

30th April 2015

Board of Directors:

Michael Fry
(Non-executive Chairman)

Robert Willes
(Managing Director)

William Bloking
(Non-executive Director)

**Issued capital
(as at 31 March, 2015):**

350,643,655 fully paid
ordinary shares (ASX: CEL)

65,896,502 listed options
(ASX: CELO)

26,000,000 unlisted options
and rights

Substantial holders:

LQ Super 11.76%

Mr & Mrs Brown 7.34%

Registered office:

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 MARCH 2015

HIGHLIGHTS

- **Key milestone towards approval of exploration right - Bundu submits updated Environmental Management Programme (EMPr), commencing 120 day EMPr approval process.**
- **Minister of Mineral Resources refers key Mineral and Petroleum Resources Development Act (“MPRDA”) Amendment Bill back to the National Assembly.**
- **President Zuma’s State of the Nation Address and Finance Minister Nene’s 2015 Budget Speech in February continue to highlight Government’s resolve to address the energy crisis.**
- **Shell puts SA shale gas exploration programme on hold citing need for legislative and technical clarity.**
- **Farm-out discussions continue pending grant of exploration right.**

South Africa

A major deliverable was achieved with the filing of the revised EMPr by Challenger's South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd ("Bundu") with the regulator, Petroleum Agency SA ("PASA") on 27 February 2015. The filing of the revised EMPr effectively sets the regulatory machine in motion, which provides for a 120 day period for the Minister of Mineral Resources to consider whether to approve Bundu's EMPr.

The filing follows the Government's decision, announced in October, that it would proceed with processing Bundu's application for a shale gas exploration right in the Karoo Basin. PASA subsequently asked that Bundu review and update the EMPr submitted when its application was originally made in 2010 and also to engage in further stakeholder consultation. Bundu engaged Golder Associates, an independent environmental consultancy, to undertake the update of the EMPr, including the stakeholder consultation process.

The new EMPr describes a revised work programme that includes only seismic studies and drilling, the assessment of potential positive and negative impacts related to these activities and proposed mitigation measures to manage potential negative impacts. This is in line with the moratorium on further applications imposed in February last year. The moratorium excluded from its ambit existing Exploration Right applications, subject to the proviso that no hydraulic fracturing will be permitted until such time as the proposed Technical Regulations for Petroleum Exploration and Exploitation (the "Technical Regulations") have been published under the Mineral and Petroleum Resources Development Act, 28 of 2002 ("MPRDA"). This is a measured approach to shale gas exploration, which we fully endorse.

The stakeholder consultation process was extensive.

- Significant effort was made to identify and notify landowners within the application area. The process was complicated by incomplete/non-current information held by the Surveyor General and the difficulty of accessing contact information of landowners whose farms are registered as trusts. Information therefore had to be cross-referenced from a number of sources to identify the owners of the 598 portions of land within the application area.
- Multiple means were employed to notify stakeholders and communities of the availability of the updated EMPr and to invite them to register as interested and affected parties ("I&APs"). These included letters in English and Afrikaans, contacting chairpersons of the farmers' associations, announcements via site notices, advertisements in English, Afrikaans and Xhosa in local and regional newspapers, broadcasts in Xhosa and Afrikaans via regional and national radio stations, placing the updated draft EMPr, letters and registration and comment sheets at public libraries in the area, contacting Ward Councillors of the various local municipalities and District Municipality, networking and referral, and posting the draft EMPr on the Golder website from 8th December 2014. Stakeholders were invited to provide the contact details of others who might be interested in registering as I&APs.
- Stakeholders represented a number of broad sectors of society, including Government (national, provincial and local), directly affected landowners and communities, agricultural bodies (e.g. Agri-SA and farmers unions), environmental NGOs,

conservation agencies, water bodies (e.g. Great Fish River Water User Association), community-based organisations, business and commerce, culture and heritage bodies. A total of 1,268 stakeholders registered as I&APs, including some from as far afield as Europe and South America.

- Introductory meetings were held with chairpersons of the farmers' associations in December 2014 and January 2015, together with meetings with their legal representative and other small group meetings.
- Registered I&APs were invited to attend an open day (convened with the broader community in the application area) and a public meeting during the week of Monday 9 to Friday 13 February 2015. A number of small group meetings were requested and held with groups such as farmers' associations and local and district municipalities.
- Following the completion of the consultation on 16 February, the draft EMPr was revised and submitted to PASA on 27 February. The revised EMPr and associated documentation is available on the Golder website.
- In all, 696 registered I&APs contributed a total of 2,281 questions and comments during the consultation period to Monday 16 Feb 2015, including 16 large submissions from 9 I&APs. All the comments received were captured in a Comments and Response Report which was submitted to PASA along with the revised EMPr on 27 February.

As may be appreciated from the above, the submission of the EMPr marks both the completion of a very significant body of work, and the first step in what we anticipate will be an ongoing dialogue with local communities and stakeholders once exploration rights have been awarded.

The Minister of Mineral Resources, Ngoako Ramatlhodi, has indicated in public presentations at conferences and in media reports that progress is being made on both the Technical Regulations and the proposed amendments to the MPRDA. The Government is to consult interested and affected stakeholders before finalising the Technical Regulations. We expect that this will occur in the coming months.

We understand that the Minister has now made his recommendations to the President regarding the proposed amendments to the MPRDA, and that in January the MPRDA Amendment Bill was referred back to the National Assembly. Our expectations are that the outcome will be positive for the oil and gas industry.

In the meantime the national energy crisis continues to grow, with ongoing electricity outages by state-owned utility Eskom. President Zuma noted during his State of the Nation Address on 12 February that resolving the energy challenge is the first step in the Government's nine point plan to "ignite growth and create jobs. He stated that;

"The country is currently experiencing serious energy constraints which are an impediment to economic growth and is a major inconvenience to everyone in the country.

“Overcoming the challenge is uppermost in our programme. We are doing everything we can to resolve the energy challenge.

“We have developed a plan which involves both short, medium term and long term responses.

“The short and medium term plan involves improved maintenance of Eskom power stations, enhancing the electricity generation capacity and managing the electricity demand.

“The long term plan involves finalising our long term energy security master plan.

“As a priority we are going to stabilise Eskom’s finances to enable the utility to manage the current period. In this regard, Government will honour its commitment to give Eskom around R23 billion in the next fiscal year.

“The ‘War Room’ established by Cabinet in December is working diligently around the clock with Eskom, to stabilise the electricity supply system and contain the load shedding.

“During this period, we have to work together to find solutions.

“Given the high cost of diesel, Eskom has been directed to switch from diesel to gas as a source of energy for the utility’s generators.”

He also noted that

“South Africa is surrounded by gas-rich countries, while we have discovered shale gas deposits in our own Karoo region.”

In the 25 February 2015 Budget Speech, Finance Minister Nhlanhla Nene stated;

“To stabilise Eskom’s financial position, it will apply to the regulator this year for adjustments towards cost-reflective tariffs. In October 2014 we announced a broad package for Eskom, including a capital injection of R23 billion, governance improvements, operational cost containment and additional borrowing and support for required tariff increases. The fiscal allocation of R23 billion will be paid in three installments, with the first transfer to be made by June 2015. A special appropriation bill will be tabled, once the finance has been raised. If further support is deemed necessary, consideration will be given to an equity conversion of government’s subordinated loan to Eskom.”

Minister Nene also announced a temporary increase in the electricity levy, from 3.5c/kWh to 5.5c/kWh, to assist in demand management, proposed a number of tax measures to promote energy efficiency, and a R108 million allocation to "research and regulatory requirements for licensing shale gas exploration and hydraulic fracturing".

With the prospect of the energy crisis persisting for some time, pressure on the economy is likely to increase and public concern to rise.

In March, Shell announced that it was putting its South African shale gas exploration programme on hold, citing the oil price and the need for legislative and technical clarity. It is

important to note that Shell has not withdrawn its exploration right applications. Indeed, Shell South Africa's chairman has been quoted as saying "Should attractive commercial terms be put in place, the Karoo project could compete favourably within Shell's global tight/shale gas and oil portfolio". Whilst we cannot speak for Shell, it appears that Shell may have elected not to update its EMPr at this time (likely a complex and expensive exercise given the large size of its application areas), but to await the finalisation of the technical regulations that will govern hydraulic fracturing. If so, it seems likely that Shell's application will not be processed until these are in place and it may therefore have taken the opportunity to give a clear message to government. This may be helpful to the other applicants.

During the quarter, Bundu learned that the South African Department of Environmental Affairs had published notices inviting comment on proposals to incorporate additional land into the Mountain Zebra National Park and to declare portions of land as the Mountain Zebra Camdeboo Protected Environment. Some of these proposed additional portions fall within Bundu's application area. Bundu has accordingly lodged a submission requesting that the Minister for Mineral Resources be consulted in the manner required by the National Environmental Management: Protected Areas Act. The portions falling inside Bundu's application area total approximately 70,800 hectares, representing some 17% of Bundu's application area. If declared, there would be a buffer zone of 5km around each protected area. This buffer zone does not preclude development, but may have the effect of lowering thresholds of activity for permitting purposes (ie a lower level of a given activity may trigger the need for a permit). The EMPr is available via a link on the Company's website and contains maps showing the location of existing protected areas, together with those portions of land that are proposed for inclusion in the new Protected Environment. These maps show that the majority of the buffer zone that would result from such a declaration is covered by existing Critical Biodiversity Areas¹ where lower permitting thresholds may already apply. The outcome and timing of the proposal remain uncertain at this time.

In the meantime, Challenger continues its discussions with prospective farm-in partners and we will continue to keep shareholders updated and informed as and when there is material progress.

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 CR1/68 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

¹ *Critical Biodiversity Areas ("CBAs") are not legislated but are planning instruments developed to guide decision-making. The Department of Economic Development and Environment Affairs together with the Department of Water Affairs have collaborated to draw up the Eastern Cape Biodiversity Conservation Plan (ECBCP). The ECBCP addresses the need to identify and map CBAs and priorities for conservation in the Province.*

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 centred around this well.

The US 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 390 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 (acquired by CEL in April 2010) in February 2009. A number of major international companies, including Shell, Chevron and Falcon Oil & Gas, are also pursuing exploration rights in the region.

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 – is the only junior company with interests in the basin, alongside Shell and Chevron.

Mercury Stetson

The Company is assessing next steps following completion of plugging and abandonment of the well drilled in the permit during 1Q13. A number of leases expired during the quarter, bringing the gross area to approximately 6170 acres.

Corporate

The stakeholder consultation process has been extensive, and constitutes a significant investment of both funds and management resources. The timing of invoices is such that some costs are still to be paid, and are reflected in the forecast expenditure for the next quarter. Management continues to focus on cost reduction, and the burn rate is expected to reduce in subsequent quarters.

Yours faithfully



Robert Willes
Managing Director

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CHALLENGER ENERGY (ASX code: CEL, CELO) 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.

Petroleum Agency SA (<http://www.petroleumagencysa.com>) promotes exploration for onshore and offshore oil and gas resources and their optimal development on behalf of government. The Agency regulates exploration and production activities, and acts as the custodian of the national petroleum exploration and production database.

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 2015

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	(185) - - (248)	(277) - - (793)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	13
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - rental income	6	64
Net Operating Cash Flows	(420)	(993)
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 – deposit refund	13	13
Net investing cash flows	13	13
1.13 Total operating and investing cash flows (carried forward)	(407)	(980)

+ 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)	(407)	(980)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	1,212
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings (refer 2.1 below)	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – costs of equity issues	-	(91)
	Net financing cash flows	-	1,121
	Net increase (decrease) in cash held	(407)	141
1.20	Cash at beginning of quarter/year to date	1,313	761
1.21	Exchange rate adjustments to item 1.20	1	5
1.22	Cash at end of quarter	907	907

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	107
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.

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	150
4.2 Development	
4.3 Production	
4.4 Administration	150
Total	300

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	907	1,313
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	907	1,313

+ 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	Refer to the attached schedule on page 7.		
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	350,643,655	350,643,655	
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>			

+ 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)	7,500,000 65,896,502	- 65,896,502	<i>Exercise price</i> 15 cents 20 cents	<i>Expiry date</i> 20/11/2016 30/06/2016
	Performance Rights	2,500,000 4,000,000 8,000,000 4,000,000	- - - -	<i>Exercise price</i> Nil Nil Nil Nil	<i>Expiry date</i> 20/06/2015 07/04/2016 07/04/2018 07/04/2020
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Options expired during quarter	2,000,000 2,000,000	- -	35 cents 35 cents	01/02/2015 28/02/2015
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: 30 April 2015

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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CHALLENGER ENERGY LIMITED
SCHEDULE OF OIL AND GAS INTERESTS
AS AT 31 MARCH 2015

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	~6,170	15%	15% earned to date with the ability to earn up to 50%

Gross acreage for the Mercury Stetson project has reduced as a result of expired leases.
No other changes occurred during the quarter.

+ See chapter 19 for defined terms.