

24th July 2015

Board of Directors:

Michael Fry
(Non-executive Chairman)

Robert Willes
(Managing Director)

William Bloking
(Non-executive Director)

**Issued capital
(as at 30 June, 2015):**

351,695,363 fully paid
ordinary shares (ASX: CEL)

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

26,000,000 unlisted options
and rights

Substantial holders:

LQ Super 11.73%

Mr & Mrs Brown 7.32%

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 30 JUNE 2015

HIGHLIGHTS

- **Application for exploration rights progresses - Bundu's updated Environmental Management Programme ("EMPr") in process with the regulator. Bundu submits corresponding updated work programme. Outcome of shale applications expected in coming months.**
- **Much anticipated Technical Regulations for Petroleum Exploration and Production gazetted by the Minister of Mineral Resources in early June.**
- **Environment Minister launches 2 year Strategic Environmental Assessment for shale gas development ("SEA")**
- **Positive industry engagement with Department of Mineral Resources regarding key Mineral and Petroleum Resources Development Act ("MPRDA") Amendment Bill.**
- **Energy crisis continues with power outages and government selling assets to provide a further R23bn bailout to Eskom.**
- **Farm-out discussions continue pending grant of exploration right.**

South Africa

As previously reported, Challenger's South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd ("Bundu") filed the revised EMPr with the regulator, Petroleum Agency SA ("PASA") on 27 February 2015. Bundu subsequently filed a revision to its application incorporating a corresponding updated work programme.

These filings follow the Government's decision, announced in October 2014, 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 PASA subsequently asked that Bundu review and update the EMPr submitted when its application was originally made in 2010 and also to engage in further stakeholder consultation.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 update the EMPr, including the stakeholder consultation process.

The new EMPr and revised work programme include 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").

The South African government formally launched a 2-year Strategic Environmental Assessment for shale gas development ("SEA") process with an announcement from the Departments of Environmental Affairs, Science and Technology, Energy, Water Affairs and Sanitation and Mineral resources in May. The SEA is a high-level policy and framework setting process the aim of which, according to the Department of Environmental Affairs is;

"...to provide an integrated assessment and decision-making framework to enable South Africa to establish effective policy, legislation and sustainability conditions under which shale gas development could occur."

"The strategic environmental assessment (SEA) will be undertaken by a 'science council consortium', consisting of the Council for Scientific and Industrial Research (CSIR), the South African National Biodiversity Institute (SANBI) and the Council for Geosciences (CGS)."

Challenger sees the SEA as complementary to the shale gas exploration process, which will be guided by the Technical Regulations.

The Minister of Mineral Resources, Ngoako Ramatlhodi, subsequently published the Technical Regulations in early June, marking a further milestone towards the issue of exploration rights. We continue to evaluate these, but our initial impressions are that the regulations are generally based on sound international practice and are a reasonable basis upon which to commence exploration. We anticipate that the regulations will evolve with the industry over time.

During the reporting period, Bundu continued to engage with PASA, providing requested clarifications as the EMPr is processed, and facilitating a site visit. Good progress is being

made, and we understand that following submissions made by interested and affected parties, the EMPr is to be referred to the Regional Mining Development and Environmental Committee (REMDEC) and that this process is in addition to the 120-day regulatory period for the Minister to consider the EMPr. Processing of the balance of Bundu's application will take place in parallel with this activity.

Meanwhile, constructive discussions have continued between the key industry bodies and the Department of Mineral Resources ("DMR") on the proposed amendments to the MPRDA. ONPASA (the Onshore Petroleum Association of South Africa) and OPASA (the Offshore Petroleum Association of South Africa) have made joint proposals to DMR and a positive outcome is anticipated that will allow the industry to move forward.

Whilst it is difficult to provide guidance on the timing of the application determination process with any precision, there appears to be growing momentum and Challenger considers that the application process remains on track to be resolved during the second half of this year.

The national energy crisis in South Africa continues, with ongoing electricity outages by state-owned utility Eskom. Efforts continue to restore Eskom's balance sheet with escalating costs on its new build power projects, and to reduce power outages. The government is reported to be selling assets to cover a R23bn bailout package, whilst Eskom looks to raise up to R250bn of fresh funding. At the release of the Organisation for Economic Cooperation and Development's (OECD's) latest economic survey of South Africa in Johannesburg, OECD Secretary General Angel Gurría said the current electricity shortage was damaging the South African economy, which the organisation expected to grow by only 1.9% in 2015. Statistics South Africa also reported that the economy grew at a slower pace in the first quarter of 2015, partly as a result of power outages curbing industrial output.

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 5,000 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 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.

Corporate

The timing of invoices for the stakeholder consultation process is such that approximately \$180,000 remained outstanding as at 30th June. These payments are included in the forecast expenditure for the next quarter in the Appendix 5B. Management continues to focus on cost reduction, and this is reflected in the reduced underlying burn rate (net of these items).

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.petroleumagency.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")

30 June 2015

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 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	(9) - - (187)	(286) - - (980)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	17
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - rental income	-	64
Net Operating Cash Flows	(192)	(1,185)
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
Net investing cash flows	-	13
1.13 Total operating and investing cash flows (carried forward)	(192)	(1,172)

+ 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)	(192)	(1,172)
	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	(192)	(51)
1.20	Cash at beginning of quarter/year to date	907	761
1.21	Exchange rate adjustments to item 1.20	-	5
1.22	Cash at end of quarter	715	715

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	46
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	300
Total	350

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	715	907
5.2 Deposits at call		
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	715	907

+ 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	351,695,363	351,695,363	
7.4	Changes during quarter			
	(a) Increases through issues	385,041 666,667	385,041 666,667	5.2 nil
	(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 (i) 4,000,000 8,000,000 4,000,000	- - - -	<i>Exercise price</i> Nil Nil Nil Nil	<i>Expiry date</i> 30/06/2016 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				
7.11	Debentures (totals only)				
7.12	Unsecured notes (totals only)				

- (i) During the quarter the terms of these Performance Rights were varied and the expiry date amended from 20 June 2015 to 30 June 2016.

CHALLENGER ENERGY LIMITED
SCHEDULE OF OIL AND GAS INTERESTS
AS AT 30 JUNE 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%

No changes occurred during the quarter.

+ See chapter 19 for defined terms.