

20 March 2012

## ASX release

### Barnett Shale Log Results – Mercury Stetson

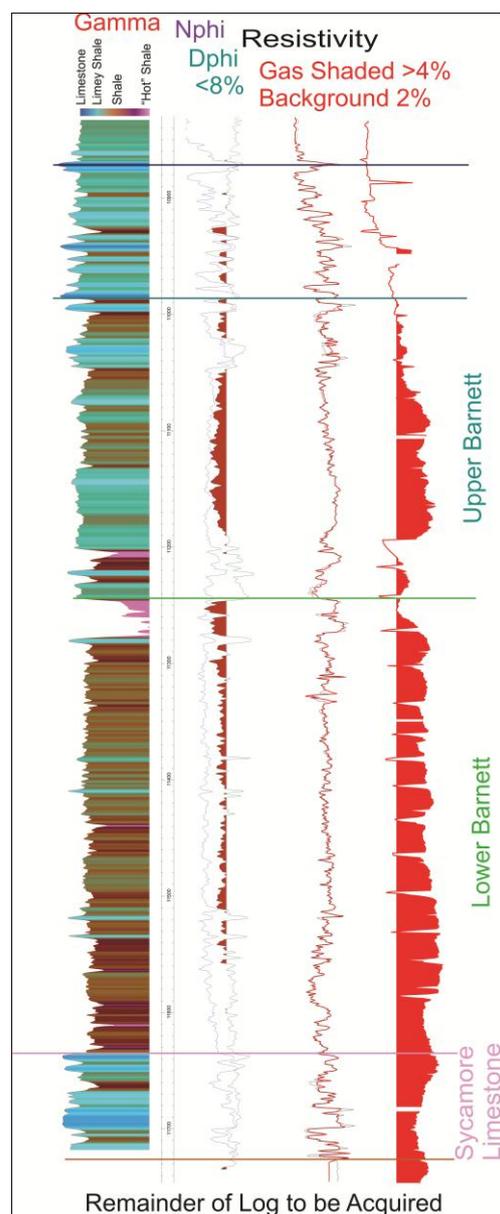
- **Barnett shale apparent thickness ~ 600ft**
- **Mudlogs confirm the Barnett contains gas over the entire 600 feet**
- **Excellent density porosity across the Barnett**
- **Rig Drilling on to Woodford Shale**
- **Funding secured to deepen the well and potentially expand the fracture stimulation program**

20 March 2012: Challenger Energy Ltd ("Challenger") is very pleased to announce that the results of the open hole logs over its well in the Mercury Stetson project have confirmed the presences of the Barnett Shale, with an apparent section thickness of approximately 600 ft. This is almost 200 ft more of the Barnett that was anticipated pre-drill. Mudlogs have confirmed that the Barnett contains gas across the entire 600 ft.

The logs show all of the attributes considered critical to a successful shale play, and are consistent with the attributes seen in the core area of the Barnett in the Fort Worth Basin. The density porosity which is a key indicator of the presence of the productivity of the shale system is generally in the range of 10 – 14% across most of the Upper Barnett, and in the range 8 – 12% across the Lower Barnett. The mudlog gas shows of in excess of 500 units (or 5% gas) are also consistent with the core area of the Barnett given the high mud weight being used in the drilling.

These log results combined with the strong gas shows across both the upper and lower sections provide a number of potential intervals for fracture stimulation.

The increase in the apparent thickness of the Barnett over the expected thickness has led the company to re-enter the well bore and deepen it. This will ensure the well intersects the Woodford Shale which, like the Barnett, is one of the top 4 shale plays in the US.



The current operation is running into the hole after a bit change at 11 776ft MD after drilling approximately 10 ft into the Woodford Shale. The samples from the mud logging, have confirmed that the rig has drilled into the top of the Woodford at 11 766ft, with strong gas shows as high as 670 Units (6.7%) up from a background of 250 units. As anticipated the Woodford was intersected at the base of the Sycamore Limestone approximately 120 feet below the Barnett.

Challenger intends to continue drilling through the Woodford and into the Viola Limestone. It will then run an expanded suite of open hole logs across the lower portion of the hole, including a Formation Image Log across the entire section to assist in understanding the fractures and faulting in the well. Further details will be release once logs have been run over the lower parts of the hole.

In commenting on the results Mr Paul Bilston the Managing Director of Challenger said

***“we are excited by both the thickness and the results of logs over the Barnett which indicate characteristics similar to the prolific core area of the play. I also wish to thank our shareholders who were happy to provide additional capital which will allow us to deepen the well as well as potentially expand our Fracture stimulation program, once we finish drilling the well.”***

## **Funding**

In order to enable funding of what is likely to be an expanded fraccing program the Company has undertaken a capital raising. 18.462M new Shares (“Placement Shares”) will be issued at a price per share of \$0.065c, which represents a 9% discount to the last traded price, to raise \$1,200,000 (before costs). There has been very strong demand for the placement, with significant oversubscription

## **Prospect Overview.**

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.

Based on the technical information available from this well, the two shales are estimated to contain in excess of 360 BCF/sq mile of gas in place. Interpretation of the current seismic data suggests that the prospect area is ~ 55,000 acres (85 sq miles).

The core objective of the testing program is to demonstrate that gas can be delivered to surface from both the Barnett and Woodford shales in the prospect area. This is the critical piece of information that will underpin the validity of the massive gas in place and commercial potential of the prospect area.

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.

Further updates will be provided in due course.



Mr Paul Bilston  
Managing Director  
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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.