



sunset energy Ltd

Dear Shareholder,

I am very excited to be writing my first letter to you as Managing Director of your Company having been appointed to the role in April 2010. The last 12 months has been a period of significant and exciting change for Sunset Energy in a number of different areas.

The changes commenced in December last year when Sunset entered into an agreement to acquire 100% of the shares of Bundu Gas & Oil Exploration (Pty) Ltd. Bundu holds 100% of exploration permits and applications covering approximately 3,200 square kilometres in South Africa.

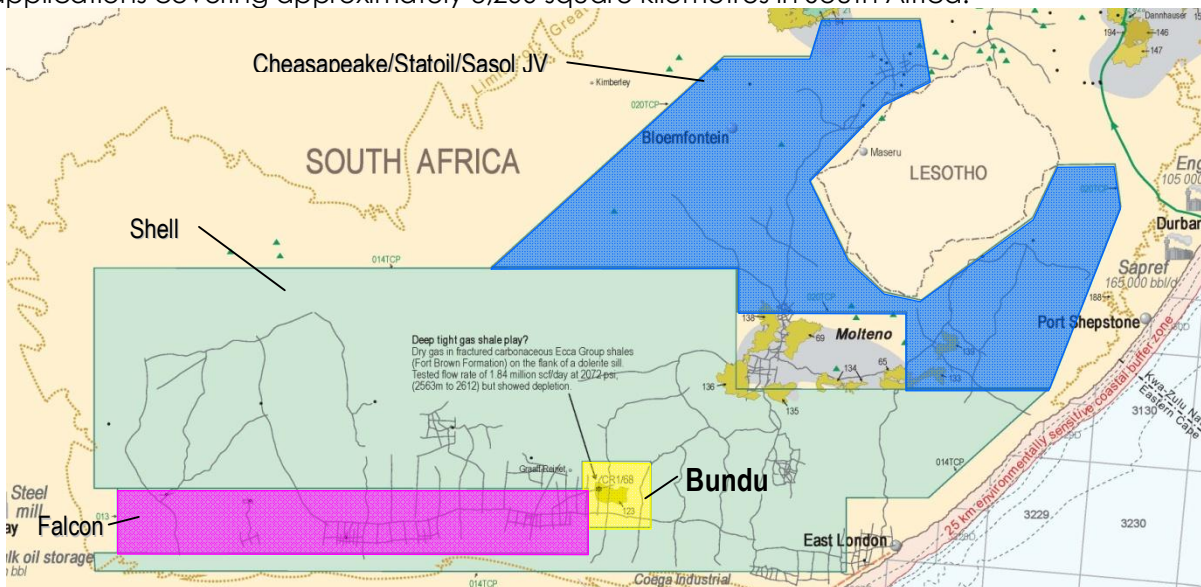


Figure 1 – Current Applications in the Southern Karoo Basin.



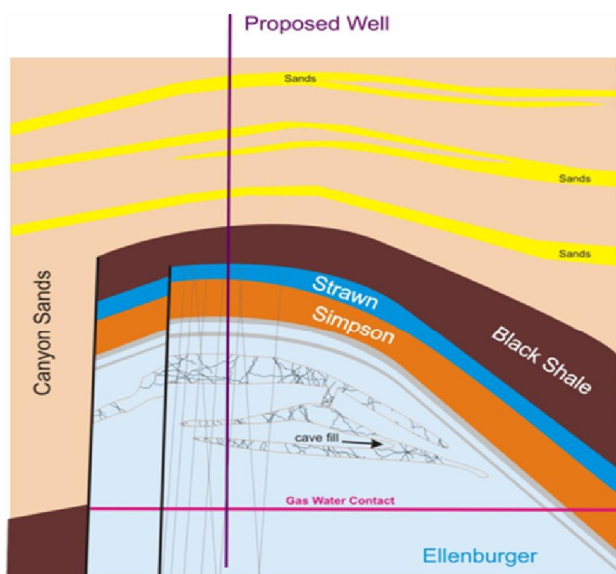
At this stage our core focus in South Africa has been the Cranmere Project, a significant shale gas prospect located in the Eastern Cape Province. The Cranmere Project area is centred around the CR/68 well that was drilled during 1968. This well was tested and produced a gas flow rate of up to eight million cubic feet of gas per day during drill stem testing from the Fort Brown shale which was approximately 5000 feet thick. Whilst this well was evaluated at that time as a small conventional reservoir and abandoned, viewing these results in light of the current success of the shale gas industry in the U.S. paints a very different picture. We believe this area has the potential to produce material quantities of shale gas which, as recently quoted by the Managing Director of Sasol Petroleum International would be a “game changer” in the broader South African Energy market. There continues to be significant interest in the Southern Karoo Basin from other major International Energy companies, including Falcon Oil and Gas, Shell, as well as Chesapeake, Statoil and Sasol.

We were disappointed to be notified in May that our initial application in this area had been rejected, however by leveraging of our connections in South Africa we were quickly able to make a new application over a significantly larger area. This application was accepted by the Petroleum Agency of South Africa (“PASA”) and we have recently completed and submitted an Environmental Management Plan for the application area.

Importantly just recently we finalised an agreement which allowed it to meet the requirement of the Broad Based Black Economic Empowerment Act 2003 (“BEE”) for all of its activities in South Africa. Under this act, Sunset is required to provide that 10% of its interests are owned by BEE compliant entities. I am very pleased that we were able to identify two exceptionally well regarded and connected partners Mr Donald Ncube

and Mr H Thompson to meet not only the requirements of the BEE Act but will also provide strong support for our activities through their extensive experience and contacts.

In the middle of June 2010 we added another very exciting exploration project to our portfolio when we entered into a Lease Purchase and Exploration Agreement ("Agreement") with a private exploration company based in Texas to acquire an 80% Working interest (100% before payout) in Leases and an Area of Mutual Interest ("AMI") covering the Triple Crown Prospect located in Edwards County, Texas.



The Triple Crown Prospect possesses three independent exploration opportunities across over 45,000 acres of leasehold. The first and primary opportunity is to explore for potentially huge gas production in the vertically fractured Ellenburger Dolomite trapped on 3 large-scale, anticlinal closures. The second opportunity consists of complementary exploration for multiple Lower Canyon Sand gas reservoirs deposited around and over the Ellenburger structures. The third is to develop an unconventional gas play within the prospect area.

Each of these opportunities is significant in its own right with each having the potential to deliver in excess of 1 TCF of gas. I can say categorically that the more work we do on this project the more we like it. Having a project of this scale and potential in a company of this size is quite remarkable.

Figure 2 - Triple Crown Play Concept

As I write this report, we are in the final stages of planning to spud our first well in the late October. The primary target of this well is the Ellenburger formation, however we also expect the well to intersect some of the canyon sand reservoirs as well as allowing us to evaluate the potential unconventional gas play in the project area. I am very excited about this project, looking forward to sharing with you the results of our first well in the coming weeks.

In early October we were very fortunate to persuade David Woodley to join the company and serve as the Chief Operating Officer. David Woodley has over 22 years experience in the oil and gas sector, gained in Australia, North America, United Kingdom and Europe and will be an invaluable resource as we move forward in evaluating all of our projects.

The board and I believe it is appropriate to change the name of the company to reflect these changes. At the AGM you will be asked to vote on a resolution to change the name of the company to **Challenger Energy Limited**. The HMS Challenger was the flagship of the Australia Station between 1866 & 1870, and undertook the first very successful global marine research expedition: the Challenger expedition.

I would like to thank you all for your support this year, and look forward to the next 12 months.

Yours faithfully,

For and on behalf of Sunset Energy Limited

Paul Bilston
Managing Director