



14th December 2011

ASX release

Operations Update

14 December 2011: Challenger Energy Ltd ("Challenger") provides the following update on its operations in the US.

Mercury Stetson

Challenger has decided to modify the re-entry operations at Mercury Stetson. Rather than continue the re-entry through the old well bore, Challenger plans to undertake a sidetrack from the existing well bore at ~ 5,100 feet and drill new a hole to bottom.

The Board of Challenger has formed the view that the sidetrack option will be more cost effective than continuing operations to re-enter the old 9 5/8" casing. In addition, to being cost effective, drilling a new hole through the two reservoir sections will provide the opportunity to obtain a new mud log, collect fresh drill cuttings and run modern logs in the new hole that will provide a much better understanding of the reservoir compared with re-entering the existing well bore which has been open and exposed to unknown drilling fluids for over 30 years.

Over the last week several different operations to enable 7" new casing to be run inside the 9 5/8" casing have been unsuccessful. This has led to the Board's re-evaluation of the drilling approach. Whilst Challenger is disappointed that the re-entry has only been partially successful, utilising the existing location ponds and 5,100 feet of open hole provides a significant cost saving to the option of a brand new well.

The current work-over rig is not capable of drilling this new hole, therefore a drilling rig will be mobilised to site in the new year to drill the ~ 7,000 feet left to reach the target zones.

The Mercury Stetson Joint Venture agreement provides for an adjustment of the farm-in obligations in the event the re-entry was unsuccessful, and Challenger has already had initial favorable discussions with the Joint Venture to address the situation where the re-entry was partially successful.

Challenger Energy has agreed to farm in to earn 50% of the Mercury Stetson Prospect which includes the Barnett and Woodford shales - both proven shale formations. The prospect which is potentially up to 55,000 acres (86 sq miles) has a massive potential gas in place with OGIP estimated at 360 BCF/sq mile. The JV area initially includes 26,000 acres contiguous land position with three pipelines across prospect with an initial target of 35,000 acres across the prospect.

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Further updates will be provided in due course.

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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.