



31 October 2012

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ASX :CEL

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2012

HIGHLIGHTS

South Africa

- **Government lifts moratorium on Fracking**
- **Sources indicate award of Exploration Right likely in the next few weeks**
- **Strong interest in the asset from a number of parties**
- **Significant progress on farmout**

Maricopa

- **Wellington Maricopa project produced at an average rate of 12.3bopd.**
- **Joint Venture exploring sale options**

South Africa (90%)

Following the lifting of the moratorium during the quarter Bundu Oil and Gas Pty Ltd (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. The priority application right covers 4,600 square kilometres and is centred around, and contains, the CR 1/68 well which flowed high rates of gas (more than 8 MMcf/day) from the Fort Brown shale during testing in 1968.

Lifting of the Moratorium

On Friday 7th September 2012 the South African Cabinet announced that it had approved the report submitted by the Minister for Mineral Resources (Susan Shabangu) that had been prepared by the technical task force convened last year to investigate the potential impacts of the Exploration for Shale gas in the Karoo Basin. The Cabinet also endorsed the recommendation of the report which was to lift the moratorium on applications for the exploration of shale gas in the Karoo that had been in place since May 2011.

The Karoo Basin

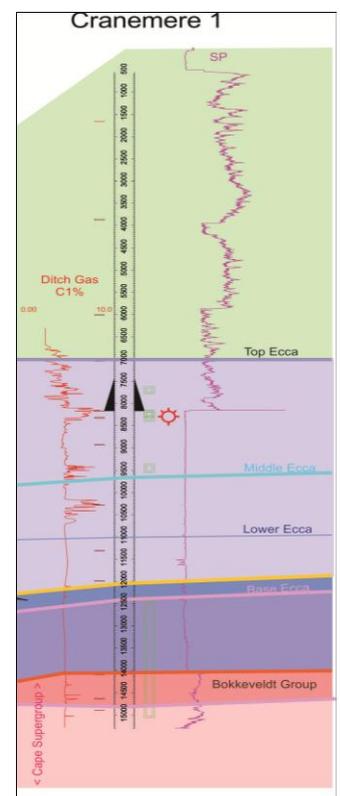
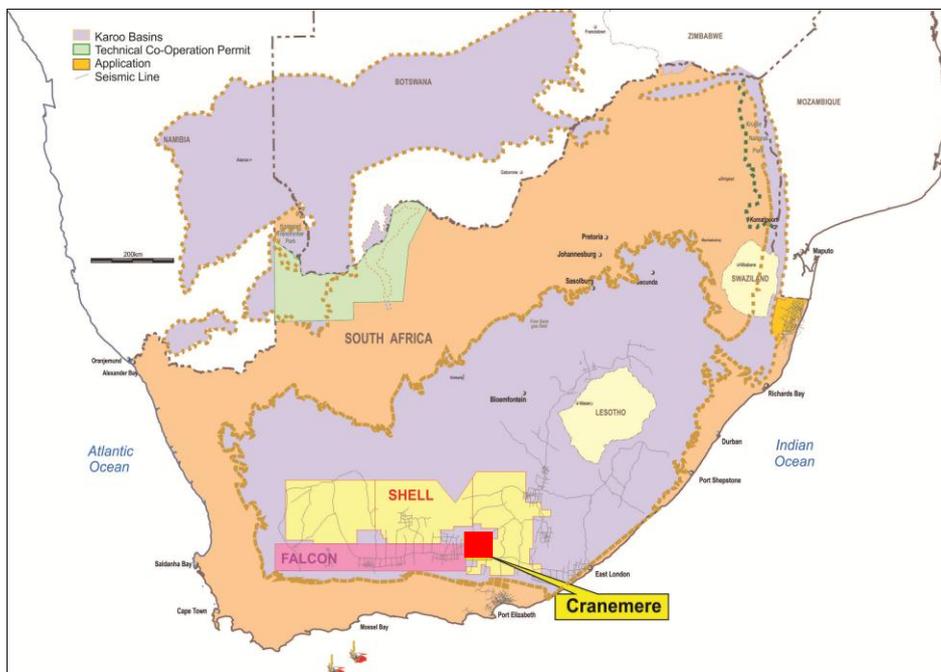
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The Karoo Basin has become the focus of intense interest in the past few years, following the initial application to explore for shale gas in the basin by Bundu Oil & Gas Pty Ltd (acquired by CEL in April 2010) in February 2009. The Basin, which measures 600,000 km² is located in central and southern South Africa and contains organic rich shales such of Permian age with combined thickness up to 5000 feet. The focus for shale gas exploration is in the southern portion of the basin where the shales are at sufficient depth and where five wells, all pre 1970, have intersected these shales and all had significant gas shows. One well, the Cranmere CR 1/68 well, area flowed more than 8 MMcf/day of natural gas from the Fort Brown shale during testing over a 158 feet interval in 1968. The production was judged to be from fractures and secondary porosity in the shales.

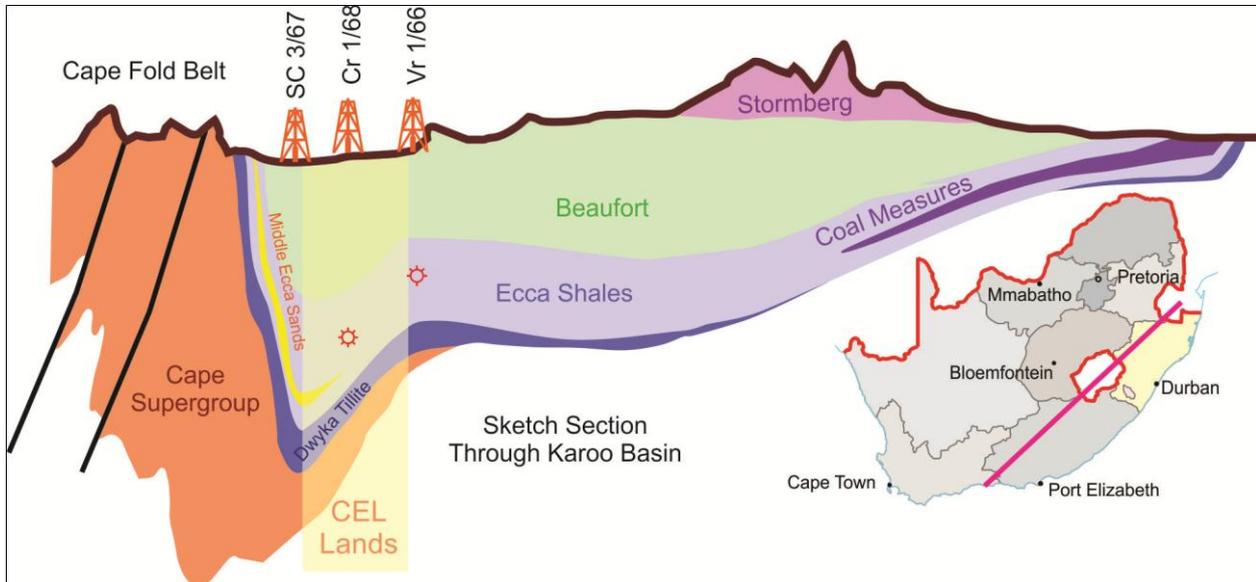
US Department of Energy Assessment of Karoo Potential

The US Department of Energy in its April 2011 report: “World Shale Gas Resources: An Initial Assessment” estimated that there is 485 trillion cubic feet of risked technically recoverable shale gas resources in South Africa’s Karoo. This ranks as the fifth largest among 32 countries included in the study and is almost half of the reports estimate of risked technically recoverable shale gas resources in North America. The US Department of Energy “World Shale gas resources report” identified a “Risked Recoverable Resource” of approximately 6.8 BCF per square mile across the basin.

Applying this to the size of Challengers TCP application is equivalent to more than 8.5 TCF of recoverable resource⁽¹⁾. Importantly Challengers application is in the heart of the basin so CEL’s application covers an area containing thicker and deeper shales which would be expected to significantly exceed the basin average.



The Cranmere CR 1/68 well is located in the middle of CEL's Application.



Potential Economic Benefit

The potential gas market for in the Karoo region is unique. South Africa remains significantly short of energy and is currently utilising liquid fuels such as diesel for Peak intermediate electricity production at prices equivalent to US\$17/mcf. This provides a ready market for market with HV powerlines running across the permit. In addition PetroSA's 45 000 barrels per day (bpd) gas-to-liquids refinery in Mossel Bay is currently being fed by off-shore natural gasfields which have around 6 years of reserves remaining ⁽²⁾.

Econometrix, South Africa's largest independent macro-economic consultancy has released a study (commissioned by Shell) on the potential economic and employment benefits of a successful natural gas development in the southern Karoo basin. The Econometrix report estimates that a relative conservative find of 20 TCF could have an annual economic impact of ZAR80 billion and at 50 TCF the impact on the South African economy could be as high as ZAR200 billion. Hundreds of thousands of sustainable employment opportunities could be created and have a knock-on effect on producers, government and consumers.

Current Operations

Challenger continues to observe a broadly supportive sentiment in the media and an increased in interest in the shale industry in South Africa. The company continues to progress discussions on a potential farm-in with interested parties within this more favourable environment. The company is hopeful that the formal awarding of its exploration right will allow it to conclude this farmout process.

Note 1: Based on ~800,000 acres conservative expected after accounting for Game Reserves

Note 2: Source PetroSA

Mercury Stetson (earning 50%)

The company has progressed activities relating to plugging and abandoning the well, with approval received from the RRC, and a contract let for the work

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

The Maricopa project averaged 12.3 bopd during the quarter.

During the September 2012 quarter, the average price of oil received from the Kern Oil Refinery was US\$104/bbl.

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

In conjunction with the Operator Solimar Energy, Challenger is continuing to evaluate offers to purchase this asset, and are hopeful of obtaining an attractive commercial outcome for the company over the next few months.

CORPORATE

The company has focussed on reducing its cash expenditure over the quarter, and has minimised administration and other costs as much as possible whilst waiting on the outcome of the current processes in South Africa.

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 ("current quarter")

30 September 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(192)	(192)
(b) development	-	-
(c) production	-	-
(d) administration	(130)	(130)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – restoration costs	(75)	(75)
- rental income	17	17
Net Operating Cash Flows	(379)	(379)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other –restoration deposits returned/(paid)	51	51
Net investing cash flows	51	51
1.13 Total operating and investing cash flows (carried forward)	(328)	(328)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(328)	(328)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share/option issues	(31)	(31)
	Net financing cash flows	(31)	(31)
	Net increase (decrease) in cash held	(359)	(359)
1.20	Cash at beginning of quarter/year to date	516	516
1.21	Exchange rate adjustments to item 1.20	(2)	(2)
1.22	Cash at end of quarter	155	155

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	21
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 \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	50
4.2 Development	-
4.3 Production	50
4.4 Administration	150
Total	200

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 \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	155	516
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	155	516

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	311,482,540	311,482,540		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
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>	2,000,000 2,000,000 2,000,000 11,500,000 2,000,000 7,500,000	- - - - - -	<i>Exercise price</i> 25 cents 35 cents 25 cents 15 cents 35 cents 15 cents	<i>Expiry date</i> 28/02/2013 28/02/2015 01/02/2014 20/11/2014 01/02/2015 20/11/2016
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: 31 October 2012

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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