



21 April 2011

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2011

HIGHLIGHTS

Triple Crown

- Drilling and logging operations completed on the first well on this prospect
- Original gas in place assessment completed with 9 TCF
- Over 2,300 ft of gas intersected
- Pre-drill objectives achieved beyond expectations
- Negotiations to acquire further land are well progressed
- Plans for the completion and testing of the well continue
- \$7.1 M secured through a private placement managed by Pattersons Securities

South Africa

- Environmental Management Plan application currently being reviewed, as the company awaits approval of its application for an exploration right at Cranemere.

Maricopa

- Oil sales for the March Quarter of 1,962 barrels (100% Joint Venture)
- Wellington Maricopa #6 continued at a good oil production rate of 22 bopd

Triple Crown prospect – Edward County, Texas 80% WI

As advised in the last Quarterly report, drilling to appraise the Triple Crown prospect was completed during the quarter. The well commenced drilling on the 9th November 2010, however it had to be plugged and abandoned as the drill bit became stuck during a routine trip out operation. The rig was skidded across and a drilling recommenced on the 2nd December 2010. This well was drilled to a total depth of 7,431 ft and intersected a combined gas column of over 2,300 ft. Drilling operations were completed after the end of the quarter on 20th January, 2011. Wireline logs including formation imaging log were acquired at this time and the well temporarily secured in accordance with regulations until the next stage of the evaluation program has been finalized.

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 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.

An original gas in place (OGIP) assessment was completed with 9 TCF in place across the existing land holdings of 45,000 acres. Challenger is progressing negotiations with adjacent landowners to significantly increase its land holdings in this play.

The latest set of physical and chemical analysis of the side wall cores is nearing completion with the company expecting this in late May. Upon receiving this information this data will be integrated into the log analysis to refine the target zones. This information will then be incorporated into the decision of selecting the best completion and fracture stimulation option. Following these operations the well will then be extensively production tested.

South Africa 90%

During the quarter Bundu (90% owned by Challenger Energy Limited) continued to support the ongoing assessment of its application for an exploration right located around Cranemere in the Southern Karoo Basin.

The permit is centred around the CR 1/68 well located within the application area flowed high rates of gas of more than 8 MMcf/day of natural gas from the Fort Brown shale during testing in 1968.

The Karoo basin has recently become an area of interest for a number of major international companies, including Shell, Falcon Oil & Gas, Chesapeake and Statoil. At Cranemere, the Company is targeting the Fort Brown shales, a massive (up to 5000 ft thick) lower Permian carbonaceous shale.

Maricopa Project: 50% Working Interest (San Joaquin Basin)

The Maricopa #6 well averaged a rate of 22 bopd during the quarter.

Improved oil prices over the last three quarters have had a beneficial effect on the project with average prices of close to US\$97 per barrel being achieved in the March quarter.

Challenger Energy has a 50% Working Interest. Solimar Energy holds a 50% Working Interest and is the operator.

The Silverthread Project: 18.5% - 20% Working Interest (Ventura Basin)

Challenger was advised by Solimar Energy that after many years of attempting to obtain assignments of the lease at Silverthread, it had formed the view that there was no prospect of reaching an agreement to do so. As such, Solimar advised that it has settled the matter in order to minimise the ongoing costs associated with attempting to enforce this action. Challenger have agreed with this course of action and will surrender this project.

The Deer Creek Project: 50% Working Interest and Operator (San Joaquin Basin)

The Company is currently evaluating the future of the Deer Creek project and how it fits in with the Company's plans and objectives.

SALES PRODUCTION

During the March 2011, a total of 1,962 barrels of oil were sold from the Maricopa Project. The average price of oil received from the Kern Oil Refinery in the December quarter 2010 was close to US\$97/bbl.

CORPORATE

During the current and previous quarters, the Company raised \$4 million in funds via a loan facility to provide additional working capital to fund the drilling and testing operations of the initial well at the Triple Crown Prospect. The facilities were a direct, un-secured and un-subordinated obligation of the Company, with interest accruing at the rate of 10% per annum, calculated daily, compounded monthly, capitalised and payable by no later than 1 July 2010. Each of the participants in the loan facility were offered 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. All amounts received under the loan facilities have been satisfied by the issue of securities approved by shareholders and/or under the Company's 15% capacity.

On 31 January 2011, the Company held a shareholders' meeting whereby all resolutions were passed. Forming part of the meeting, shareholders approved the issue of new equity to satisfy the full amount payable under the financing facility.

On 20 April 2011, the Company announced that it had successfully completed a private placement of A\$7.1 million to fund the further development of its exciting Triple Crown Project in Texas.

The private placement, which was managed by Patersons Securities Ltd was oversubscribed with strong support from sophisticated and institutional investors.

Challenger Energy will apply the core of the funds raised to focus on the further advancement of its Triple Crown project including:

- Acquisition of additional land in the project area
- Fracture stimulation and testing of the well recently drilled on the project
- Ongoing geological testing and evaluation activities.

The share placement will be progressed through the issue of 30.667 million fully paid ordinary shares at A\$0.15 per share (raising a total of A\$4.6 million before costs). These shares will be issued under the Company's existing placement capacity. A further 16.66 million fully paid ordinary shares at A\$0.15 will be issued subject to shareholder approval (raising an additional A\$2.5 million before costs). The new shares will rank equally with the Company's existing ordinary shares. To date, the Company has over \$4 million received/secured in application funds.

The Company expects to hold a shareholders' meeting regarding the approval to issue such shares on 20 May 2011.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Paul Bilston".

Paul Bilston
Managing Director

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Challenger Energy Limited

ABN

45 123 591 382

Quarter ended (öcurrent quarterö)

31 March 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$Aö000	Year to date (9 months) \$Aö000
1.1 Receipts from product sales and related debtors	81	226
1.2 Payments for (a) exploration & evaluation	(1,184)	(5,204)
(b) development	(1)	(15)
(c) production	(32)	(100)
(d) administration	(304)	(1,013)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2	21
1.5 Interest and other costs of finance paid	(52)	(52)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
Net Operating Cash Flows	(1,490)	(6,137)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.13 Total operating and investing cash flows (carried forward)	(1,490)	(6,137)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,490)	(6,137)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	922
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	1,509	3,914
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share/option issues	(18)	(103)
	Net financing cash flows	1,491	4,733
	Net increase (decrease) in cash held	1	(1,404)
1.20	Cash at beginning of quarter/year to date	304	1,716
1.21	Exchange rate adjustments to item 1.20	(2)	(9)
1.22	Cash at end of quarter	303	303

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	98
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees and salaries

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$Aø000	Amount used \$Aø000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$Aø000
4.1 Exploration and evaluation	750
4.2 Development	-
4.3 Production	-
4.4 Administration	250
Total	1,000

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$Aø000	Previous quarter \$Aø000
5.1 Cash on hand and at bank	303	304
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	303	304

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements acquired or increased	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	166,687,668	166,687,668		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	35,795,998 7,901,595	35,795,998 7,901,595	8.5 cents 14 cents	8.5 cents 14 cents
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	3,500,000 105,222,171 2,000,000 2,000,000 2,000,000 2,000,000	- 105,222,171 - - - -	<i>Exercise price</i> 10 cents 20 cents 25 cents 35 cents 25 cents 35 cents	<i>Expiry date</i> 30/06/2012 30/06/2012 01/02/2013 01/02/2015 01/02/2014 01/02/2015
7.8 Issued during quarter	27,650,000	27,650,000	20 cents	30/06/2012
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Date: 21 April 2011

Managing Director

Print name: Paul Bilston

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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