



**30 April 2012**

ASX Companies Announcements Office  
ASX online  
ASX :CEL

## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 MARCH 2012**

### **HIGHLIGHTS**

#### **Mercury Stetson**

- **Drilling of side track completed successfully**
- **Fracture stimulation completed on Woodford shale and testing underway**
- **Logs confirm excellent shale properties across both Barnett and Woodford shales**

#### **Triple Crown**

- **The Company continues to evaluate the next phase of operations**

#### **South Africa**

- **The Company understands the Government has received its Technical Report in relation to fracture stimulation operations within South Africa.**
- **The Company continues to work with the Government on approval of its application for an exploration right at Cranemere.**

#### **Maricopa**

- **Wellington Maricopa project produced at an average rate of 18bopd.**

## Mercury Stetson

During the quarter, the drilling of the sidetrack was successfully completed. The well reached a TD of 11,947 ft. Strong gas shows were observed in both the premier shales, which proves the presence of gas in the system in this new province. Gas shows in excess of 550 Units (5.5% gas) were seen through the Barnett, and up to 670 units (6.7% gas) were observed whilst drilling through the Woodford shale. Detecting the presence of gas in the shale in this area is a new and significant piece of information that was missing from the existing data in the area.

The wireline logs from the well showed:

- For the Barnett shale an apparent section thickness of approximately 600 ft. The logs show all of the attributes considered critical to a successful shale play, and 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 porosity in 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.

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.

- For the Woodford shale, the logs 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 mud log gas shows of up to 670 units (or 6.7% gas) are also consistent with productive shale.

A Flex log was also run across the shale intervals, which determines the detailed mineralogy of the shales providing an excellent guide to their fracturing properties indicated that the well had intersected:

- High TOC across the shale sequences consistent with the highest expectations for both shales
- Very good porosity in both the shales
- Very brittle shale sequence with multiple perforation targets

The wireline logs for both the Barnett and Woodford shales therefore show all of the attributes considered critical to a successful shale play, and are consistent with the attributes seen in the core areas for the Barnett and Woodford shale plays.

In April, the Woodford shale within the well was successfully fracture stimulated with a total of 180,000 lb of sand and approximately 500,000 gallons of fluid pumped during the operation.

Production testing operations are underway with the well initially flowing back the fluids pumped into the well. It is expected to take 2 to 4 weeks before any significant reliable gas production readings can be recorded, which will allow evaluation of the reservoir characteristics to be undertaken.

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/sqmile. The JV area initially includes 26,000 acres contiguous land

position with three pipelines across the prospect. The JV has had an active land leasing program underway through the quarter to extend and add leases within the Area of Mutual Interest (AMI) with an initial target of 35,000 acres across the prospect.

### **Triple Crown prospect – Edward County, Texas 80% WI**

Challenger has identified a selected interval for a fracture stimulation as a proof of concept test of the Hybrid Play. The Company has identified an Original Gas In Place (OGIP) within the Hybrid of 7.4 TCF within its existing lease position.

The objective of this test would be to understand the production characteristics of this zone and provide valuable inputs into understanding the potential recoverable resource.

### **South Africa 90%**

During the quarter Bundu (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 permit is centred around the CR 1/68 well located within the application area flowed high rates of gas of more than 8 MMcf/day of natural gas from the Fort Brown shale during testing in 1968.

The Karoo basin has recently become an area of interest for a number of major international companies, including Shell and Falcon Oil & Gas. At Cranemere, the Company is targeting the Fort Brown shales, a massive (up to 5000 ft thick) lower Permian carbonaceous shale. A US Energy Information Administration report on potential shale gas resources around the world has identified a "Risked Recoverable Resource" of approximately 6.8 BCF per square mile, which based on the size of the application is equivalent to more than 7 TCF of recoverable resource.

In August 2011 the government extended the Moratorium on the award of any new exploration rights in South Africa until February 2012. The Company understands the Government has received the Technical Report from the Technical Committee it set up to review and report on the impacts of fracking in South Africa. At this time the Company has not been advised of the recommendations contained in the report.

The Company notes that Econometrix, South Africa's largest independent macro-economic consultancy has released a study 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.

The Company has observed a noticeable change in the sentiment in the media who are now broadly supportive of the development of this significant resource.

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

The Maricopa project averaged 18bopd during the quarter.

During the March 2012 quarter, the average price of oil received from the Kern Oil Refinery was US\$112/bbl.

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

## **CORPORATE**

During the quarter, the Company issued 57,000,000 ordinary shares at an issue price of 5 cents per share, raising \$2.85 million before costs. In addition, a further 18,461,538 ordinary shares were issued at an issue price of 6.5 cents, raising \$1.2 million before costs.

**Yours faithfully**

A handwritten signature in blue ink, appearing to read "Paul Bilston". The signature is cursive and includes a horizontal line extending to the right.

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")

31 March 2012
---------------

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (9 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	109	337
1.2 Payments for (a) exploration & evaluation	(2,860)	(6,430)
(b) development	-	-
(c) production	(41)	(101)
(d) administration	(199)	(694)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	9	113
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
<b>Net Operating Cash Flows</b>	<b>(2,982)</b>	<b>(6,775)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(11)
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 – refunds/(deposits) for exploration costs	-	378
- deposit for rental bond	-	(7)
<b>Net investing cash flows</b>	<b>-</b>	<b>360</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,982)</b>	<b>(6,415)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,982)	(6,415)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	3,896	3,896
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	(76)	(76)
	<b>Net financing cash flows</b>	3,820	3,820
	<b>Net increase (decrease) in cash held</b>	838	(2,595)
1.20	Cash at beginning of quarter/year to date	2,792	6,250
1.21	Exchange rate adjustments to item 1.20	12	(13)
1.22	<b>Cash at end of quarter</b>	3,642	3,642

**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	187
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	2,800
4.2 Development	-
4.3 Production	50
4.4 Administration	200
<b>Total</b>	<b>3,050</b>

### 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	3,642	2,792
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (Share issues not yet allotted)	-	-
<b>Total: cash at end of quarter</b> (item 1.22)	<b>3,642</b>	<b>2,792</b>

### 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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	214,021,002	214,021,002		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	57,000,000 18,461,538	57,000,000 18,461,538	5 cents 6.5 cents	5 cents 6.5 cents
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	3,500,000 105,222,171 2,000,000 2,000,000 2,000,000 11,500,000 2,000,000 7,500,000	- 105,222,171 - - - - - -	<i>Exercise price</i> 10 cents 20 cents 25 cents 35 cents 25 cents 15 cents 35 cents 15 cents	<i>Expiry date</i> 30/06/2012 30/06/2012 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 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	<b>Unsecured notes</b> ( <i>totals only</i> )		
------	---	--	--

## 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: 27 April 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.

== == == == ==

---

+ See chapter 19 for defined terms.