



24 January 2014

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2013

HIGHLIGHTS

South Africa

- **Media coverage continues to highlight the South African Government's desire to progress shale gas exploration.**
- **Technical Regulations on Petroleum Exploration and Exploitation gazetted with industry consultation**
- **Participation in industry consultation regarding proposed amendments to key legislation.**
- **Farm-out discussions continue pending award of the exploration right.**

Corporate

- **Acquisition of 5% minority shareholding in Bundu Gas and Oil Exploration Proprietary Limited ("Bundu").**
- **Annual General Meeting held 19th November**

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, raising the profile with the governments of both South Africa and Australia. In this regard, Challenger has been invited to be the sole sponsor of the inauguration of the new Australia Business Chamber of Commerce in South Africa at an Australia Day event in Johannesburg on 27th January 2014. This is to be hosted by the Australian High Commissioner, with the South African Minister of Mineral Resources, the Honourable Susan Shabangu, as Guest of Honour and keynote speaker.

Bundu continued its ongoing dialogue with the regulator, Petroleum Agency SA (PASA), and its involvement in consultation regarding proposed amendments to key legislation via the industry association, Onshore Petroleum Association of South Africa (ONPASA). It is anticipated that the Department of Mineral Resources will respond to consultation feedback regarding the draft Mineral and Petroleum Resources Development Amendment (MPRDA) Bill ahead of Parliament deliberation.

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The Mineral Resources Minister announced on the 10th 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 engaged in industry consultation via ONPASA, and we look forward to the publication of the Technical Regulations

Media coverage continues to highlight the South African Government's desire to progress with exploration, with positive comments attributed to President Zuma. The ANC's election manifesto, released post the reporting period, states "The pace of oil and gas exploration – including shale gas exploration – by the state and other players in the industry will be intensified as part of the country's effort to ensure national self-sufficiency and energy security while promoting environmental sustainability."

South Africa's national power utility, Eskom, reportedly declared an electricity supply emergency in November, constricting key industrial customers.

The industry anticipates that exploration rights may be awarded ahead of the upcoming general election.

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

Background

The Karoo Basin, which extends across 600,000 km² 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, intersected the shales with 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. As first mover, Bundu selected its application area of approximately 1 million acres to be 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.

To demonstrate the scale of the estimated resource, according to the US Department of Energy 1 Tcf of natural gas is enough to heat 15 million homes for one year, generate 100 billion kilowatt hours of electricity, or fuel 12 million natural-gas-fired vehicles for one year. Significantly the current EIA estimate excludes the thicker Upper Ecca shales on the basis that they have a lower reported total organic carbon content. These 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 Annual General Meeting was held on 19th November at which a number of resolutions were considered and passed, including the adoption of the Remuneration Report and the re-election of Mr Paul Bilston as director.

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 during the reporting period on 15th October. This raises Challenger's interest in Bundu to 95%.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Robert Willes', with a long horizontal flourish extending to the right.

Robert Willes
Managing Director

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Challenger Energy Limited

ABN

45 123 591 382

Quarter ended ("current quarter")

31 December 2013

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(24) - - (263)	(41) - - (671)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	7
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Maricopa sale costs - rental income	- 37	(20) 55
Net Operating Cash Flows	(246)	(670)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- (149) -	- (149) -
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 (provide details if material)	-	27
Net investing cash flows	(149)	(122)
1.13 Total operating and investing cash flows (carried forward)	(395)	(792)

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(395)	(792)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	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	Other – costs of share issues	-	(50)
	Net financing cash flows	-	950
	Net increase (decrease) in cash held	(395)	158
1.20	Cash at beginning of quarter/year to date	834	282
1.21	Exchange rate adjustments to item 1.20	2	1
1.22	Cash at end of quarter	441	441

Payments to directors of the entity, associates of the directors, 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	164
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 \$25,000 to Mr Paul Bilston as final 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 \$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	
4.4 Administration	200
Total	250

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	441	834
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	441	834

+ See chapter 19 for defined terms.

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	-	-	-
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Karoo Basin, Cranemere Sth Africa Interest increased from 90% to 95% as a result of the acquisition of an additional shareholding of 5% in a subsidiary.	90%	95%

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 (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	*Ordinary securities	328,815,874	328,815,874	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	*Convertible debt securities (description)			

+ See chapter 19 for defined terms.

Mining exploration entity and oil and gas exploration entity quarterly report

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options (description and conversion factor)	2,000,000	-	<i>Exercise price</i> 25 cents	<i>Expiry date</i> 01/02/2014
		11,500,000	-	15 cents	20/11/2014
		2,000,000	-	35 cents	01/02/2015
		2,000,000	-	35 cents	28/02/2015
		7,500,000	-	15 cents	20/11/2016
	Performance Rights	2,500,000	-	<i>Exercise price</i> Nil	<i>Expiry date</i> 20/06/2015
		4,000,000	-	Nil	07/04/2016
		8,000,000	-	Nil	07/04/2018
		4,000,000	-	Nil	07/04/2020
7.8	Issued during quarter Performance Rights	2,500,000	-	<i>Exercise price</i> Nil	<i>Expiry date</i> 20/06/2015
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Managing Director

Date: 24 January 2014

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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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