



10<sup>th</sup> August 2011

## ASX release

### US acreage acquisition in two proven shale formations

#### MERCURY STETSON PROSPECT (Texas)

- *Challenger Energy has acquired an interest in a large unconventional resource with interest earned via drilling and leasing activities, with Challenger acting as operator*
- *Two proven shale formations – Barnett and Woodford*
- *Massive potential gas in place with OGIP estimated at 360 BCF/sq mile*
- *Large prospect area – potentially up to 55,000 acres(86 sq miles)*
- *Farm in to earn up to 50% in a 26,000 acres contiguous land position with three pipelines across prospect with an initial target of 35,000 acres across the prospect.*

10 August 2011: Challenger Energy Ltd ("Challenger") is pleased to announce that it has entered into an agreement to acquire a working interest of up to 50% in leases and an Area of Mutual Interest ("AMI") covering the Mercury Stetson Prospect located in North Texas. The interest will be earned by completing a two well drilling and testing program, paying for the renewal and extension of existing leases and conducting a seismic program.

Commenting on the agreement, Challenger Managing Director, Mr Paul Bilston said that this project had enormous potential given the shale formations running through the prospect area.

"This is a very exciting opportunity for Challenger and its shareholders. Acquiring the interests in this project area provides Challenger with exposure to two proven productive shale formations. The Barnett and Woodford shale formations have been at the heart of the incredible growth in US shale gas production over the past ten years. "

"This project is particularly exciting as it includes both the Barnett and Woodford shale formations in a single project area. The production from both these formations has been extensively demonstrated, and the properties of the shale in the project area are consistent with the best of these."

"The gas in place in this project area is massive, and given the proven recoveries seen by other operators in both shales, I am confident this project has the potential to be a multi TCF resource with the presence of both shales improving the potential economics."

"The acquisition of this project is consistent with our strategy to acquire large positions in prospective unconventional resource plays, and strengthens Challenger's existing positions

**Address** Level 17, 500 Collins Street, Melbourne, VIC, 3000

**Tel**+ 61 3 9614 0600 **Fax**+61 3 9614 0550

**Email**[admin@challengerenergy.com.au](mailto:admin@challengerenergy.com.au)

**Web**[www.challengerenergy.com.au](http://www.challengerenergy.com.au)

**ACN**123 591 382

with our Triple Crown prospect and our very large application in the Southern Karoo Basin in South Africa,” said Mr Bilston.

### The Mercury Stetson Prospect contains two of the premier shale formations in the US

The Mercury Stetson Prospect contains two of the premier shale formations in the US – the Woodford and Barnett shales – in geological extensions of the core producing areas in the Arkoma and Fort Worth Basins.

The key well on the Mercury Stetson Prospect was drilled in 1978 before the development of any of the shale gas plays in the US. It identified that both shales present in the well had the same log signatures, geochemical characteristics and thicknesses as those found in the core producing areas of both the Barnett and Woodford shales.

The prospect is located in a small pocket in between two uplifted areas, the Muenster Uplift to the south (which provides the northern boundary of the Fort Worth Basin), and the Arbuckle Uplift to the north (which provides the southern boundary to the Arkoma Basin). The presence of both these shales within this pocket has not been commonly recognised, as there has been only the one historic well which penetrated the formations within the prospect area.

The preliminary extent of these formations has been mapped via existing seismic, however additional seismic is required to fully define the prospect area.

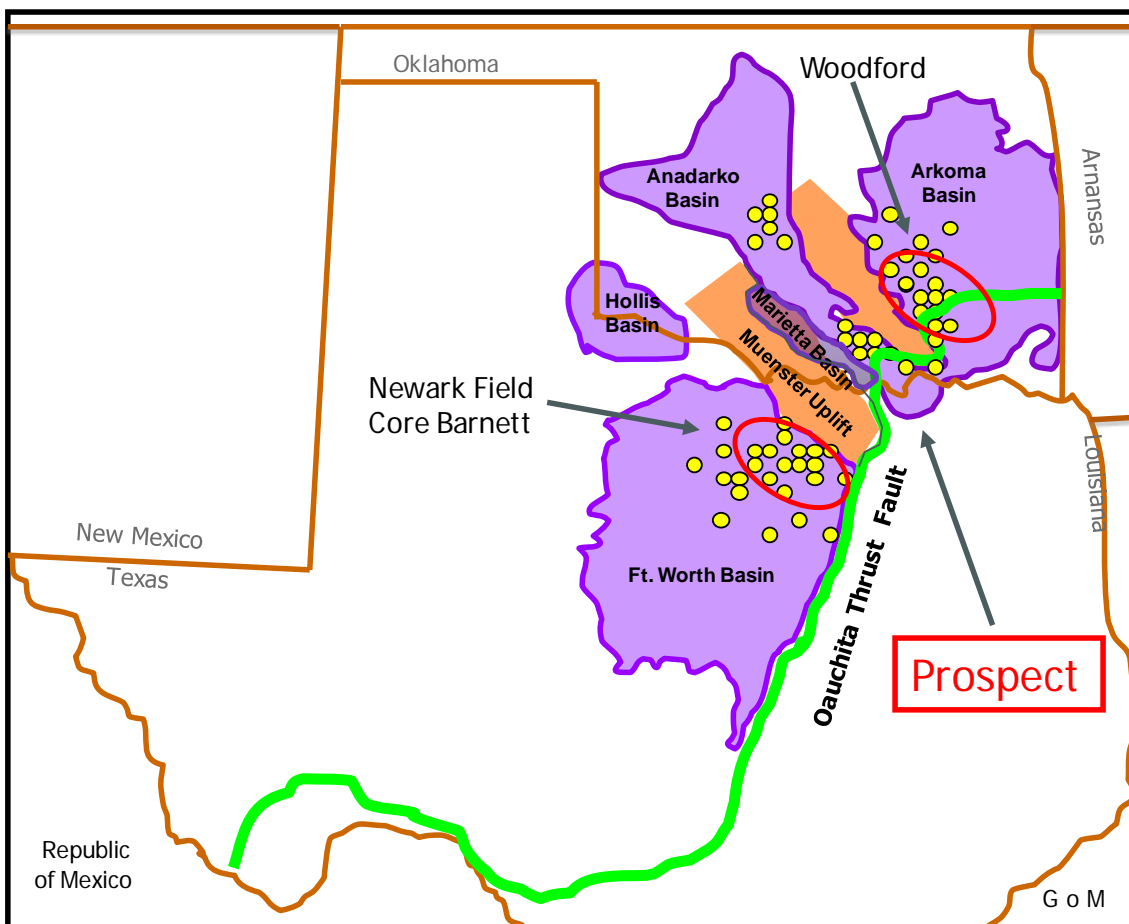
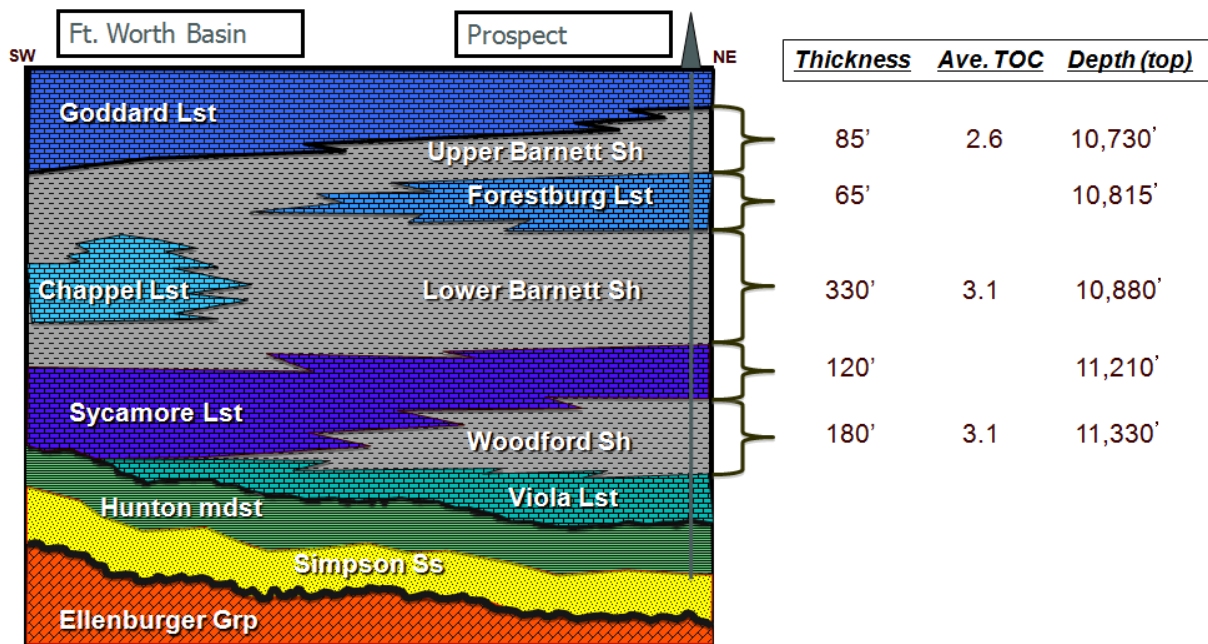


Figure 1 - Location of Prospect Area showing core productive areas.



**Figure 2 Stratigraphy Prospect area compared to Fort Worth Basin**

Note: TOC results are from cuttings – Actual TOC expected to be ~ 100% higher based on experience with analysis of results in the Barnett shale.

### **Barnett shale**

The Barnett shale was the first recognised shale gas play in the world and has a proven production history in the Fort Worth Basin.

Evaluation of the 1978 well drilled on the Mercury Stetson Prospect has identified a total of 415 ft of Barnett shale and has similar thickness, total organic content, maturity and mineralogy to the Newark East Field, the core area in the Fort Worth Basin immediately to the south of the Muenster Uplift.

There are over 14,000 gas wells in the Fort Worth Basin. Publicly available data indicates that the average Barnett shale well has an Estimated Ultimate Recovery (EUR) of more than 3 BCF per well in the core area. Operators within the core areas have been increasing the predicted recovery factor of the Original Gas in Place (OGIP) from 15-20% initially to as high as 40% in recent times with well spacing being decreased.

### **Woodford shale**

Whilst the Woodford shale has only more recently been developed, it is also one of the premier shale plays in the world and has a proven production history in Oklahoma with over 500 producing wells.

The same well also intersected 180ft of Woodford shale which had similar total organic content, maturity and mineralogy to the Woodford production in Arkoma, Anadarko and Ardmore basins in Oklahoma.

Publicly available data indicates that the average Woodford shale well has an EUR of more than 4 BCF/well, and is generally expected to have a higher recovery factor than the Barnett, as a result of slightly higher porosity in the system.

### ***Consideration for 50% interest***

Under the terms of the agreement, Challenger will:

- Act as operator;
- Pay up to US\$2.2 million as and when required for the renewal and extension of existing leases plus the acquisition of additional leases;
- Drill, fracture stimulate, and complete two vertical wells;
- Conduct a seismic program funded partially by revenue from the first well; and
- Connect the two wells to the nearby sales pipeline.

Following completion of this initial program, Challenger will have a 50% interest in the permit leases which currently total ~ 26,000 net acres. The Joint Venture will target a controlling interest of at least 35,000 net acres (~ 55 sq.miles) across the prospect area over the next 6 months.

### ***Future Plan***

The initial focus of the Joint Venture is to extend and renew the existing leases across the area to provide control of the prospect with long term leases. This is expected to take 3-4 months.

Once this has been substantially completed, the first operation will be to re-enter the existing well on the Mercury Stetson Prospect and redrill through the Barnett and Woodford shales. Modern electrical logs will be run, sidewall cores collected and geochemical analysis performed. The well will be fracture stimulated, completed and connected to a nearby sales gas pipeline. This well is planned to be drilled in late 2011 or early 2012.

A seismic program will be run in early 2012 to assist in delineating the geophysical features across the prospect.

A second well be drilled during the course of 2012, following a review of the data from the first well and the seismic data.

In the event that the Phase 1 exploration program is successful, the Joint Venture Agreement provides for a joint Phase 2 program to further explore the prospect.

For further information please contact:

Mr Paul Bilston  
Managing Director  
P: 0402 060 405

## **About Challenger**

Challenger Energy Limited is a public company listed on the Australian Stock Exchange (ASX:CEL) with a growing portfolio of exciting Oil and Gas exploration opportunities in South Africa and the USA.

Challenger's strategy is to utilise its network of global contacts to identify and acquire material upstream oil and gas exploration opportunities at a low entry cost which enables it to focus its exploration expenditure on drilling wells and other direct expenditure.

Challenger is targeting opportunities where it can act as operator, and which have significant scale and materiality (more than 1 TCF of gas or 10 Million bbl of Oil). The scale of these opportunities provides potentially significant upside for the company.

## **Forward Looking Statements**

This announcement contains "forward-looking statements". Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil & gas prices and foreign exchange rate movements; estimates of future oil & gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil & gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company's plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company's Annual Reports, as well as the Company's other filings. The Company does not undertake any obligation to release publicly any revisions to any "forward looking statement" to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.