

CHALLENGER ENERGY LIMITED

(formerly Sunset Energy Limited)

ABN 45 123 591 382

NOTICE OF GENERAL MEETING

Notice is given that a General Meeting of Challenger Energy Limited will be held at The Theatre, RACV Club, 501 Bourke Street, Melbourne, 3000 at 10.00am (Melbourne, Victoria time) on 31 January 2011

PROPOSED RESOLUTIONS

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions with or without amendment:

Resolution 1: Approval of Prior Issue of Options to Mr David Woodley

"That for the purposes of ASX Listing Rule 7.4 and all other purposes, the prior issue of four (4) million options to Mr David Woodley as described in the Explanatory Memorandum that formed part of and accompanied the Notice of Meeting is approved."

Voting Exclusion

The Company will disregard any votes cast on Resolution 1 by:

- a person who participated in the issue; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 1 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 2: Approval of Prior Issue of Options

"That for the purposes of ASX Listing Rule 7.4 and all other purposes the prior issue of 13,350,000 options to sophisticated and exempt investor clients of Australian Financial Services licence holders (who are not related parties of the Company) as described in the Explanatory Memorandum that formed part of and accompanied the Notice of Meeting is approved."

Voting Exclusion

The Company will disregard any votes cast on Resolution 2 by:

- a person who participated in the issue; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 2 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 3: Placement of Options

"That for the purpose of ASX Listing Rule 7.1 and all other purposes, shareholders approve the issue of up to 12,050,000 options to sophisticated and exempt investor clients of Australian Financial Services licence holders (who are not related parties of the Company) as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Meeting."

Voting Exclusion

The Company will disregard any votes cast on Resolution 3 by:

- a person who may participate in the respective proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the respective resolution is passed; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 3 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 4: Share Placement

"That for the purposes of ASX Listing Rule 7.1 and all other purposes, Shareholders approve the placement of up to 86,369,400 fully paid ordinary shares to sophisticated and exempt investor clients of Australian Financial Services licence holders (who are not related parties of the Company) as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Meeting."

Voting Exclusion

The Company will disregard any votes cast on Resolution 4 by:

- (a) a person who may participate in the respective proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the respective resolution is passed; or
- (b) any associate of those persons.

However, the Company need not disregard a vote on Resolution 4 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 5: Approval for Mr Bilston (a Director) to participate in Placement

"That for the purposes of ASX Listing Rule 10.11 and all other purposes, Shareholders approve the participation by Mr Paul Bilston (or his nominees) in the placement of shares and to receive options as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Meeting."

Voting Exclusion

The Company will disregard any votes cast on Resolution 5 by:

- a person who is to receive securities in relation to the entity; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 5 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 6: Approval for Mr Fry (a Director) to participate in Placement

"That for the purposes of ASX Listing Rule 10.11 and all other purposes, Shareholders approve the participation by Mr Michael Fry (or his nominee) in the placement of shares and to receive options as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Meeting."

Voting Exclusion

The Company will disregard any votes cast on Resolution 6 by:

- a person who is to receive securities in relation to the entity; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 6 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Resolution 7: Issue of Shares

"That for the purposes of ASX Listing Rule 7.1 and all other purposes, Shareholders approve the issue of up to thirty (30) million shares to sophisticated and professional investors and clients of Australian Financial Service Licence holders (who are not related parties of the Company) as described in the Explanatory Memorandum which accompanied and formed part of the Notice of Meeting."

Voting Exclusion

The Company will disregard any votes cast on Resolution 7 by:

- a person who may participate in the respective proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary shares, if the respective resolution is passed; or
- any associate of those persons.

However, the Company need not disregard a vote on Resolution 7 if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

Dated: 22 December 2010

By the order of the Board

Adrien Wing
Company Secretary
Challenger Energy Limited

The accompanying Explanatory Memorandum and the Proxy and Voting Instructions form part of this Notice of Meeting.

PROXY AND VOTING INSTRUCTIONS

Proxy Instructions

A member who is entitled to vote at a meeting may appoint:

- (a) one proxy if the member is only entitled to one vote; and
- (b) one or two proxies if the member is entitled to more than one vote.

Where more than one proxy is appointed each proxy may be appointed to represent a specific proportion of the member's voting rights. If the appointment does not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half of the votes in which case any fraction of votes will be disregarded.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be lodged at or sent by facsimile transmission to the registered office of the Company at Level 17, 500 Collins Street, Melbourne, Victoria, 3000 or facsimile (03) 9614 0500 not less than 48 hours before the time for holding the Meeting, or adjourned meeting as the case may be, at which the individual named in the proxy form proposes to vote.

The proxy form must be signed by the member or his/her attorney duly authorised in writing or, if the member is a corporation, in a manner permitted by the Corporations Act. A proxy given by a foreign corporation must be executed in accordance with the laws of that corporation's place of incorporation.

The proxy may, but need not, be a member of the Company. A proxy form is attached to this Notice.

Corporate Representatives

Any corporation which is a member of the Company may authorise (by certificate under common seal or other form of execution authorised by the laws of that corporation's place of incorporation, or in any other manner satisfactory to the chairperson of the Meeting) a natural person to act as its representative at any general meeting.

CHALLENGER ENERGY LIMITED

(formerly Sunset Energy Limited)

ABN 45 123 591 382

("the Company")

GENERAL MEETING EXPLANATORY MEMORANDUM

PURPOSE OF INFORMATION

This Explanatory Memorandum ("this Memorandum") is dated 21 December 2010 and accompanies and forms part of the Company's Notice of General Meeting to be held at The Theatre, RACV Club, 501 Bourke Street, Melbourne, 3000 at 10.00am (Melbourne, Victoria time) on 31 January 2011. The Notice of General Meeting incorporates, and should be read together with, this Memorandum.

Resolution 1: Approval of Prior Issue of Options to Mr David Woodley

Resolution 1 is proposed to obtain shareholder approval in accordance with ASX Listing Rule 7.4, to the prior issue of four (4) million options to Mr David Woodley, the Chief Operating Officer of the Company.

The options the subject of Resolution 1 were issued to Mr Woodley on 12 October 2010 in accordance with the terms of an executive services agreement entered into between Mr Woodley and the Company on or about 1 October 2010. Mr Woodley is not a director of the Company.

The following information is provided for the purposes of ASX Listing Rule 7.5.

- (a) Mr Woodley was allotted with four (4) million options in the following tranches:
- 500,000 Employee A Options having an exercise price of 25 cents (\$0.25) each and an expiry date of 1 February 2014;
 - 1.5 million Employee B Options having an exercise price of 25 cents (\$0.25) each and an expiry date of 1 February 2014; and
 - 2 million Employee C Options having an exercise price of 35 cents (\$0.35) each and an expiry date of 1 February 2015.
- (b) The options were issued to Mr Woodley for nil consideration.
- (c) The terms of Employee Options A, B and C are set out in Schedule 1 to this Memorandum.
- (d) The funds raised upon the exercise of the options will be applied towards the Company's working capital requirements.

Resolution 2: Approval of Prior Issue of Options

Resolution 2 is proposed to obtain shareholder approval in accordance with ASX Listing Rule 7.4 to the prior issue of 13,350,000 options to sophisticated and exempt investor clients of three Australian Financial Services licence holders who are not related parties of the Company.

The options which are the subject of Resolution 2 were issued on 22 December 2010 in accordance with the terms of loan agreements between the investors and the Company. The terms of the loan agreement are described further in the commentary for Resolution 4 (below).

The following information is provided in accordance with the requirements of ASX Listing Rule 7.5:

- (a) 13,500,000 options having an exercise price of 20 cents (\$0.20) each and an expiry date of 30 June 2012 were issued.
- (b) The options were issued for nil consideration.
- (c) The option terms are set out in Schedule 2 to this Memorandum.
- (d) The funds raised upon exercise of the options will be applied towards the Company's working capital requirements.

Resolution 3: Issue of Options

Resolution 3 is proposed to obtain shareholder approval to the placement of up to 12,050,000 options to sophisticated and exempt investor clients of three Australian Financial Services licence holders who are not related parties of the Company. The options are to be issued in accordance with loan agreements entered into by the Company and the investors. The terms of the loan agreement are described further in the commentary for Resolution 4 (below).

The following information is provided in accordance with the requirements of ASX Listing Rule 7.3:

- (a) The maximum number of securities to be issued is 12,050,000 options having an exercise price of twenty cents (\$0.20) each and an expiry date of 30 June 2012.
- (b) The options will be issued no later than three (3) months after the date of the meeting (or such other date as is permitted by an ASX waiver of the Listing Rules, the Corporations Act 2001 and/or the Australian Securities and Investments Commission).
- (c) The options will be issued for nil consideration.
- (d) The terms of the options are set out in Schedule 2 to this Memorandum.
- (e) It is proposed that the funds raised upon exercise of the options will be applied towards the Company's working capital requirements.

Up to an additional 900,000 options are proposed to be issued to two Directors if Resolutions 5 and 6 are passed. Refer to the commentary on Resolutions 5 and 6, below, for further information.

Shareholder approval for the proposed issue of options is required pursuant to ASX Listing Rule 7.1. ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any twelve (12) month period, any equity securities or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that twelve (12) month period. One circumstance where an action or an issue is not taken into account in the calculation of this 15% threshold, is where the issue has the prior approval of shareholders at a general meeting. By obtaining shareholder approval to issue the options the subject of Resolution 3, the Company maintains its ability to issue further securities up to the 15% limit without further shareholder approval to take advantage of opportunities which may arise to raise additional capital.

Resolution 4: Share Placement

Resolution 4 is proposed to obtain shareholder approval to the placement of up to 86,369,400 fully paid ordinary shares to thirty-three (34) sophisticated and exempt investor clients of three Australian Financial Services licence holders who are not related parties of the Company. The shares are to be issued in accordance with loan agreements entered into by the Company and the investors. The loans were for a total of \$2.54 million plus interest which accrues at daily (compounded monthly) at a rate of 10% per annum. The terms of the loans allow for the Company to satisfy the loans and interest by issuing shares in the Company to the investors. The shares the subject of Resolution 4 will satisfy the loans in full and make allowance for interest up to the issue of the shares.

The following information is provided in accordance with the requirements of ASX Listing Rule 7.3:

- (a) A maximum of 86,440,000 fully paid ordinary shares will be issued.
- (b) The securities will be issued no later than three (3) months after the date of the meeting (or such other date as is permitted by an ASX waiver of the Listing Rules, the Corporations Act 2001 and/or the Australian Securities and Investments Commission).
- (c) The issue price for the securities will be determined by the following formula:
 - (i) The loan amount owed to each investor divided by the conversion price. The conversion price shall be the greater of the following:
 - A. Three cents (\$0.03) per share, if 80% of the volume weighted average price of the Company's shares for the five (5) business day period prior to the issued date of the shares is less than three cents (\$0.03) per share; or
 - B. if 80% of the volume weighted average price of the Company's shares for the five (5) business day period prior to the date of issue of the shares is more than three cents (\$0.03) per share:

- (i) subject to item (ii) below, the amount equal to 80% of the volume weighted average price of the Company's shares for the five (5) business day period prior to the issue date of the shares; or
 - (ii) eight point five cents (\$0.085) per share, if the amount calculated in accordance with item (i) above is more than eight point five cents (\$0.085) per share.
- (d) The shares to be issued pursuant to Resolution 4 shall be fully paid ordinary shares ranking equally with the Company's existing listed ordinary shares. The Company will apply to ASX for quotation of the shares on the ASX.
- (e) It is intended that the funds raised by the issue of the shares will be used to complete the drilling of the first well on the Company's Triple Crown prospect in Texas.

Up to an additional 3,070,600 shares are proposed to be issued to two Directors if Resolutions 5 and 6 are passed. Refer to the commentary on Resolutions 5 and 6, below, for further information.

Shareholder approval for the proposed issue of shares is required pursuant to ASX Listing Rule 7.1. ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue during any twelve (12) month period, any equity securities or other securities with rights to conversion to equity (such as an option), if the number of those securities exceeds 15% of the number of securities in the same class on issue at the commencement of that twelve (12) month period. One circumstance for an action or an issue is not taken into account into the calculation of this 15% threshold, is where the issue has the prior approval of shareholders at a general meeting. By obtaining shareholder approval to issue the shares the subject of Resolution 4, the Company maintains the ability to issue further securities up to the 15% limit without further shareholder approval to take advantage of opportunities which may arise to raise additional capital.

Resolutions 5 and 6: Approvals for two Directors to participate in Placement

ASX Listing Rule 10.11 requires a company to obtain the approval of shareholders before issuing securities to a related party of the Company, a related party includes a director of the Company. The passing of Resolutions 5 and 6 will permit two Directors of the Company, Mr Paul Bilston and Mr Michael Fry or their nominees (respectively), to acquire shares and options in the Company on the same basis as those individual and/or entities who were and will be issued shares under Resolutions 2, 3 and 4, other than that the shares and options will only be issued after shareholder approval is received. Each of Resolutions 5 and 6 will be proposed and voted upon separately. Neither Resolution 5 nor 6 is conditional upon the other being passed.

The shares to which Resolutions 5 and 6 apply are not included in the total number of shares referred to in Resolution 4 but will have the same terms and conditions as those shares. The options to which Resolutions 5 and 6 apply are not included in the total number of options referred to in Resolution 3, but will and will have the same terms and conditions as those options.

The current direct and indirect shareholdings of Mr Bilston and Mr Fry are as follows:

Name	Current Holding		Securities proposed to be issued pursuant to Resolutions 5 and 6 (respectively)*		Total holding held if Resolution 5 and 6 approved (respectively)*	
	Shares	Options	Shares	Options	Shares	Options
Mr Paul Bilston	3,880,268	5,940,134	1,705,889	500,000	5,586,157	6,440,134
Mr Michael Fry	1,350,000	2,175,000	1,364,711	400,000	2,714,711	2,575,000

**This is the maximum number of securities that may be issued, the number will be reduced depending upon the issue price of the shares (refer to the commentary on Resolution 4).*

If passed, Resolutions 5 and 6 will permit each directors named above (or their nominees) (respectively) to acquire the number of shares and options set out in column 3 of the above table.

The shares and options will be issued to directors (or their nominees) not more than one (1) month after the date of the general meeting or such later date as is permitted by an ASX waiver on modification of the ASX Listing Rule.

ASX Listing Rule 7.1 requires the prior approval of shareholders at a general meeting to issue securities if the number of securities exceeds 15% of the number of same class of securities at the commencement of the relevant twelve (12) month period. This rule does not apply in respect of an issue made to related parties of the Company with the approval of holders of ordinary securities under ASX Listing Rule 10.11. If approval is given under ASX Listing Rule 10.11, approval is not required under ASX Listing Rule 7.1.

Therefore, by obtaining shareholder approval, the Company retains the ability to issue further shares or options of up to 15% of its ordinary shares under Chapter 7 of the ASX Listing Rules to take advantage of opportunities to obtain further funds if required and available in the future.

Resolution 7: Issue of Shares

Resolution 7 is proposed to obtain shareholder approval to the issue of up to thirty (30) million shares to professional and sophisticated investors and clients of Australian Financial Service Licence holders who are not related parties of the Company.

The following information is provided in accordance with the requirements of ASX Listing Rule 7.3:

- (a) The maximum number of securities to be issued will be thirty (30) million fully paid ordinary shares.
- (b) The shares will be issued no later than three (3) months after the date of the general meeting (or such later date as may be permitted by an ASX waiver of the Listing Rules, the Corporations Act 2001 and/or the Australian Securities and Investments Commission).
- (c) The issue price of the securities will be at least 80% of the average market price for the securities in that class calculated over the last five (5) days on which sales of the securities were recorded before the day on which the issue is made.
- (d) The securities will be issued to professional and sophisticated investors who are not related parties of the Company.
- (e) The securities shall rank equally with the Company's existing listed ordinary shares. The Company will apply to ASX for admission of the shares issued for quotation on ASX.
- (f) It is proposed that the funds raised by the issue of the shares will be applied towards the Company's working capital requirements.

**SCHEDULE 1
TERMS OF OPTIONS ISSUED TO MR DAVID WOODLEY
(Resolution 1)**

Employee A Options

The Employee A Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Employee A Option gives the Optionholder the right to subscribe for one Share. To obtain the right given by each Employee A Option, the Optionholder must exercise the Employee A Options in accordance with the terms and conditions of the Employee A Options.
- (b) Subject to paragraph (c), the Employee A Options are exercisable after the Commencement Date on or before 5:00 pm (WST) on 01 February 2014 (Expiry Date). Any Employee A Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) In the event the Optionholder's Employment agreement with the Company is terminated within 2 years of the date of such agreement, those Employee A Options which have not become exercisable in accordance with these terms shall automatically lapse.
- (d) The amount payable upon exercise of each Employee A Option will be \$0.25 (Exercise Price).
- (e) The Employee A Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An Optionholder may exercise their Employee A Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Employee A Options specifying the number of Employee A Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Employee A Options being exercised,(Exercise Notice).
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Employee A Options specified in the Exercise Notice.
- (i) The Employee A Options are not transferable.
- (j) All Shares allotted upon the exercise of Employee A Options will upon allotment rank *pari passu* in all respects with other Shares.
- (k) The Company will not apply for quotation of the Employee A Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of Employee A Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) There are no participating rights or entitlements inherent in the Employee A Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Employee A Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Employee A Options prior to the date for determining entitlements to participate in any such issue.
- (n) An Employee A Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Employee A Option can be exercised.

Employee B Options

The Employee B Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Employee B Option gives the Optionholder the right to subscribe for one Share. To obtain the right given by each Employee B Option, the Optionholder must exercise the Employee B Options in accordance with the terms and conditions of the Employee B Options.
- (b) Subject to paragraph (c), the Employee B Options are exercisable on or before 5:00 pm (WST) on 01 February 2014 (Expiry Date) provided that the Company has booked certified 2P reserves of 75 PJ (or BOE equivalent) before this date. Any Employee B Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) In the event the Optionholder's Employment agreement with the Company is terminated within 2 years of the date of such agreement, those Employee B Options which have not become exercisable in accordance with these terms shall automatically lapse.
- (d) The amount payable upon exercise of each Employee B Option will be \$0.25 (Exercise Price).
- (e) The Employee B Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An Optionholder may exercise their Employee B Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Employee B Options specifying the number of Employee B Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Employee B Options being exercised,(Exercise Notice).
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Employee B Options specified in the Exercise Notice.
- (i) The Employee B Options are not transferable.
- (j) All Shares allotted upon the exercise of Employee B Options will upon allotment rank *pari passu* in all respects with other Shares.
- (k) The Company will not apply for quotation of the Employee B Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of Employee B Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) There are no participating rights or entitlements inherent in the Employee B Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Employee B Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Employee B Options prior to the date for determining entitlements to participate in any such issue.
- (n) An Employee B Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Employee B Option can be exercised.

Employee C Options

The Employee C Options entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each Employee C Option gives the Optionholder the right to subscribe for one Share. To obtain the right given by each Employee C Option, the Optionholder must exercise the Employee C Options in accordance with the terms and conditions of the Employee C Options.
- (b) Subject to paragraph (c), the Employee C Options are exercisable on or before 5:00 pm (WST) on 01 February 2015 (Expiry Date) provided that the Company has booked certified 2P reserves of 150 PJ (or BOE equivalent) before this date. Any Employee C Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) In the event the Optionholder's Employment agreement with the Company is terminated within 2 years of the date of such agreement, those Employee C Options which have not become exercisable in accordance with these terms shall automatically lapse.
- (d) The amount payable upon exercise of each Employee C Option will be \$0.35 (Exercise Price).
- (e) The Employee C Options held by each Optionholder may be exercised in whole or in part, and if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (f) An Optionholder may exercise their Employee C Options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of Employee C Options specifying the number of Employee C Options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of Employee C Options being exercised,(Exercise Notice).
- (g) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (h) Within 10 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of Employee C Options specified in the Exercise Notice.
- (i) The Employee C Options are not transferable.
- (j) All Shares allotted upon the exercise of Employee C Options will upon allotment rank pari passu in all respects with other Shares.
- (k) The Company will not apply for quotation of the Employee C Options on ASX. However, the Company will apply for quotation of all Shares allotted pursuant to the exercise of Employee C Options on ASX within 10 Business Days after the date of allotment of those Shares.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) There are no participating rights or entitlements inherent in the Employee C Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Employee C Options. However, the Company will ensure that for the purposes of determining entitlements to any such issue, the record date will be at least 6 Business Days after the issue is announced. This will give Optionholders the opportunity to exercise their Employee C Options prior to the date for determining entitlements to participate in any such issue.
- (n) An Employee C Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the Employee C Option can be exercised.

SCHEDULE 2
OPTIONS ISSUED OR PROPOSED TO BE ISSUED PURSUANT TO LOAN AGREEMENTS
(Resolutions 2, 3, 5 AND 6)

The New Options form part of an existing listed class of options (ASX code: SEYO) and will entitle the holder to subscribe for Shares on the following terms and conditions:

- (a) Each New Option gives the Loan Option Lender the right to subscribe for one Share. To obtain the right given by each New Option, the Loan Option Lender must exercise the New Options in accordance with the terms and conditions of the New Options.
- (b) The New Options will expire at 5.00pm (WST) on 30 June 2012 (**Option Expiry Date**). Any New Option not exercised before the Option Expiry Date will automatically lapse on the Option Expiry Date.
- (c) The amount payable upon exercise of each New Option will be \$0.20 (**Exercise Price**).
- (d) The New Options held by each Loan Option Lender may be exercised in whole or in part and, if exercised in part, multiples of 1,000 must be exercised on each occasion.
- (e) A Loan Option Lender may exercise their New Options by lodging with the Borrower, before the Option Expiry Date:
 - (i) a written notice of exercise of New Options specifying the number of New Options being exercised (**Exercise Notice**); and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of New Options being exercised.
- (f) An Exercise Notice is only effective when the Borrower has received the full amount of the Exercise Price in cleared funds.
- (g) Within 10 business days of receipt of the Exercise Notice accompanied by the Exercise Price, the Borrower will allot the number of Shares required under these terms and conditions in respect of the number of New Options specified in the Exercise Notice.
- (h) The New Options are transferable.
- (i) All Shares allotted upon the exercise of New Options will, upon allotment, rank *pari passu* in all respects with other Shares.
- (j) The Borrower will apply for quotation of the New Options on ASX.
- (k) If at any time the issued capital of the Borrower is reconstructed, all rights of a Loan Option Lender are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (l) There are no participating rights or entitlements inherent in the New Options and Loan Option Lenders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the New Options. However, the Borrower will ensure that, for the purposes of determining entitlements to any such issue, the record date will be at least 7 business days after the issue is announced. This will give Loan Option Lenders the opportunity to exercise their New Options prior to the date for determining entitlements to participate in any such issue.
- (m) A New Option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the New Option can be exercised.

CHALLENGER ENERGY LIMITED

(formerly Sunset Energy Limited)

ABN 45 123 591 382

PROXY FORM

If the Chair of the meeting is appointed as your proxy, or may be appointed by default and you do **not** wish to direct your proxy how to vote as your proxy in respect of a resolution, please place a mark in this box:

I/We _____

of _____

being a member(s) of Challenger Energy Limited

and entitled to _____ shares appoint:

Name of Proxy: _____
[write the name of the person you are appointing if this person is someone other than the Chair of the meeting]

Address of Proxy: _____

or in his/her absence or if no person is named, the Chair of the meeting as my/our proxy act generally at the meeting on my/our behalf and to vote on my/our behalf at the General Meeting of the Company to be held at The Theatre, RACV Club, 501 Bourke Street, Melbourne, 3000 at 10.00am (Melbourne, Victoria time) on 31 January 2011 and at any adjournment of that meeting.

If two proxies are appointed, complete the following sentence:

This proxy is authorised to exercise _____ votes/ _____ % of my/our total voting rights.

By marking this box you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of the resolution(s) and that votes cast by the Chair of the meeting for those resolutions other than as proxy holder will be disregarded because of that interest.

If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the resolution and your votes will not be counted in calculating the required majority if a poll is called on the resolution.

The Chairman intends voting undirected proxies in favour of the resolutions in which he is permitted to vote.

Proxy Instructions

To instruct your proxy how to vote, tick or insert an **X** in the appropriate column against each resolution set out below. If you do not instruct your proxy how to vote on a resolution, your proxy may vote as he/she thinks fit or abstain from voting. I/We direct my/our proxy to vote as indicated below:

		For	Against	Abstain*
Resolution 1.	Approval of Prior Issue of Options to Mr David Woodley			
Resolution 2.	Approval of Prior Issue of Options			
Resolution 3.	Issue of Options			
Resolution 4.	Share Placement			
Resolution 5.	Approval for Mr Bilston (a Director) to participate in Placement			
Resolution 6.	Approval for Mr Fry (a Director) to participate in Placement			
Resolution 7.	Issue of Shares			

