

RIALTO ENERGY LIMITED

ACN 117 227 086



NOTICE OF ANNUAL GENERAL MEETING AND EXPLANATORY STATEMENT

For a Shareholders General Meeting to be held
On 30 November 2010 at 10.00am (Western Standard Time) at
Perth Convention and Exhibition Centre
Meeting Room 10, 21 Mounts Bay Road
Perth 6000, Western Australia

This is an important document. Please read it carefully.

*If you are unable to attend the Meeting, please complete the form of proxy enclosed
and return it in accordance with the instructions set out on that form.*

For personal use only

TIME AND PLACE OF ANNUAL GENERAL MEETING AND HOW TO VOTE

Venue

The Annual General Meeting of Rialto Energy Limited (the "Meeting") will be held at:

Perth Convention and Exhibition Centre

Meeting Room 10

21 Mounts Bay Road

Perth 6000, Western Australia

Commencing

at 10.00am (Western Standard Time)

on 30 November 2010.

How to Vote

You may vote by attending the Meeting in person, by proxy or authorised representative.

Voting in Person

To vote in person, attend the Meeting on the date and at the place set out above. The Meeting will commence at 10.00am (Western Standard Time).

Voting by Proxy

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of Annual General Meeting as soon as possible and either:

- send the proxy form by hand to the Company's office at Level 1, 34 Colin Street, West Perth, Western Australia;
- send the proxy form by post to Level 1, 34 Colin Street, West Perth, Western Australia; or
- send the proxy form by facsimile to (08) 9486 9362,

so that it is received not later than 10.00am (Western Standard Time) on 28 November 2010.

Your proxy form is enclosed.

RIALTO ENERGY LIMITED

ACN 117 227 086

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of Rialto Energy Limited will be held at Perth Convention and Exhibition Centre, Meeting Room 10, 21 Mounts Bay Road Perth 6000 Western Australia on 30 November 2010 at 10.00am (Western Standard Time) for the purpose of transacting the following business.

The attached Explanatory Statement is provided to supply Shareholders with information to enable Shareholders to make an informed decision regarding the Resolutions set out in this Notice. The Explanatory Statement is to be read in conjunction with this Notice.

AGENDA

ORDINARY BUSINESS

Accounts

To consider the financial report and the reports of the Directors and of the Auditor for the financial year ended 30 June 2010.

Resolutions

Resolution 1 – Re-election of Brett Woods as a Director

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

“That Brett Woods, being a Director of the Company, retiring by rotation in accordance with the Company’s Constitution, being eligible and offering himself for re-election, be appointed as a Director of the Company.”

Short Explanation: The Company’s Constitution requires that at the Annual General Meeting, one-third of the Directors for the time being shall retire from office. A retiring Director is eligible for re-election.

Resolution 2 – Re-election of Glenn Whiddon as a Director

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

“That Glenn Whiddon, being a Director of the Company who was appointed on 21 July 2010, retires in accordance with the Company’s Constitution and, being eligible and offering himself for re-election, be elected as a Director of the Company.”

Short Explanation: The Company’s Constitution requires that the Directors may appoint any natural person to be a Director of the Company, either as an addition to the existing Directors or to fill a casual vacancy. Further, the Constitution requires that at a general meeting of the Company, each Director appointed to fill a casual vacancy must retire from office as a Director. Each Director retiring from office in this manner is eligible for re-election and may be elected to the office of Director by the Company.

Resolution 3 – Re-election of Jeffrey Schrull as a Director

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

“That, Jeffrey Schrull, being a Director of the Company who was appointed on 21 July 2010, retires in accordance with the Company’s Constitution and, being eligible and offering himself for re-election, be elected as a Director of the Company.”

Short Explanation: The Company’s Constitution requires that the Directors may appoint any natural person to be a Director of the Company, either as an addition to the existing Directors or to fill a casual vacancy. Further, the Constitution requires that at a general meeting of the Company, each Director appointed to fill a casual vacancy must retire from office as a Director. Each Director retiring from office in this manner is eligible for re-election and may be elected to the office of Director by the Company.

Resolution 4 – Re-election of Chaim Lebovits as a Director

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

“That, Chaim Lebovits, being a Director of the Company who was appointed on 24 July 2010, retires in accordance with the Company’s Constitution and, being eligible and offering himself for re-election, be elected as a Director of the Company.”

Short Explanation: The Company’s Constitution requires that the Directors may appoint any natural person to be a Director of the Company, either as an addition to the existing Directors or to fill a casual vacancy. Further, the Constitution requires that at a general meeting of the Company, each Director appointed to fill a casual vacancy must retire from office as a Director. Each Director retiring from office in this manner is eligible for re-election and may be elected to the office of Director by the Company.

Resolution 5 – Adoption of the Remuneration Report for the year ended 30 June 2010

To consider and put to a non-binding vote the following resolution:

“That the Directors’ Remuneration Report required by Section 300A of the Corporations Act, as contained in the Directors’ Report of the Company, for the year ended 30 June 2010 be adopted.”

SPECIAL BUSINESS

Resolution 6 - Ratification of the issue and allotment of Shares

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

“That for the purposes of Listing Rule 7.4 of the Listing Rules of ASX Limited and for all other purposes, approval is given to the issue of 25,000,000 fully paid ordinary shares in the capital of the Company at 30 cents each on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Shareholder approval is sought under ASX Listing Rule 7.4 to the issue of Shares made on 15 July 2010 as part of an overall issue of 100,000,000 Shares. Shareholder approval was provided for the issue of 75,000,000 Shares on 7 July 2010.

The Company will disregard any votes cast on this Resolution by a person who participated in the issue the subject of this Resolution and any associates of such a person. However, the Company will not disregard a vote cast on this Resolution if:

- (a) 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
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

Resolution 7 – Approval to grant of Options to Jeffrey Schrull

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

“That, for the purposes of Chapter 2E of the Corporations Act and Listing Rule 10.11 of the Listing Rules of ASX Limited and for all other purposes, approval is given for the Company to grant to Jeffrey Schrull or his nominees up to 5,400,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Shareholder approval is sought under related party provisions of the Corporations Act (Chapter 2E) and Listing Rule 10.11 so that the Company may grant options to Jeffrey Schrull. Shareholder approval is required because Jeffrey Schrull is a Director and therefore a related party of the Company.

The Company will disregard any votes cast on this Resolution by Jeffrey Schrull or any of his associates or any person who may obtain a benefit if this Resolution is passed other than in their capacity as a Shareholder. However, the Company need not disregard a vote cast on this Resolution if:

- (a) 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
- (b) 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 8 – Approval to grant of Options to Consultants

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

“That, for the purposes of Listing Rule 7.1 of the Listing Rules of ASX Limited and for all other purposes, approval is given for the Company to grant to the John Pierre Petit and Charlie Nieto (“Consultants”), or their nominees up to 2,000,000 options to acquire fully paid ordinary shares in the capital of the Company, to be issued on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Shareholder approval is sought under Listing Rule 7.1 to allow the Company to grant options to the Consultants of the Company.

The Company will disregard any votes cast on this Resolution by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder, if this Resolution is passed and any associate of those persons. However, the Company need not disregard a vote cast on this Resolution if:

- (a) it is cast by an allottee as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

Resolution 9 – Increase in Non-executive Directors Fees

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

“That, for the purposes of Listing Rule 10.17 and Clause 13.8 of the Constitution of the Company the maximum aggregate fees payable to Non-Executive Directors be increased by \$100,000 from \$250,000 to \$350,000 per annum.”

The Company will disregard any votes cast on this Resolution by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity as a Shareholder, if this Resolution is passed and any associate of those persons. However, the Company need not disregard a vote cast on this Resolution if:

- (a) it is cast by an allottee as proxy for a person who is entitled to vote in accordance with the directions on the proxy form; or
- (b) it is cast by the person chairing the meeting as a proxy for a person who is entitled to vote in accordance with the directions on the proxy form to vote as the proxy decides.

Resolution 10 – Appointment of Ernst & Young as Auditor

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

“That pursuant to section 327B of the Corporations Act, Ernst & Young, having been nominated by a Shareholder and having consented in writing to act under section 328A of the Corporations Act, be appointed Auditor of the Company, subject to Deloitte Touche Tohmatsu receiving consent from ASIC to resign as Auditor of the Company.”

VOTING AND PROXIES

1. A Shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a Shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by the 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.
3. In accordance with Regulation 7.11.37 of the Corporations Act, the Directors have set a date to determine the identity of those entitled to attend and vote at the Meeting. The date is 28 November 2010 at 10.00am (Western Standard Time).
4. A proxy form is attached. If required it should be completed, signed and returned to the Company's registered office in accordance with the instructions on that form.

By order of the Board

Brett Woods
Director / Company Secretary
Dated: 11 October 2010

RIALTO ENERGY LIMITED
ACN 117 227 086

EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in this Notice.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

ORDINARY BUSINESS

1.1 Resolution 1 to 4 – Re-election of Directors of the Company

In accordance with the Corporations Act, it is a requirement that the Company have, at all times, a minimum of three Directors.

Resolution 1:

The Company's Constitution requires that one third of the directors retire from office at the Annual General Meeting and if they so desire offer themselves for re-election. The Director to retire from office is that person other than the Managing Director who has been longest in office since last re-election.

Resolutions 2-4:

The Constitution of the Company states that the Directors may appoint any natural person to be a Director of the Company, either as an addition to the existing Directors or to fill a casual vacancy.

Further, the Constitution requires that at a general meeting of the Company, each Director appointed to fill a casual vacancy must retire from office as a Director. Each Director retiring from office in this manner is eligible for re-election and may be elected to the office of Director by the Company.

The Annual Report contains the summary of the backgrounds of each of the Directors.

1.2 Resolution 5 – Adoption of the Directors' Remuneration Report

Consistent with section 250R of the Corporations Act, the Company submits to shareholders for consideration and adoption by way of a non-binding resolution its Directors' Remuneration Report for the year ended 30 June 2010. At the meeting there will be a reasonable opportunity for discussion of the report.

The Directors' Remuneration Report is a distinct section of the annual Directors' Report which deals with the remuneration of Directors and executives of the Company, if applicable.

The Directors' Remuneration Report includes:

- an explanation of the Board's policies in relation to the nature and level of remuneration of Directors and executives, if applicable;
- details of any element of the remuneration of Directors and executives that is dependent upon the satisfaction of performance conditions, if applicable;

- details of the total remuneration (as well as a categorised break-down of its components) of each Director of the Company and executives, if applicable

The Directors recommend shareholders vote in favour of the resolution. The Chairman intends to vote undirected proxies in favour of the resolution.

SPECIAL BUSINESS

1.3 Resolution 6 – Ratification of the issue and allotment of Shares

Resolution 6 seeks Shareholder approval in relation to the Shares issued as part of the placement finalised on 15 July 2010. RBC Capital Markets acted as lead manager to the placement, with GMP Securities Europe LLP acting as manager. The placement was made to institutional investors in Europe, North America and Australia.

Listing Rule 7.1 provides, subject to certain exceptions, a listed company must not issue equity securities where the number of equity securities proposed to be issued represents more than 15% of the company's shares then on issue without the approval of shareholders.

The Shares issued under the Placement were issued within the Company's 15% capacity.

Listing Rule 7.4 provides that an issue of securities made without the approval under Listing Rule 7.1 is treated as having been made with approval if the issue of securities did not breach Listing Rule 7.1 (that is, the issue was within the Company's 15% capacity) and shareholders subsequently approve it. The Company now seeks Shareholder approval to ratify the Tranche I Shares and refresh the Company's 15% capacity.

In accordance with Listing Rule 7.5, the following information is provided to Shareholders in relation to Resolution 6.

- (a) The number of securities allotted was 25,000,000 Shares.
- (b) The Shares were issued at an issue price of 30 cents each.
- (c) The Shares are fully paid ordinary shares in the Company and rank equally with the Company's current issued shares.
- (d) The Shares were allotted to sophisticated, professional and other investors who are exempt from the disclosure requirements under Chapter 6D of the Corporations Act. None of the allottees were related parties of the Company.
- (e) The Company has been utilising the funds raised from the Placement to:
 - (i) Complete the acquisition of a major shareholding in C&L Natural Resources Limited via the acquisition of CLNR Holdings Limited, providing Rialto with an effective 63.75% working interest in an offshore petroleum license over block CI-202 in Côte d'Ivoire; and
 - (ii) Provide ongoing working capital to fund work programs and all technical field work related to CI-202 and Rialto's existing work programs in both Ghana and Western Australia.

1.4 Resolution 7 – Approval to grant of Options to Jeffrey Schrull

Resolution 7 seeks Shareholder approval so that the Company may grant Options to Jeffrey Schrull, the managing director.

ASX Listing Rule 10.11

Listing Rule 10.11 requires a company to obtain shareholder approval prior to the issue of securities to a related party. Jeffrey Schrull is a Director of the Company and a related party of the Company. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1 (and the issue of the Shares will not be included in the 15% calculation).

In accordance with Listing Rule 10.13, the following information is provided to Shareholders in relation to Resolution 7.

- (a) The Options will be granted to Jeffrey Schrull or his nominees.
- (b) The maximum number of securities the Company will grant is 5,400,000 Options.
- (c) The Options will be granted no later than 1 month after the date of this Meeting (or a later date to the extent permitted by any ASX waiver or modification of the Listing Rules).
- (d) Jeffrey Schrull as a Director is a related party.
- (e) The Options are granted for no consideration. The terms of the Options are set out in Annexure 1.
- (f) No funds will be raised by the grant of the Options.

Chapter 2E of the Corporations Act - Related Party Transaction

The proposed grant of Options to Jeffrey Schrull is a financial benefit to a related party requiring Shareholder approval under the Corporations Act in the absence of a specified exception applying.

The following information is provided to Shareholders in relation to Resolution 7.

- (a) **The Related Party to whom the Proposed Resolutions would permit the Financial Benefit to be given**

The related party is Jeffrey Schrull or his nominees.

- (b) **The Nature of the Financial Benefit**

The proposed financial benefit to be given is the grant of up to 5,400,000 Options.

The terms of the Options are set out in Annexure 1.

- (c) **Directors Recommendation and Basis of Financial Benefit**

By Resolution 7 the Company is proposing to grant Options to Jeffrey Schrull as a Director. The number of Options to be granted and the terms of the Options was negotiated by the non-associated Directors of that particular Director (being all the other Directors).

The purpose of the Options is to reward Jeffrey Schrull for his dedicated and ongoing commitment and effort to the Company. There are various vesting hurdles upon a number of the Options (see Annexure 1) so as to further incentivise him to remain in the employment of the Company. Therefore, the Options are also intended to act as an incentive and motivation so as to lead the work necessary to properly define hydrocarbon volumes leading to drilling and potentially development activity on the assets of the Company.

The non-associated Directors consider that the particular number and terms of the Options to be issued to Jeffrey Schrull constitute an appropriate number to adequately reward him in the circumstances as well as incentivising him for his efforts, skill and experience and when considered together with their other remuneration as a Director.

The non-associated Directors thereby recommend that Shareholders vote in favour of the Resolution.

(d) **Dilution**

The passing of Resolution 7 would have the effect of granting Jeffrey Schrull (or his nominees) up to 5,400,000 Options.

If any of the Options are exercised into Shares, the effect would be to dilute the shareholding of existing Shareholders. If all of 5,400,000 Options were exercised into Shares, the effect would be to dilute the shareholding of the existing Shareholders by approximately 2.04% based on the total number of Shares currently on issue being 265,141,742 (undiluted) excluding the Shares which may be issued following the satisfaction of performance hurdles in the future.

The actual dilution will depend on the extent of further equity raised by the Company and whether any of the Options are exercised.

(e) **Total Remuneration Package of Jeffrey Schrull**

The remuneration received by Jeffrey Schrull is \$350,000 per annum inclusive of Director's fees and any superannuation entitlement.

(f) **Existing Relevant Interests**

At the date of this Notice, Jeffrey Schrull and his associates has the following relevant interest in securities of the Company.

	Shares	Options
Jeffrey Schrull	-	1,000,000

(g) **Trading History**

The following table gives details of the highest, lowest and the latest closing price of the Company's Shares trading on the ASX over the last 12 months.

	Date	Closing Price
Highest Price	7 October 2010	59.5 cents
Lowest Price	7 October 2009	10.5 cents
Latest Price	8 October 2010	57.0 cents

(h) **Valuation of Options**

The Options will not be quoted on ASX.

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The Company has valued the Options to be granted to the Directors or their nominees.

The Options have been valued using the Black-Scholes method.

The following assumptions have been made regarding the inputs required for the option pricing module:

Input	Tranche 1 (40 cent exercise price)	Tranche 2 (60 cent exercise price)	Tranche 3 (40 cent exercise price)	Tranche 4 (60 cent exercise price)	Tranche 5 (40 cent exercise price)	Tranche 6 (60 cent exercise price)	Note
Number of Options to related parties	900,000	900,000	900,000	900,000	900,000	900,000	
Underlying security spot price	57 cents	57cents	57cents	57cents	57cents	57cents	1
Exercise price	40 cents	60 cents	40 cents	60 cents	40 cents	60 cents	
Dividend rate	Nil	Nil	Nil	Nil	Nil	Nil	2
Volatility rate	100%	100%	100%	100%	100%	100%	3
Risk free rate	4.93%	4.93%	4.93%	4.93%	4.93%	4.93%	4
Expiry Date	28 June 2015	28 June 2015	28 June 2016	28 June 2016	28 June 2017	28 June 2017	

Note 1 The underlying security spot price used for the purposes of this valuation is based on the closing price of Shares immediately preceding the valuation date of 8 October 2010 which was 57 cents.

Note 2 As at the date of the valuation, the Company had not forecast any future dividend payments. For the purposes of the valuation it is therefore assumed that the Company's share price is "ex-dividend", If dividend payments were forecast, the value of the Options would be reduced.

Note 3 The volatility rate of 100% has been adopted.

Note 4 The risk free rate is 4.93% based on the current Reserve Bank Target Cash Rate.

Based on the above assumptions the Options proposed to be issued to Jeffrey Schrull has been valued as follows:

Number and Value of Options						
	Tranche 1 (40 cent exercise price)	Tranche 2 (60 cent exercise price)	Tranche 3 (40 cent exercise price)	Tranche 4 (60 cent exercise price)	Tranche 5 (40 cent exercise price)	Tranche 6 (60 cent exercise price)
Jeffrey Schrull	900,000 Options – 42.13 cents per Option (total value - \$379,169)	900,000 Options – 38.44 cents per Option (total value - \$345,978)	900,000 Options – 44.84 cents per Option (total value - \$403,572)	900,000 Options – 41.83 cents per Option (total value - \$376,505)	900,000 Options – 47.12 cents per Option (total value - \$424,044)	900,000 Options – 44.68 cents per Option (total value - \$402,077)

The total value of Options proposed to Mr Schrull is \$2,331,345.

No discount to the value of the Options is provided due to the vesting conditions upon the Options (See Annexure 1).

Mr Schrull joined the Company on 21 July 2010 when the share price was 31.5 cents. If this price had been used instead of the share price as of 8 October 2010 of 57 cents then the value of Options ascribed to Mr Schrull would have been as follows:

Number and Value of Options						
	Tranche 1 (40 cent exercise price)	Tranche 2 (60 cent exercise price)	Tranche 3 (40 cent exercise price)	Tranche 4 (60 cent exercise price)	Tranche 5 (40 cent exercise price)	Tranche 6 (60 cent exercise price)
Jeffrey Schrull	900,000 Options – 20.23 cents per Option (total value - \$182,041)	900,000 Options – 17.90 cents per Option (total value - \$161,140)	900,000 Options – 22.28 cents per Option (total value - \$200,508)	900,000 Options – 20.33 cents per Option (total value - \$182,955)	900,000 Options – 24.00 cents per Option (total value - \$216,006)	900,000 Options – 22.38 cents per Option (total value - \$201,439)

The total value of Options proposed to Mr Schrull based on a 31.5 cent price would have been \$1,144,089.

(i) **Other Information**

The Directors are not aware of any other information that is reasonably required by Shareholders to allow them to make a decision as to whether it is in the best interests of the Company to pass Resolution 7.

1.5 **Resolution 8 – Approval to grant of Options to Consultants**

Resolution 8 seeks Shareholder approval to grant up to 2,000,000 Options to Jean Pierre Petit and Charlie Nieto (“Consultants”). The proposal is to issue 1,000,000 Options to John Pierre Petit and 1,000,000 Options to Charlie Nieto.

Mr Petit is a France based oil and gas consultant who has wide ranging experience in the oil exploration and production industry in Africa. He has experience in logistics and finance in the African territories, and has held executive positions with various senior global oil and gas companies. Mr Nieto has multi-disciplinary experience in the oil and gas industry and has held various positions, including Joint Venture Manager, Senior Reservoir Engineer and Petroleum Engineer responsible for managing both on and offshore developments and operations, project evaluations and reserve calculations.

The Company proposes to grant the Options to the Consultants to adequately incentivise them in their roles. There are various vesting hurdles upon a number of the Options (see Annexure 1).

The Company is seeking approval under Listing Rule 7.1 to grant the Options to the Consultants so that these securities are not included in the calculation of the 15% threshold under Listing Rule 7.1.

In accordance with Listing Rule 7.3, the following information is provided to Shareholders in relation to Resolution 12.

- (a) The maximum number of securities the Company will grant is 2,000,000 Options.
- (b) The Options will be granted no later than three months after the date of this Meeting (or such later date to the extent permitted by any ASX waiver or modification of the Listing Rules).
- (c) The Options will be granted for no consideration.
- (d) The Options will be granted to the Consultants or their nominees none of which are related parties of the Company.

- (e) The terms of the Options are set out in Annexure 1.
- (f) No funds will be raised from the grant of the Options.
- (g) It is intended that the Options will be allotted on one date.

1.6 Resolution 9 – Increase Director Fees

For the purposes of Clause 13.8 of the Company's Constitution, Shareholder approval is sought to increase the maximum aggregate amount which can be paid as fees to Non-Executive Directors of the Company from \$250,000 to \$350,000 per annum. Additionally, ASX Listing Rule 10.17 provides that a listed company must not, without Shareholder approval, increase the total amount of Non-Executive Directors' fees.

1.7 Resolution 10 – Appointment of Ernst & Young as Auditor

The audit partners from PKF Perth retired and joined Deloitte Touche Tohmatsu effective 2 July 2010. Under section 329(10) of the Corporations Act (the Act), this situation meant that the individual partners, were taken to be the auditor of the Company in their own right until the next Annual General Meeting or until they obtained the consent of ASIC to resign. In light of these exceptional circumstances, consent for the resignation was received from ASIC on 6 August 2010. At that time the Directors appointed Deloitte Touche Tohmatsu subject to ratification by the members of the Company at the next annual general meeting.

In light of reviewing the Company's future audit requirements, the Directors have elected to appoint Ernst & Young as auditors for the year ended 30 June 2011 and once Resolution 10 is passed, Ernst & Young will continue as auditors until the Directors advise otherwise.

A copy of the nomination is contained in Annexure A to this Explanatory Memorandum. Ernst & Young has consented in writing to this appointment.

ANNEXURE A
NOMINATION OF AUDITOR

The Company Secretary
Rialto Energy Limited
Level 1,
34 Colin Street
West Perth WA 6005

Dear Sir

NOMINATION OF AUDITOR

For the purpose of Section 328B(1) of the *Corporations Act 2001*, I, Brett Woods, being a member of Rialto Energy Limited hereby nominate Ernst & Young, 11 Mounts Bay Road, Perth WA 6000, for appointment as Auditor of the Company at the Annual General Meeting of the Company convened for 10.00 am on 30 November 2010 (or adjournment thereof).

Brett Woods

11 October 2010

GLOSSARY

In the Notice and this Explanatory Statement the following expressions have the following meanings:

“**ASX**” means the ASX Limited (ABN 98 008 624 691).

“**ASX Listing Rules**” or “**Listing Rules**” means the Listing Rules of the ASX.

“**Board**” means the Board of Directors of the Company.

“**Company**” or “**Rialto**” means Rialto Energy Ltd (ACN 117 227 086).

“**Constitution**” means the constitution of the Company.

“**Corporations Act**” means the Corporations Act 2001 (Cth).

“**Directors**” mean the directors of the Company from time to time.

“**Explanatory Statement**” means this Explanatory Statement.

“**Meeting**” means the meeting convened by this Notice.

“**Notice**” means the notice of meeting that accompanies this Explanatory Statement.

“**Option**” means an option to subscribe for a Share in the Company.

“**Resolution**” means a resolution referred to in the Notice.

“**Share**” means a fully paid ordinary share in the capital of the Company.

“**Shareholder**” means a registered holder of Shares in the Company.

“**WST**” or “**Western Standard Time**” means Western Standard Time, Perth, Western Australia.

“**\$**” or “**A\$**” means Australian dollars unless otherwise stated.

ANNEXURE 1

TERMS OF OPTIONS

Resolution	Holder	Number	Exercise Price	Expiry Date	Vesting hurdle
7	Jeffrey Schrull	900,000	40 cents	28 June 2015	No vesting hurdle.
7	Jeffrey Schrull	900,000	60 cents	28 June 2015	No vesting hurdle.
7	Jeffrey Schrull	900,000	40 cents	28 June 2016	Vest on 28 June 2011 provided the employment condition has been satisfied.*
7	Jeffrey Schrull	900,000	60 cents	28 June 2016	Vest on 28 June 2011 provided the employment condition has been satisfied.*
7	Jeffrey Schrull	900,000	40 cents	28 June 2017	Vest on 28 June 2012 provided the employment condition has been satisfied.*
7	Jeffrey Schrull	900,000	60 cents	28 June 2017	Vest on 28 June 2012 provided the employment condition has been satisfied.*
8	Jean Pierre Petit	1,000,000	40 cents	28 June 2015	333,333 Options – no vesting hurdle. 333,333 Options – Vest on 28 June 2011 provided the employment condition has been satisfied.* 333,334 Options – Vest on 28 June 2012 provided the employment condition has been satisfied.*
8	Charlie Nieto	1,000,000	40 cents	28 June 2015	333,333 Options – no vesting hurdle. 333,333 Options – Vest on 28 June 2011 provided the employment condition has been satisfied.* 333,334 Options – Vest on 28 June 2012 provided the employment condition has been satisfied.*

*The employment condition requires employment of the relevant employee over the required period except that the employment condition will be deemed to be satisfied in the event that the Company terminates the employment of the relevant employee other than by reason of misconduct.

The terms of the Options are otherwise as follows:

1. Each Option entitles the holder to one Share.
2. Once vested, the Options are exercisable at any time prior to 5.00 pm Western Standard Time on the Expiry Date.
3. If the Company is the subject of change of control (being a trade sale, a takeover or merger) then the Options will automatically vest, and the Optionholder will then have 14 days in which to subscribe for and to be allotted one share in the capital of the Company upon exercise of each Option and payment to the Company of the Exercise Price.
4. The Options are non transferable.
5. The Options are not intended to be quoted.
6. Should the Optionholder cease to be a Director, Employee or Consultant of the Company for whatever reason during the vesting period then the Options will automatically be extinguished and the option holder will have no further rights in relation to the Options.
7. The Company will provide to each Options holder a notice that is to be completed when exercising the Options ("**Notice of Exercise**"). The Options may be exercised wholly or in part by completing the Notice of Exercise and delivering it together with payment of the Exercise Price to the secretary of the Company to be received any time prior to the Expiry Date.
8. All Shares issued upon the exercise of the Options will rank equally in all respects with the Company's then issued Shares. The Company must apply to the ASX within 7 business days after the date of issue of all Shares pursuant to the exercise of Options to be admitted to quotation.
9. There will be no participating rights or entitlements inherent in the Options and the holders will not be entitled to participate in new issues of capital which may be offered to Shareholders during the currency of the Options. However, the Company 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 Optionholders the opportunity (where available) to exercise their Options prior to the date for determining entitlements to participate in any such issue.
10. If there is a bonus issue ("**Bonus Issue**") to Shareholders, the number of Shares over which an Option is exercisable will be increased by the number of Shares which the holder would have received if the Option had been exercised before the record date for the Bonus Issue ("**Bonus Shares**"). The Bonus Shares must be paid up by the Company out of profits or reserves (as the case may be) in the same manner as was applied in the Bonus Issue, and upon issue will rank equally in all respects with the other Shares on issue as at the date of issue of the Bonus Shares.
11. In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company prior to the Expiry Date, all rights of an Optionholder are to be changed in a manner consistent with the Listing Rules.
10. In the event that the Company makes a pro rata issue of securities, the exercise price of the Options will be adjusted in accordance with the formula set out in Listing Rule 6.22.2.

RIALTO ENERGY LIMITED
ACN 117 227 086
PROXY FORM

APPOINTMENT OF PROXY

Rialto Energy Limited

ACN 117 227 086

I/We

being a Shareholder of Rialto Energy Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of Proxy

or failing the person so named or, if no person is named, the Chairman of the Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting to be held at Perth Convention and Exhibition Centre, Meeting Room 10, 21 Mounts Bay Road Perth 6000 Western Australia on 30 November 2010 at 10.00am(WST) and at any adjournment thereof.

Voting on Business of the General Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Re-election of Brett Woods as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Re-election of Glenn Whiddon as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Re-election of Jeffrey Schrull as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Re-election of Chaim Lebovits as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Adoption of the Remuneration Report for the year ended 30 June 2010	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Ratification of the issue and allotment of Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Approval to grant of Options to Jeffrey Schrull	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Approval to grant of Options to Consultants	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Increase in Non-Executive Director Fees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Appointment of Ernst & Young as Auditor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 the box. 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 Resolutions and that the votes cast by the Chair of the meeting for those Resolutions other than as proxy holder will be disregarded because of that interest. **The Chair intends to vote any such undirected proxies in favour of all Resolutions.** 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 Resolutions and your votes will not be counted in calculating the required majority if a poll is called on the Resolutions.

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your Shares are not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%

Please return this Proxy Form to the Company Secretary, Rialto Energy Limited, Level 1, 34 Colin Street, West Perth, Western Australia or by post to Level 1, 34 Colin Street, West Perth, Western Australia or by fax to (08) 9486 9362 by 10.00am (WST) on 28 November 2010.

For personal use only

Signed this _____ day of _____ 2010.

By:

Individuals and joint holders

Companies (affix common seal if appropriate)

Signature

Director

Signature

Director/Secretary

Signature

Sole Director and Sole Secretary

RIALTO ENERGY LIMITED
ACN 117 227 086

Instructions for Completing Appointment of Proxy Form

1. In accordance with section 249L of the Corporations Act, a shareholder of the Company who is entitled to attend and cast two or more votes at a general meeting of shareholders is entitled to appoint two proxies. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If the shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes.
2. A duly appointed proxy need not be a member of the Company. In the case of joint holders, all must sign.
3. Corporate shareholders should comply with the execution requirements set out on the Proxy Form or otherwise with the provisions of section 127 of the Corporations Act. Section 127 of the Corporations Act provides that a company may execute a document without using its common seal if the document is signed by:
 - 2 directors of the company;
 - a director and a company secretary of the company; or
 - for a proprietary company that has a sole director who is also the sole company secretary – that director.

For the Company to rely on the assumptions set out in sections 129(5) and (6) of the Corporations Act, a document must appear to have been executed in accordance with sections 127(1) or (2). This effectively means that the status of the persons signing the document or witnessing the affixing of the seal must be set out and conform to the requirements of sections 127(1) or (2) as applicable. In particular, a person who witnesses the affixing of a common seal and who is the sole director and sole company secretary of the company must state that next to his or her signature.

4. Completion of a Proxy Form will not prevent individual shareholders from attending the Meeting in person if they wish. Where a shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that shareholder is suspended while the shareholder is present at the Meeting.
5. Where a Proxy Form or form of appointment of corporate representative is lodged and is executed under power of attorney, the power of attorney must be lodged in like manner as this proxy.
6. In accordance with section 250BA of the Corporations Act the Company specifies the following for the purposes of receipt of proxy appointments:

Registered Office: Level 1, 34 Colin Street, West Perth, Western Australia

Fax Number: (08) 9486 9362

Postal Address: Level 1, 34 Colin Street, West Perth, Western Australia by no later than 48 hours prior to the time of commencement of the Meeting.