



26 March 2012

## **ASX release**

### **Operations Update – Mercury Stetson**

- ***Deeping operations completed***
- ***Logging operations in process***
- ***TD of 11,947 feet reached***
- ***Strong gas through Woodford Shale***

26 March 2012: Challenger Energy Ltd ("Challenger") is pleased to announce that it has reached TD for the well after successfully drilling ~ 150ft of Woodford shale. This adds to the approximately ~ 600 ft of Barnett in the upper part of the well previously reported. Strong gas shows have been observed throughout both shales.

As of 6am Monday 23 March 2012, the well had reached a final depth of 11,947 ft MD and is currently completing logging operations.

Like the logs of the Barnett, the preliminary logs received this morning show all of the attributes considered critical to a successful shale play, and are consistent with the attributes seen in the core areas of other Woodford shale play.

The logs received to date appear consistent with the logs received from the original well bore, with exceptionally high gamma readings being off scale at over 300 api units. This is a key indicator of high organic material in the shale. The density porosity which is a key indicator of the presence of the productivity of the shale system is generally in the range of 9 – 15% across the interval. The mudlog gas shows of up to 670 units (or 6.7% gas) are also consistent with productive shale.

The company expects to complete logging operations later today. The rig will then lay down the drill pipe and a 7 inch casing string will be run into the hole and cemented in place. Following this the drilling rig demobilised ahead of the next phase of testing.

The rig had to cease drilling operations slightly earlier that previously planned due to operational issues with high torque being seen at surface. This has resulted in only 150 ft of Woodford being drilled, compared to the 185 ft expected from the offset well. This will not impact on the ability to fracture stimulate the entire Woodford section.

Following demobilisation of the drilling rig, fracture stimulation and production testing equipment will be procured and mobilised to site to conduct these operations. As this stage the company expects it to be 4 – 6 weeks before fracture stimulation occurs.

## 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.

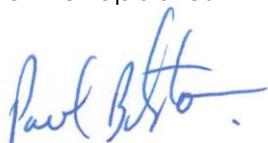
The key well on the Mercury Stetson Prospect was drilled in 1978 before the development of any of the shale gas plays in the US. It identified that both shales present in the well had the same log signatures, geochemical characteristics and thicknesses as those found in the core producing areas of both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



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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.