	
Other deferred tax balances not recognised	17,015
Non-assessable non-exempt net income	20,823
Income tax expense	-

4. DEFERRED TAXES

(a) Deferred Assets

The following deferred tax assets have not been recognised:

Carry forward revenue losses	87,308
Carry forward foreign losses	3,158
Capital raising costs	81,622
Provisions and accruals	3,203
Other	1,069
	176,360

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.

(b) Deferred Liabilities

Deferred Tax Liabilities at 30%:

Other	1,425
	1,425

The above Deferred Tax Liabilities have not been recognised as they have given rise to the carry forward losses for which the Deferred Tax Asset has not been recognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

		As at 30 June 2008 $
5.	**CASH AND CASH EQUIVALENTS**	
	Cash at bank – A$ Accounts	**1,412,758**
	Cash at bank – USD Account	**127,862**
		1,540,620

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

6. TRADE & OTHER RECEIVABLES

Current	
Oil sales receivable	**96,821**
Other debtors and prepayments	**65,850**
	162,671

There are no impaired trade debtors as at 30 June 2008.

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

Leasehold Improvement	
At cost	**14,451**
Amortisation	**(2,890)**
	11,561

8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation costs carried forward in respect of petroleum exploration areas of interest	
Pre-production	
- Exploration and evaluation phases	**1,727,137**
Movement in carrying amounts	
Opening balance	**-**
Expenditure incurred during the period	**1,727,137**
Closing balance	**1,727,137**

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

		As at 30 June 2008 $	
9.	**TRADE & OTHER PAYABLES**		
	Current		
	Trade creditors (a)	**45,921**	
	Employee benefits	**2,364**	
	Other creditors and accruals	**37,103**	
		85,388	
	Aggregate amounts payable to related parties:		
	Directors and director-related entities		
	- directors	**-**	**2 6 9**

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

10.	**PROVISIONS**	
	Non current	
	Rehabilitation costs	**20,822**
	Rehabilitation Costs	
	Balance at beginning of period	**-**
	Additional provision recognised	**20,822**
	Balance at end of period	**20,822**

11.	**ISSUED CAPITAL**	
	Issued and paid up capital	
	28,750,001 Ordinary shares	**3,511,724**

(a)	**Movements in shares on issue**	**As at 30 June 2008 $**	**As at 30 June 2008 Number of Shares**
	At the beginning of the reporting period	**-**	**-**
	Shares issued during the period:		
	- At incorporation	**1**	**1**
	- Promoter shares at $0.01 each	**40,000**	**4,000,000**
	- Seed capital at $0.01 each	**60,000**	**6,000,000**
	- IPO at $0.20 each (1)	**3,000,000**	**15,000,000**
	- Placement at $0.20 each (2)	**750,000**	**3,750,000**
	Share issue costs	**(338,277)**	**-**
	At end of reporting period	**3,511,724**	**28,750,001**

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

11. ISSUED CAPITAL (CONT.)

1. On 7 November 2007, the Company completed the Initial Public Offering process and successfully listed on Australian Stock Exchange ("ASX"). Under the Offer, the Company raised $3,000,000 of new equity capital by the issue of 15,000,000 fully paid ordinary shares at $0.20 each.

2. On 16 June 2008, the Company issued 3,750,000 fully paid ordinary shares at $0.20 raising $750,000 before costs to fund working capital of ongoing oil and gas exploration and development activities at the Maricopa and Silverthread projects in the San Joaquin Basin, California.

Terms and conditions of contributed equity

Ordinary shares
Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Company, 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 Company.

Options over ordinary shares
During the financial period ended 30 June 2008, 5,000,000 options have been issued over ordinary shares, exercisable at $0.20 on or before 30 September 2010. Further details of the terms and conditions of these options are provided in note 11(b) and the Remuneration Report.

(b) Options

(i) At the end of the reporting period, there are 5,000,000 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

During the financial period ended 30 June 2008, no ordinary shares were issued as a result of the exercise of options.

12. ACCUMULATED LOSSES

	Period from 27 January 2007 to 30 June 2008 $
Balance at the beginning of reporting period	-
Net loss for the period	(312,551)
Balance at end of reporting period	(312,551)

13. RESERVES

	Period from 27 January 2007 to 30 June 2008 $
Reserves	
Share based payment reserve	**136,606**
(a) Share based payment reserve	
At beginning of reporting period	**-**
Employee equity settled payments	**136,606**
Balance at end of reporting period	**136,606**

(i) Share based payment reserve is used to record the value of equity benefits provided to the directors as part of their remuneration.

14. CASH FLOW INFORMATION

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

	Period from 27 January 2007 to 30 June 2008 $
Net loss	(312,551)
Non cash items	
Depreciation	2,890
Exploration expense incurred	13,345
Share based payments	136,606
Unrealised foreign losses	1,962
Changes in assets and liabilities	
(Increase)/decrease in receivables	(162,671)
Increase/(decrease) in payables and accruals	85,388
Increase/(decrease) in provisions	20,822
Net cash flows (used in) / from operating activities	(214,209)

(b) Reconciliation of cash:

Cash balances comprises	
- Cash at bank	1,412,758
- US Dollar account	127,862
	1,540,620

(c) Non cash financing and investing activities

No non cash financing and investing activities have occurred during the financial period ended 30 June 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

15. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors

David Prentice– Executive Director (appointed 13 August 2007)
Michael Fry – Non-Executive Director
David Morris – Non-Executive Director
David Parker – Non-Executive Director (resigned 13 August 2007)

(ii) Executives

There are no executives.

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 period, a benefit because of a contract made by the Company 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 is set out below. The Company has 1 executive director.

	Primary		Equity Compensation	Post-employment	
	Base Salary and Fees $	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**TOTAL $**
Directors					
Michael Fry	39,000	-	13,661	-	52,661
David Prentice	111,400	-	95,624	-	207,024
David Morris	19,500	-	13,661	1,755	34,916
David Parker	-	-	13,660	-	13,660
Total 2008	169,900	-	136,606	1,755	308,261

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED
30 JUNE 2008

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

(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. The calculation of the option valuation included the share price on 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%. These options vested immediately on grant date.

(ii) During the period ended 30 June 2008, Cobblestone Corporate Pty Ltd, an entity related to former director Mr David Parker received a total payment of $13,750 inclusive of GST for the provision of company secretarial and corporate work to the Company.

(iii) During the financial period, Mr David Parker received $10,750 as placement commission on capital raised through the Company Prospectus by Delta Securities Pty Ltd, a company which Mr David Parker was employed as an authorised representative.

Item (ii) and (iii) have not been included in directors' remuneration as these fees were not paid to individual directors in relation to the management of the affairs of the Company. All transactions were entered into on normal commercial terms.

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

Financial period ended 30 June 2008

During financial period ended 30 June 2008, the company granted 5,000,000 options to Specified Directors as disclosed below:-

(i) 5,000,000 options expiring 30 September 2010 exercisable at $0.20

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 14 September 2007 of $0.124 discounted at 30% due to lack of marketability, a volatility factor of approximately 60% and an annual risk-free rate of 6.2%. These options have vested immediately.

	Granted Number	Vested Number	Grant Date	Value per Option at Grant Date $	Exercise Price $	First Exercise Date	Last Exercise Date
Directors							
Michael Fry	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Prentice	3,500,000	3,500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Morris	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
David Parker	500,000	500,000	14.09.07	13,601	0.20	14.09.07	30.09.10
	5,000,000	5,000,000					

(d) Shares Issued on Exercise of Compensation Options

No shares were issued on exercise of compensation options during the financial period.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

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

Shares held by Key Management Personnel

Period ended 30 June 2008

	Balance at incorporation	Shares Issued	Options Exercised	Bought & (Sold)	Balance at retirement	Balance at 30.06.08
Directors						
Michael Fry	-	-	-	100,000	-	100,000
David Prentice	-	-	-	1,500	-	1,500
David Morris	-	-	-	-	-	-
David Parker	1	-	-	225,000	225,001	-
	1	-	-	326,500	225,001	101,500

Options Held By Key Management Personnel

Period ended 30 June 2008

	Balance at incorporation	Received as Remuneration	Exercise of Options	Bought & (Sold)	Balance at retirement	Balance at 30.06.08	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
David Parker	-	500,000	-	-	500,000	-	500,000	500,000
	-	5,000,000	-	-	500,000	4,500,000	5,000,000	5,000,000

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 2008 are as described in Note 15 (c) above.

Options issued as Part of Remuneration for the period ended 30 June 2008

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 Limited to increase goal congruence between executives, directors and shareholders.

Employment Contracts of Directors and Senior Executives

No executives are permanent employees of the Company. The Company entered into an agreement with Vista Libera Pty Ltd (a company in which Mr David Prentice is a sole director) on 13 August 2007 under which Vista Libera Pty Ltd will receive a consulting fee of $130,800 per annum exclusive of GST for Mr Prentice's services as an Executive Director of the Company. The Company is obliged to reimburse him for all reasonable expenses incurred by him in performance of his duties.

The initial term of the contract is for a period of 2 years commencing on 13 August 2007. However, the term can be extended by mutual agreement from both parties.

Vista Libera Pty Ltd can terminate the agreement by giving a 3 month notice to the Company. If, during the term, Mr David Prentice is terminated as executive director of the Company, the Company shall pay Vista Libera Pty Ltd an equivalent of the fee that would otherwise be payable to Vista Libera Pty Ltd over a 6 month period if the engagement had not been terminated.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

16. SEGMENT INFORMATION

(a) Primary Segment - Geographical Segments

The Company has the following geographical segments:

United States of America
The United States of America ("USA") is the location of the Company'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.

30 June 2008 Primary Reporting – Geographical Segments	$ **USA**	$ **Australia**	$ **Eliminations**	$ **Total**
Revenues from ordinary activities	**96,821**	**70,157**	**-**	**166,978**
Segment results	**84,718**	**(397,269)**	**-**	**(312,551)**
Segment assets	**1,823,958**	**1,618,031**	**-**	**3,441,989**
Segment liabilities	**32,924**	**73,286**	**-**	**106,210**
Acquisitions of plant and equipment, exploration and evaluation, and other non-current segment assets	**1,706,315**	**-**	**-**	**1,706,315**
Depreciation and amortisation	**-**	**2,890**	**-**	**2,890**

(b) Secondary Segment - Business Segments

Petroleum Exploration
The Company operates solely in the Oil and Gas Exploration and Production, with interests in oil and gas in the USA state of California.

17. LOSS PER SHARE

		As at 30 June 2008 $
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		(312,551)
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	(i)	13,163,169

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

18. RELATED PARTY DISCLOSURE

Other Related Party Transactions

(i) Fees of $13,750 inclusive of GST were paid to Cobblestones Corporate Pty Ltd, an entity related to former director Mr David Parker for the provision for company secretarial and corporate services.

(ii) During the financial period, Mr David Parker received $10,750 as placement commission on capital raised through the Company Prospectus by Delta Securities Pty Ltd, a company which Mr David Parker was employed as an authorised representative.

These costs have not been included in directors' remuneration as these fees were not paid to individual directors in relation to the management of the affairs of the Company. All transactions are made at normal commercial terms.

19. AUDITORS REMUNERATION

	Period to 30 June 2008 $
Amounts received or due and receivable by :	
- HLB Mann Judd- an audit or review of the financial report of the Company at the financial period end	13,500
- preparation of Independent Accountant's Report	5,000
- other services	-
	18,500

20. FINANCIAL INSTRUMENTS

(a) Financial risk management and risk policies

The company'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.

(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 Company 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 Company does not have short or long term debt, and therefore this risk is minimal.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

20. FINANCIAL INSTRUMENTS (CONT'D)

(c) Interest rate risk (Cont.)
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 balance sheet.

30 June 2008

	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		61,100	96,821	-	-	157,921
Variable interest rates instruments	2.58%	333,782	-	-	-	333,782
Fixed interest rates instruments	7.59%	204,513	1,021,941	-	-	1,226,454
		599,395	1,118,762	-	-	1,718,157
FINANCIAL LIABILITIES						
Non-interest bearing		(85,388)	-	-	-	(85,388)
NET FINANCIAL ASSETS		514,007	1,118,762	-	-	1,632,769

(i) Interest Rate Sensitivity Analysis

At 30 June 2008, the effect on equity, profit after tax and loss as a result of 0.5% change in the interest rate, with all other variable remaining constant would be $1,669.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

20. FINANCIAL INSTRUMENTS (CONT'D)

(e) Credit risk exposures

The Company'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 provision for doubtful debts, of those assets as indicated in the balance sheet. The maximum credit risk exposure of the Company at 30 June 2008 is $96,821. There are no impaired receivables at 30 June 2008.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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 Company 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 Company measures credit risk on a fair value basis.

Concentration of Credit Risk
The Company is exposed to an individual customer being its joint venture operator, Solimar Energy LLC.

(f) Liquidity risk management

The Company 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 2008, the Company does not have any debt maturing in less than 12 months.

(g) Foreign exchange risk management

The Company undertakes its exploration and production transactions denominated in US currency. However, the company'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 company's US currency account.

(i) Foreign Currency Risk Sensitivity Analysis

At 30 June 2008, the effect on loss and equity as a result of 2% change in the value of the Australian Dollar to the US Dollar, with all other variable remaining constant would be as follows:

	2008 $
CHANGE IN LOSS	**Net Change**
Improvement in AUD by 2%	(22,178)
Decline in AUD by 2%	22,178

CHANGE IN EQUITY	**Net Change**
Improvement in AUD by 2%	(22,178)
Decline in AUD by 2%	22,178

The above foreign currency sensitivity analysis has been performed on the assumption that all other variables remain unchanged. At 30 June 2008, the carrying amount of US denominated financial instrument are:

FINANCIAL INSTRUMENTS	**2008 US $**
Cash and cash equivalent	122,814
Trade debtors and other receivables	92,999
Trade creditors and other payables	11,901

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

20. FINANCIAL INSTRUMENTS (CONT'D)

(h) Capital Management

The Company'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 Company'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 Company's capital risk management is to balance the current working capital position against the requirements of the Company 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.

21. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets.

22. EMPLOYEE BENEFITS

At 30 June 2008, Sunset Energy had no employees.

Employee Incentive Option Plan
The Company'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 Company 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 Company 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.

5,000,000 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.

23. SHARE BASED PAYMENT PLANS

Options are issued to directors and executives as part of their remuneration under the company's Employee Incentive Option Plan as described in Note 22. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2008

23. SHARE BASED PAYMENT PLANS (CONT'D)

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

	COMPANY	
2008	**Number of Options**	**Weighted Average Exercise Price $**
Outstanding at beginning of the period	-	
Granted during the period	5,000,000	0.20
Outstanding at the end of the period	5,000,000	
Exercisable at the end of the period	5,000,000	

(i) The options outstanding at 30 June 2008 had a weighted average exercise price of $0.20.
(ii) Options outstanding at 30 June 2008 had a weighted average remaining life of 2.25 years.
(iii) The weighted average fair value of options granted during the period was $0.20.
(iv) Included under employee benefits expense in the income statement is $136,606, and relates, in full, to equity-settled share-based payment transactions.

24. SUBSEQUENT EVENTS

1. On 11 September 2008, the Company announced that it has agreed (subject to shareholder approval) to place up to 4,000,000 new fully paid ordinary shares at $0.20 per share, to raise up to $800,000 (before costs). This placement will be subject to shareholder approval, to be sought at the Company's Annual General Meeting to be held on a date to be set in October 2008. Funds raised will be used to provide working capital and fund exploration and development at the Company's projects in California.

The Directors are not aware of any other matter or circumstances that has arisen since 30 June 2008 which significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company, in future financial years.

25. COMMITMENTS FOR EXPENDITURE

The directors are not aware of any commitments for expenditure for the financial period ended 30 June 2008.

26. ECONOMIC DEPENDENCY

The Company'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

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 43, are in accordance with the Corporations Act 2001:

    (a) comply with Accounting Standards and the Corporations Regulations 2001; and

    (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the period ended on that date of the Company; and

2. the Chief Executive Officer and Chief Financial Officer have each declared that:

    (a) the financial records of the company for the financial period have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;

    (b) the financial statements and notes for the financial period comply with the Accounting Standards; and

    (c) the financial statements and notes for the financial period give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr David Prentice
Executive Director

25th September 2008

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 which comprises the balance sheet as at 30 June 2008, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the period ended on that date, and the directors' declaration as set out on pages 18 to 44.

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 compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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 controls relevant to the entity'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 entity's internal controls. 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 opinion.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 2 15 Rheola Street West Perth 6005 PO Box 263 West Perth 6872 Western Australia. Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

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 company's financial position as at 30 June 2008 and of its performance for the period 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 report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 8 to 11 of the directors' report for the period ended 30 June 2008. 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 2008 complies with section 300A of the Corporations Act 2001.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

Perth, Western Australia
25 September 2008

N G NEILL
Partner

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is contained within the Director's Report.

B. SHAREHOLDING

1. Substantial Shareholders

The names of the substantial shareholders listed on the company's register as at 16 September 2008:

Shareholder	Number
Ravenhill Investments Pty Ltd-<House of Equity A/C>	3,500,000
Mr Matthew Donald Walker	2,375,000
Green Frog Nominees Pty Ltd <Nominee A/C>	1,900,000

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
30 September 2010 option - $0.20	5,000,000	5

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

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

There are 347 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are no listed options.

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.)

4. *Distribution schedule of the number of holders in each class of equity security as at 16 September 2008.*

Distribution	Holders of Ordinary Shares
1-1,000	8
1,001 - 5,000	36
5,001 – 10,000	89
10,001 - 100,000	169
100,001 and over	45
TOTALS	347

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 16 September 2008) is as follows:

Ordinary Shares

Name	No. Of Ordinary Shares	%
Ravenhill Investments Pty Ltd <House of Equity A/C>	3,500,000	12.17%
Mr Matthew Donald Walker	2,375,000	8.26%
Green Frog Nominees Pty Ltd <Nominee A/C>	1,900,000	6.61%
Mr Ryan Michael Moynagh	1,135,028	3.95%
ANZ Nominees Limited <Cash Income A/C>	1,063,800	3.70%
Pokernews Limited	1,000,000	3.48%
Mr Brad Mcelroy	1,000,000	3.48%
Benjay Pty Ltd	908,918	3.16%
Dr Leon Eugene Pretorius	750,000	2.61%
Sabreline Pty Ltd <JPR Investment A/C>	538,332	1.87%
Banksia Investments Pty Ltd <Banksia Invest Corp S/F A/C>	485,000	1.69%
Ms Dianne Shellhorn	466,666	1.62%
Pareto Nominees Pty Ltd <The Damelle A/C>	443,333	1.54%
Mr Edward Max Dozak	400,000	1.39%
Lundy Super Fund No 2 Pty Ltd <The Lundy No2 S/F A/C>	400,000	1.39%
Kelfield Investments Pty Ltd	350,000	1.22%
Black Gold Nominees Pty Ltd <Beverley Family A/C>	319,000	1.11%
Maskal Pty Ltd <The RZR Share Account>	270,000	.94%
Mr Pinchas Althaus	250,000	.87%
Ms Marnie Nicole Page	250,000	.87%
Total	**17,805,077**	**61.93%**

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)

C. OTHER DETAILS

1. Company Secretary

The name of the company secretary is Cecilia Chiu.

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 4476

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 issued the following restricted securities:

Class of Equity Security	Number	Date Ceasing To Be Restricted Securities
Ordinary shares	7,600,000	7 November 2009
20 cent 30 September 2009 Options (ASX restricted)	4,500,000	7 November 2008

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 23 SEPTEMBER 2008

Maricopa Project

Location	*Gross Acreage*	*Working Interest*	*Status*
Section 8, 11N, R23W	**120**	**50%**	**Committed**

Deer Creek Project

Location	*Gross Acreage*	*Workin g Interest*	*Status*
Section 12, 23S, R28E	**160**	**50%**	**Committed**

Silverthread Project

Location	*Gross Acreage*	*Workin g Interest*	*Status*
Section 8, 4N, R21W	**600**	**20%**	**Committed**