



28 July 2011

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2011

HIGHLIGHTS

Triple Crown

- **Testing program expected to commence August 2011**
- **Short HZ sidetrack to test the Ellenburger Formation – OGIP 1.6 TCF**
- **Followed by a large “Slick Water Frac” on selected Hybrid Interval – OGIP 7.4 TCF**
- **Land Acquisition program ongoing and progressing well**

South Africa

- **The Company awaits approval of its application for an exploration right at Cranemere.**

Maricopa

- **Oil sales for the June Quarter of 1,802 barrels (100% Joint Venture)**
- **Wellington Maricopa #6 continued at a good oil production rate of 23 bopd**

Triple Crown prospect – Edward County, Texas 80% WI

The next step in the appraisal and development of the Triple Crown Project in Texas is to conduct an initial testing program, which is planned to commence in August 2011.

The Triple Crown well encountered over 1,300 ft of gas charged rock in the Ellenburger Formation with *Original Gas In Place (OGIP) in the Ellenburger assessed at 1.6 TCF*. The Ellenburger is a conventional dolomite play which relies on the well intersecting sets of near vertical fracture swarms. In recent times, the optimal method of producing from the Ellenburger in this region has generally been with horizontal wells, as the number of different vertical fracture swarms that are intersected is maximized.

Following a review of the Formation Image Log completed by a specialist consultant based in Midland (Texas) and discussions with operators active in the Ellenburger in this region, the Company decided to prioritise the testing of the Ellenburger in the existing Triple Crown well.

Testing will involve a side track out of the existing well bore and a short horizontal lateral into the zone at top of the Ellenburger. The sidetrack will be drilled from a window milled into the existing casing at ~5,300 ft, building angle to enter the target zone horizontally at the top of the Ellenburger 500 ft from the existing well bore. The initial target for the side track will be a zone at approximately 5,800 ft where a significant volume of fluid was lost into the formation during the initial drilling of this well. The company is targeting this zone as the conventional logs show porosity and a “gas effect” and the Image Log shows significant fracturing.

Other operators in the region have suggested that a successful completion in this zone could yield 4-5 BCF per well. The Triple Crown Ellenburger structure extends over ~ 25,000 acres, which may provide for in excess of 150 well locations in the event this testing program is successful.

HYBRID PLAY

As previously advised, Challenger intends to complete a fracture stimulation on a selected interval as a proof of concept test of the Hybrid Play. The Company has identified an Original Gas In Place (OGIP) within the Hybrid of 7.4 TCF within its existing lease position.

As a result of the decision to drill a sidetrack into the Ellenburger which will prevent testing in the bottom part of the well, Challenger has selected a zone at approximately 5200 ft to fracture stimulate and test. The zone will be fracture stimulated by a large “Slick Water Frac” consistent with the stimulation design currently utilized in other unconventional plays. The objective of this test is to understand the production characteristics of this zone and provide valuable inputs into understanding the potential recoverable resource.

This fracture stimulation will immediately follow the Ellenburger Formation HZ testing programme.

LAND

Challenger has had Land Agents on the ground, who have delivered extensions to existing leases, acquired options on additional acreage and continue to make good progress on further land acquisition in target areas.

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.

There has been some speculation in the South African media recently that the team set up to investigate the implications of shale gas exploration through Hydraulic Fracturing will report to the Minister of Natural Resources in the near future. This may allow approval of Bundu Oil & Gas's (90% owned by Challenger) application to be granted. This approval was delayed in May (ASX 02 May 2011) awaiting completion of this report and its recommendations. At this time, Challenger has not received any official notification on this matter.

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. A US Energy Information Administration report on potential shale gas resources around the world has identified a "Risky Recoverable Resource" of approximately 6.8 BCF per square mile, which based on the size of the application is equivalent to more than 7 TCF of recoverable resource.

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

The Maricopa #6 well averaged a rate of 23bopd during the quarter.

Improved oil prices over the last threequarters have had a beneficial effect on the project with average prices of close to US\$111 per barrel being achieved in the June quarter.

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

SALES PRODUCTION

During the June 2011 quarter, a total of 1,802 barrels of oil were sold from the Maricopa Project. The average price of oil received from the Kern Oil Refinery in the June quarter 2011 was US\$111/bbl.

CORPORATE

During the quarter, the Company placed 47,333,333 ordinary shares at 15 cents per share, raising \$7.1 million before associated costs.

Yours faithfully



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)

30 June 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$Aö000	Year to date (12 months) \$Aö000
1.1 Receipts from product sales and related debtors	49	275
1.2 Payments for (a) exploration & evaluation	(351)	(5,555)
(b) development	(3)	(18)
(c) production	(30)	(130)
(d) administration	(375)	(1,393)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	27	48
1.5 Interest and other costs of finance paid	(45)	(97)
1.6 Income taxes paid	-	-
1.7 Other ö deferred acquisition costs	(82)	(82)
Net Operating Cash Flows	(810)	(6,952)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(3)
1.9 Proceeds from sale of: (a) prospects	46	46
(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)	-	-
	43	43
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(767)	(6,909)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(767)	(6,909)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	7,100	8,022
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	3,914
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share/option issues	(385)	(488)
	Net financing cash flows	6,715	11,448
	Net increase (decrease) in cash held	5,948	4,539
1.20	Cash at beginning of quarter/year to date	303	1,716
1.21	Exchange rate adjustments to item 1.20	(1)	(5)
1.22	Cash at end of quarter	6,250	6,250

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	114
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	2,000
4.2 Development	-
4.3 Production	-
4.4 Administration	500
Total	2,500

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	2,241	303
5.2 Deposits at call	4,009	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	6,250	303

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	214,021,002	214,021,002		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	47,333,334	47,333,334	15 cents	15 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				
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: 28 July 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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