

30th April 2014

Board of Directors:

Michael Fry
(Non-Executive Chairman)

Robert Willes
(Managing Director)

William Bloking
(Non-Executive Director)

**Issued capital
(as at March 31, 2014):**

329,482,541 fully paid
ordinary shares

41,500,000 unlisted options
and rights

Substantial Holders:

LQ Super 12.99%

Pitt Street Absolute
Return Pty Ltd and
related entities 6.79%

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Quarterly Activities Report for the Period Ending March 31 2014

HIGHLIGHTS

South Africa

- **Mineral and Petroleum Resources Development Amendment (MPRDA) Bill passed by Parliament**
- **Awaiting publication of the Technical Regulations on Petroleum Exploration and Exploitation**
- **Media coverage raises profile of Challenger/Bundu and continues to highlight the South African Government's desire to progress shale gas exploration. President Zuma states his support for shale gas exploration in his State of the Nation Address.**
- **Farm-out discussions continue pending award of the exploration right.**

Corporate

- **Appointment of Bill Bloking to the Board**
- **Investor Roadshow**
- **Announcement of "loyalty" options (post reporting period)**

South Africa

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. Challenger was 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. The Australian High Commissioner and Austrade hosted the event, with the South African Minister of Mineral Resources as Guest of Honour and keynote speaker. This significantly raised Challenger/Bundu's profile in South Africa, with media interest including interviews with Robert Willes on CNBC Africa TV and Creamer Media/Mining Weekly.

Media coverage in the run up to the elections in May also continues to highlight the Government's desire to progress with exploration. The ANC's election manifesto 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."

At his State of the Nation Address in February, President Zuma stated;

"The development of petroleum, especially shale gas will be a game-changer for the Karoo region and the South African economy.

Having evaluated the risks and opportunities, the final regulations will be released soon and will be followed by the processing and granting of licenses."

Further positive comments were attributed to the Minister of Finance in his budget speech on 26th February.

Also in February, the Minister of Mineral Resources issued a notice (notice 71 of 2014) providing that the moratorium on applications for reconnaissance permits, technical co-operation permits, exploration rights and production rights relating to shale gas in the Karoo region has been extended. However the existing applications, received and accepted before 1 February 2011, are excluded from the moratorium. Bundu's application was submitted in 2010, placing it among a limited number that will be considered in the near term.

The Mineral and Petroleum Resources Development Amendment (MPRDA) Bill was passed by both houses of Parliament in March. The Bill is now with the President for assent. The publication of the Technical Regulations is also anticipated.

South Africa's national power utility, Eskom, reportedly declared further electricity supply emergencies and load shedding in February and March, constricting key industrial customers.

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

In February, the Company announced the appointment of Bill Bloking as a Non-Executive Director, replacing Paul Bilston. Paul will continue to provide technical support to Challenger. Bill brings 40 years of experience in oil and gas, and has held senior positions with BHP Billiton Petroleum, Exxon and Esso. Among his current roles are Chairman of Nido Petroleum and Managing Director of Gunson Resources. He was also previously Chairman of Norwest Energy and Managing Director of Eureka Energy prior to its acquisition by Aurora Oil and Gas.

In March the Company issued an investor presentation and conducted a roadshow. This was well received and successful in helping to raise the Company's profile in the investor community and with the media in Australia.

Post the reporting period, in April the Company announced a loyalty options issue. The loyalty issue is a fully underwritten, non-renounceable entitlement issue under which eligible shareholders are offered one Option for every five Shares held at an issue price of \$0.015 (1.5 cents) per Option, exercisable at \$0.20 each and expiring 30 June 2016. The Company expects to raise up to approximately \$988,447 before costs of the issue. Funds raised under the offer will go towards;

- Funding the Company's continuing work in support of its subsidiary's application for the Exploration Right for the Cranemere Shale Gas Project in South Africa;
- Developing further business opportunities relating to the project;
- Working capital; and
- Covering the expenses of the offer.

Yours faithfully



Robert Willes
Managing Director

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CHALLENGER ENERGY (ASX code: CEL) is focused on the fast-emerging, world-scale shale gas province in South Africa's Karoo Basin. The Karoo is strategic, and central to the South African Government's agenda, given the country's power crisis and need for economic growth, jobs and infrastructure development. Through its South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd, Challenger was first to recognise this opportunity and to apply for exploration rights in the Karoo - and has since been followed by Shell and Falcon Oil and Gas, which has brought Chevron in as a joint venture partner.

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 March 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(38) - - (222)	(79) - - (893)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	2	9
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – Maricopa sale costs - rental income	- 22	(20) 77
Net Operating Cash Flows	(236)	(906)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- (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	-	(122)
1.13 Total operating and investing cash flows (carried forward)	(236)	(1,028)

+ 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)	(236)	(1,028)
	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	(236)	(78)
1.20	Cash at beginning of quarter/year to date	441	282
1.21	Exchange rate adjustments to item 1.20	(1)	-
1.22	Cash at end of quarter	204	204

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	108
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.

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	204	441
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	204	441

+ 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	-	-	-

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	329,482,541	329,482,541	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	666,667	666,667	Nil
7.5	+Convertible debt securities			
	<i>(description)</i>			

+ See chapter 19 for defined terms.

Appendix 5B

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)	11,500,000	-	<i>Exercise price</i> 15 cents	<i>Expiry date</i> 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			<i>Exercise price</i>	<i>Expiry date</i>
7.9	Exercised during quarter				
7.10	Options expired during quarter	2,000,000	-	25 cents	01/02/2014
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

CHALLENGER ENERGY LIMITED
SCHEDULE OF OIL AND GAS INTERESTS
AS AT 31 MARCH 2014

Cranemere Project (South Africa)

<i>Location</i>	<i>Gross Acreage</i>	<i>Working Interest</i>	<i>Status</i>
Karoo Basin	1,040,000	95%	Application
Final area is subject to granting of the application.			

Mercury Stetson (United States)

<i>Location</i>	<i>Gross Acreage</i>	<i>Working Interest</i>	<i>Status</i>
Grayson County	~26,000	15%	15% earned to date with the ability to earn up to 50%

No changes occurred during the quarter.

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