



28 January, 2011

Manager Announcements
Company Announcements Office
Australian Securities Exchange
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SYDNEY NSW 2000

Triple Crown Prospect Texas

Preliminary review of drilling results

The Board of Challenger Energy Ltd ("Challenger") (previously Sunset Energy Limited) is pleased to advise that the logging operations of the first appraisal well on the Triple Crown Prospect have been successfully completed. The well reached a TD of 7,431 ft on 21 January 2011. Wireline logs including a formation imaging log have been acquired, and the well temporarily secured in accordance with regulations until the next stage of the evaluation program has been finalised. As advised to the market (ASX : 21 October Presentation) The well was designed to test the three targets within the Triple Crown Prospect:

- Ellenburger - Well to determine net pay thickness and presence of gas. Next stage would be to stimulate this well or drill a horizontal well.
- Canyon Sands - Well to determine net pay thickness and presence of gas. Next stage would involve stimulating and testing the productivity of these sands
- Unconventional Gas - Well to test presence of gas via gas shows during drilling and if suitable drilling conditions prevail sidewall cores will be taken to allow geochemical analysis.

The pre-drill objective was to appraise an area with multiple targets that had multi TCF potential and the well has achieved these objectives beyond expectations.

The company is encouraged by the presence of gas in the Ellenburger and eagerly awaits the final results of the processing from the formation imaging log so it can finalise the next stage of its testing program. The well has also confirmed that Challenger, with its first well, has discovered a completely new unconventional gas play which could be very significant in size.

As previously advised the well intersected a gross gas column of over 2,300 ft, containing zones which logs indicate should produce conventionally, unconventionally or via a combination of both.

The next step is to determine the best completion techniques for the different zones and undertake an extensive testing program. The company anticipates it will be in a position to provide further information on this go forward program shortly.

A detailed discussion on the initial results of each of the zones encountered in this well is provided below:

Canyon Sands and Unconventional Gas Play

An 1150 ft zone in the Lower Canyon Sands was gas charged with very strong gas shows during drilling in the range 2.5 – 7.5% even whilst utilising a heavy brine drilling fluid.

Based on the evaluation to date, this well has intersected a number of gas charged Canyon Sands between 4530 to 5680 ft. This interval contains several sands which have the characteristics of conventional potential pay interbedded in a large unconventional gas zone. The Canyon Sands in this zone are often over-pressured and have the potential to deliver gas at both the rates and volumes required to develop this property on a standalone basis

The unconventional gas zone is a completely new discovery, and preliminary log analysis has indicated that it has all the required characteristics for a successful unconventional resource development. At this time geochemical analysis is being carried out on the side wall cores; utilizing this information an independent unconventional gas expert will be engaged to further analyse the data and provide an independent resource assessment.

The presence of conventional sandstones within the unconventional gas zone, potentially provides completion pathways for large fracture stimulations which may allow co-production of both targets at once.

At this stage, the Board expects to design and carry out a fracture stimulation program to test multiple zones discovered in this well. The timing for this will be determined once a log analysis of the Ellenburger has been completed and a decision made as to the drilling of a horizontal completion in the Ellenburger.

The go-forward work program for these zones will involve:

- Completion of the physical and chemical analysis of the side wall cores.
- Integration of side wall core analysis into the log analysis to refine the target zones.
- Review completion options, select and prioritise zones to be tested.
- Determine the level of reservoir stimulation required for each selected zone.
- Independent expert assessment of the data to provide an indication of the size of the potential prize.

It is anticipated that this program will be completed in the next 4-6 weeks at which point the company will be in a position to quantify the potential size of the unconventional gas resource.

Ellenburger

A preliminary analysis of the logs from the Ellenburger has been completed, however final interpretation and the development of the next phase of the Ellenburger evaluation program will not be finalised until the end of February when the formation imaging log processing is completed.

The preliminary analysis is encouraging and suggests the well intersected:

- Indications of gas throughout the section.
- The actual top of the Ellenburger at 5790 ft MDRT, however there appears to have been a thrust zone in which the "top" of the Ellenburger was repeated three times. In this zone the well also lost circulation whilst drilling with mud. Logs indicate that the section has enhanced porosity and permeability.
- Probable karst-related (fossil cave) porosity with indications of permeable zones, in offsetting wells this interval has the best developed open fractures.
- Enhanced zones of log porosity and indications of permeability which may be related to open fractures and in some instances karst-related porosity development.

The Ellenburger is a tight dolomite which has an inherently low porosity of 3-4%, it relies on the well intersecting sets of near vertical fractures to provide the primary production pathway from the reservoir to the well bore. The effectiveness of these fractures can be enhanced with fracture stimulation and acidisation. In recent times, the optimal method of producing from the Ellenburger in this region has generally been with horizontal wells, as the number of different vertical fracture swarms that are intersected is maximized.

Additional Funding

In addition, the Directors are pleased to announce that the Company has reached agreement to put in place a financing facility of up to A\$1.25 million to provide additional working capital to fund the evaluation of the results to date and ongoing operations. The facility is a direct, un-secured and un-subordinated obligation of the Company, converting into ordinary shares based on a 15% discount to 5 day VWAP. The Board of Sunset Energy expect to have full amount payable under the financing facility satisfied through the issue of new equity once the placement capacity of the company has been refreshed at the forthcoming EGM being held on 31 January 2011. Each of the participants in the financing facility will also be issued 10 listed options (with an exercise price of 20c and an expiry date of 30 June 2012) for every \$1.00 dollar advanced under the facility.

In commenting on the results to date, Paul Bilston the Managing Director of Challenger Energy said:

"I am extremely pleased with the results we have seen to date from this well, and I definitely consider this well an outstanding success.

We have achieved all of the objectives we set for the well before drilling, and now appear to have a very large (2,300ft) gas charged zone, composed of a number of pay zones in different formations which we need to determine how to best commercialise.

We have confirmed the presence of gas in the Ellenburger and now have to look at how we connect with the fracture swarms we know exist in the structure.

The discovery of what appears to be a new unconventional gas play is very exciting. In the coming weeks we will carry out a technical analysis of the data we obtained which will allow us to develop a completion design to test this formation.

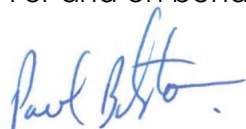
Our principal task for the next few weeks is to complete the evaluation of all of the data we have obtained from the well set our priorities which of these zones we test and develop our testing program.

As a demonstration of confidence from our existing shareholders, I am also pleased to report that we have completed a fund raising which will allow us to complete the evaluation of the test results and plan our future production testing program."

Further updates will be provided in due course.

Yours faithfully,

For and on behalf of Challenger Energy Limited



Paul Bilston
Managing Director