



**31 October 2013**

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## **QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 SEPTEMBER 2013**

### **HIGHLIGHTS**

#### **South Africa**

- **South African Government reported as continuing to advance towards the approval of exploration rights.**
- **Technical Regulations on Petroleum Exploration and Exploitation gazetted (post reporting period)**
- **Participation in industry consultation regarding proposed amendments to key legislation.**
- **Farm-out discussions continue pending award of the exploration right.**

#### **Corporate**

- **Investor roadshow**
- **Capital raise of \$1 million completed via private placement.**
- **Acquisition of 5% minority shareholding in Bundu Gas and Oil Exploration Proprietary Limited ("Bundu").**

#### **South Africa**

During the quarter Bundu continued to support the ongoing assessment of its application for an exploration right located around Cranemere in the Southern Karoo Basin. Challenger and Bundu continue to build and reinforce key relationships in South Africa and have raised the profile with the governments of both South Africa and Australia, including positive meetings with both the South African Mineral Resources Minister and Australia's High Commissioner to South Africa, and with Austrade. Bundu continued its ongoing dialogue with the regulator, Petroleum Agency SA (PASA), and its key involvement in consultation regarding proposed amendments to key legislation via the industry association, Onshore Petroleum Association of South Africa (ONPASA).

The oil and gas industry continues to engage in consultation with regard to the draft Mineral and Petroleum Resources Development Amendment (MPRDA) Bill with submissions made to the government Mineral Resources Portfolio Committee. It is anticipated that the Department of Mineral Resources will respond to consultation feedback ahead of Parliament deliberation on the amendment bill.

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Subsequent to the reporting period, the Mineral Resources Minister announced on the 10<sup>th</sup> October that Cabinet had approved the gazetting of Technical Regulations on Petroleum Exploration and Exploitation. This announcement represents a key milestone in Government progress towards the award of exploration rights for shale gas exploration in South Africa. Bundu will engage in industry consultation via ONPASA.

Media coverage continues to indicate that the South African Government is advancing towards the issue of exploration rights, with positive comments attributed to a number of key figures including the Deputy President Kgalema Motlanthe, ANC secretary-general Gwede Mantashe, Trade and Industry Minister Rob Davies and Mineral Resources Minister Susan Shabangu. The industry anticipates that exploration rights may be awarded during the first quarter of 2014.

The company continues to progress discussions on a potential farm-in with interested parties.

### ***Background***

The Karoo Basin, which extends across 600,000 km<sup>2</sup> is located in central and southern South Africa and contains organic rich shales 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 Cranemere CR 1/68 well, 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. Bundu's application area is centred around this well.

The U.S. Energy Information Administration (EIA) updated its 2011 report on World Shale Gas Resources in June 2013. The EIA estimates that the Lower Permian Ecca Group shales in the Karoo Basin contain 1,559 Tcf of risked shale gas in-place, with 370 Tcf as the risked, technically recoverable shale gas resource. Significantly this estimate excludes the thicker Upper Ecca shales on the basis that they have a lower reported TOC content. The Upper Ecca shales include the Fort Brown shale from which gas flowed at the Cranemere CR 1/68 well.

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. A number of major international companies, including Shell, Chevron and Falcon Oil & Gas, are pursuing exploration rights

Furthermore, the low economic growth rates and power crisis in South Africa have strongly motivated the government to pursue potential shale gas resources as a catalyst to transform the economy.

As previously noted, Chevron Business Development South Africa Limited (Chevron) has announced an Agreement with Falcon Oil and Gas Ltd to jointly co-operate on unconventional gas opportunities in the Karoo Basin, with the result that Challenger through its subsidiary Bundu Gas & Oil (Pty) Ltd is the only small company with interests in the basin alongside Shell and Chevron.

### **Mercury Stetson (earning 50%)**

The Company is assessing next steps following completion of plugging and abandonment of the well drilled in the permit during 1Q13.

## **Corporate**

The Company issued an investor presentation and conducted a roadshow in July. This was well received and successful in helping to raise the Company's profile in the investor community.

In August the Company announced the raising of \$1 million in placement funds from existing shareholders via the placement of 16,666,667 new fully paid ordinary shares at an issue price of 6 cents (\$0.06) per share. These funds have provided a boost to working capital and represent a strong vote of confidence in Challenger's potential.

A General Meeting was held on 22<sup>nd</sup> August at which a number of resolutions were considered and passed, including the re-election of Mr Robert Willes as director, the adoption of various employee incentive schemes and the issue of retention shares and performance rights to Mr Robert Willes.

In September one of the minority shareholders in Bundu made a proposal to sell his 5% interest. Pursuant to the agreements that govern Bundu, Challenger issued a notice of intent to exercise its pre-emption rights in regard to the proposed sale, and the share sale agreement was duly executed subsequent to the reporting period on 15<sup>th</sup> October. This raises Challenger's interest in Bundu to 95%.

**Yours faithfully**



Robert Willes  
**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 2013

### Consolidated statement of cash flows

| Cash flows related to operating activities                      | Current quarter<br>\$A'000 | Year to date<br>(3 months)<br>\$A'000 |
|---|----------------------------|---------------------------------------|
| 1.1 Receipts from product sales and related debtors             | -                          | -                                     |
| 1.2 Payments for (a) exploration & evaluation                   | (17)                       | (17)                                  |
| (b) development   | -                          | -                                     |
| (c) production  | -                          | -                                     |
| (d) administration  | (408)                      | (408)                                 |
| 1.3 Dividends received  | -                          | -                                     |
| 1.4 Interest and other items of a similar nature received       | 3                          | 3                                     |
| 1.5 Interest and other costs of finance paid                    | -                          | -                                     |
| 1.6 Income taxes paid   | -                          | -                                     |
| 1.7 Other – Maricopa sale costs                                 | (20)                       | (20)                                  |
| - rental income   | 18                         | 18                                    |
| <b>Net Operating Cash Flows</b>                                 | <b>(424)</b>               | <b>(424)</b>                          |
| <b>Cash flows related to investing activities</b>               |                            |                                       |
| 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 – deposits returned/(paid)                           | 27                         | 27                                    |
| <b>Net investing cash flows</b>                                 | <b>27</b>                  | <b>27</b>                             |
| 1.13 Total operating and investing cash flows (carried forward) | <b>(397)</b>               | <b>(397)</b>                          |

+ See chapter 19 for defined terms.

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

|   |  |       |       |
|---|--|-------|-------|
| 1.13  | Total operating and investing cash flows (brought forward) | (397) | (397) |
| <b>Cash flows related to financing activities</b> |  |       |       |
| 1.14  | Proceeds from issues of shares, options, etc.              | 1,000 | 1,000 |
| 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                                | (50)  | (50)  |
| <b>Net financing cash flows</b>                   |  | 950   | 950   |
| <b>Net increase (decrease) in cash held</b>       |  | 553   | 553   |
| 1.20  | Cash at beginning of quarter/year to date                  | 282   | 282   |
| 1.21  | Exchange rate adjustments to item 1.20                     | (1)   | (1)   |
| 1.22  | <b>Cash at end of quarter</b>                              | 834   | 834   |

**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<br>\$A'000 |
|------|--|----------------------------|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | 182                        |
| 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 paid during the quarter (including \$50,000 to Mr Paul Bilston as part payment of his Managing Director termination fee).

**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<br>\$A'000 | Amount used<br>\$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                 | -          |
| 4.4 Administration             | 200        |
| <b>Total</b>                   | <b>250</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<br>\$A'000 | Previous quarter<br>\$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 834                        | 282                         |
| 5.2 Deposits at call                             | -                          | -                           |
| 5.3 Bank overdraft                               | -                          | -                           |
| 5.4 Other  | -                          | -                           |
| <b>Total: cash at end of quarter</b> (item 1.22) | <b>834</b>                 | <b>282</b>                  |

### Changes in interests in mining tenements

|     | Tenement<br>reference   | Nature of interest<br>(note (2)) | Interest at<br>beginning<br>of quarter | Interest at<br>end of<br>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><br><i>(description)</i>  |  |                       |   |  |
| 7.2 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions |  |                       |   |  |
| 7.3 <b>+Ordinary securities</b>  | 328,815,874  | 328,815,874           |   |  |
| 7.4 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs              | 16,666,667<br>666,667  | 16,666,667<br>666,667 | 6 cents<br>nil  | 6 cents<br>nil   |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>  |  |                       |   |  |
| 7.6 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through securities matured, converted              |  |                       |   |  |
| 7.7 <b>Options</b><br><i>(description and conversion factor)</i>   | 2,000,000<br>11,500,000<br>2,000,000<br>2,000,000<br>7,500,000 | -<br>-<br>-<br>-<br>- | <i>Exercise price</i><br>25 cents<br>15 cents<br>35 cents<br>35 cents<br>15 cents | <i>Expiry date</i><br>01/02/2014<br>20/11/2014<br>01/02/2015<br>28/02/2015<br>20/11/2016 |
| <b>Performance Rights</b>  | 4,000,000<br>8,000,000<br>4,000,000                            | -<br>-<br>-           | Nil<br>Nil<br>Nil   | <i>Expiry date</i><br>07/04/2016<br>07/04/2018<br>07/04/2020                             |
| 7.8 Issued during quarter<br><b>Performance Rights</b>   | 4,000,000<br>8,000,000<br>4,000,000                            | -<br>-<br>-           | Nil<br>Nil<br>Nil   | <i>Expiry date</i><br>07/04/2016<br>07/04/2018<br>07/04/2020                             |
| 7.9 Exercised during quarter   |  |                       |   |  |

+ See chapter 19 for defined terms.

|      |   |  |  |  |  |
|------|---|--|--|--|--|
| 7.10 | Expired during quarter                      |  |  |  |  |
| 7.11 | <b>Debentures</b><br><i>(totals only)</i>   |  |  |  |  |
| 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: 31 October 2013

Managing Director

Print name: Robert Willes

## 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.
- 6 A payment for the purchase of Bundu shares occurred subsequent to the end of the quarter as described in the activities report and will be included as an investing activity in the cash outflows for the next quarter.

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