Challenger Energy Ltd

ASX:CEL
www.challengerenergy.com.au

28 Apr 2017

Board of Directors:

Michael Fry
(Non-executive Chairman)

Robert Willes
(Managing Director)

William Bloking
(Non-executive Director)

Issued capital:

389,466,818 fully paid ordinary shares (ASX: CEL)

53,250,000 unlisted options and rights

Substantial holders:

LQ Super	11.05%
W&M Brown	7.47%

Registered office:

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Melbourne
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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 MARCH 2017

HIGHLIGHTS

- **Public hearings on recommended changes to the Mineral and Petroleum Resources Development Act ("MPRDA") Amendment Bill completed on 20 April. The Bill could therefore be finalised in the May/June parliamentary session.**

- **South African Mineral Resources Minister Mosebenzi Zwane reported as stating that: *"Based on the balance of available scientific evidence, government took a decision to proceed with the development of shale gas in the Karoo formation of South Africa".***

- **This follows a radio interview in February during which the Minister stated that the MPRDA should be *"finalised by June"*.**

- **Given past delays and remaining uncertainties around the timing of exploration rights awards, the Company continues to focus on internal cost control and is also evaluating other projects that could add a further dimension to the Company's portfolio.**

Legislative Framework

As previously reported, the petroleum industry (via the industry associations, the Offshore Petroleum Association of South Africa ("OPASA"), the Onshore Petroleum Association of South Africa ("ONPASA") and the recently formed Shale Gas Association under the auspices of the South African Oil and Gas Association ("SAOGA")) has engaged with government to deliver constructive solutions for the legislative framework (the Mineral and Petroleum Resources Development Act, 28 of 2002 - "MPRDA").

The MPRDA Amendment Bill has been referred to Parliament. Having completed its passage through the National Assembly (the lower house of Parliament), the Bill has been referred to the National Council of Provinces ("NCOP") (the upper house of Parliament).

In accordance with the terms of the President's referral of the Bill back to Parliament, further public hearings were required to correct defects in the initial public participation process. This should be the final step in addressing the President's reservations.

Each of the Provinces have held their own briefings with the DMR, followed by public hearings which concluded on 20 April. Any proposed amendments that may result from these public hearings will now follow due process. We anticipate that the Bill could therefore be finalised in the next parliamentary session which runs from 2 May to 29 June. Challenger's website contains links to recent media interviews and articles that provide further context.

In late March a number of South African news outlets reported that, during a community engagement meeting on shale gas development at Richmond in the Northern Cape, South African Mineral Resources Minister Mosebenzi Zwane stated that:

> *"Based on the balance of available scientific evidence, government took a decision to proceed with the development of shale gas in the Karoo formation of South Africa"*

and that:

> *"The finalisation of Mineral and Petroleum Resources Development Act (MPRDA) amendments will also help to expedite the development of shale gas."*

This follows a radio interview in February during which the Minister stated that the MPRDA should be *"finalised by June"*.

Challenger welcomes these positive indicators of progress towards the finalising of key legislation and the determination of the applications for exploration rights received by the government.

We anticipate further progress with regard to the granting of exploration rights once the MPRDA Amendment Bill has passed through Parliament.

Opposition groups Treasure Karoo Action Group ("TKAG") and AfriForum have for some time indicated their intent to challenge the process. In a March media release, TKAG stated that:

> *"In November 2015, Treasure Karoo Action Group (TKAG) and AfriForum moved against the Ministers of Minerals and Environment, their respective departments and*

some officials in a challenge to the validity of the regulations. The Department of Mineral Resources have indicated that they would be opposing the application."

and:

"The government appears to have forgotten that there is a High Court challenge to the intrinsic suitability of a patently flawed set of regulations, and that until that matter is properly settled within the realm of legal options at our disposal, any licences authorizing exploration will be urgently challenged in the appropriate forum."

TKAG has stated that it expects its case will be heard before the High Court in May and may seek to use this as a ground for objection to the grant of any exploration rights.

Role of gas in South Africa's energy mix

In October 2016 a Preliminary Information Memorandum (PIM) on the Liquefied Natural Gas Independent Power Producer Procurement Programme (LNG IPPPP) was launched by South Africa's Department of Energy (DoE).

The PIM describes the scope of the LNG IPPPP for prospective and interested bidders and highlights the opportunities the programme presents to the bidders and to the South African economy. One of the primary objectives of the programme is to develop a gas economy in South Africa, including gas exploration and production from indigenous resources. Nqgura (Coega) (Eastern Cape Province) and Richards Bay (KwaZulu-Natal Province) have been identified as the two feasible sites to develop LNG projects for the first phase. Challenger anticipates that the programme will kick-start investment in gas and power infrastructure that may benefit the future production of domestic gas, noting that Coega is proximate to Bundu's exploration right application area.

The Coega Development Corporation, which oversees the Coega Industrial Development Zone, anticipates the investment value associated with the zone's selection as one of two locations for the first phase of the LNG IPPPP to total R25-billion.

As well as LNG importation, storage and handling infrastructure, the Department of Energy reportedly envisages the building of private gas-fired power generation capacity of 1000 MW in addition to the existing 342 MW Dedisa peaking power plant, which recently entered commercial operation and which is also designed for conversion from diesel to gas.

In November 2016, the DoE gazetted the draft Integrated Energy Plan (IEP) and the draft Integrated Resource Plan (IRP) Assumptions and Base Case for public comment. The closing date for public comments was initially set at 15 February 2017, but the DOE has extended the period for public comment until 31 March 2017. The IRP for 2010-30 was promulgated in 2011 as a "living plan", and since that time there have been a number of developments in the energy sector in South and Southern Africa as well as changes in the electricity demand outlook. The IEP is described as "a national plan which describes the recommended future energy roadmap for South Africa", with the objective of guiding policy development, setting the framework for regulations and informing the selection of technologies to meet future energy demand. It covers the entire energy sector whereas the IRP is described as "the country plan which sets out the electricity supply and demand balance and requirements (including the technologies) from 2020 to 2050". Following the public consultation process, the IRP will be finalised and tabled to Cabinet for approval. The request for qualifications (RFQ) for the LNG IPPPP previously scheduled for November has been delayed to ensure alignment between the procurement programme and the IRP.

In November 2016, the government-commissioned two-year Strategic Environmental Assessment ("SEA") for Shale Gas Development completed its second phase with the publication of the final version of "Shale Gas Development in the Central Karoo: A Scientific Assessment of the Opportunities and Risks". A link to these extensive reports is provided on Challenger's website. The third and final phase will translate the scientific assessment into an operational decision-making framework. This was expected to conclude around March 2017 (although at the time of writing it had yet to be published) and is intended to provide the framework that will guide site and activity specific assessment processes, and provide government with the necessary tools to enable responsible decision-making into the future regarding shale gas development. This includes guidance on legislation, regulations, environmental impact assessment processes and monitoring.

In late March, President Zuma announced a substantial cabinet reshuffle, including new Finance and Energy Ministers. The Minister for Mineral Resources, however, remains unchanged.

Corporate

Whilst working to progress the licence application, management continues to focus on cost reduction and on evaluating potential new projects to add to the Company's portfolio.

Background

The Karoo Basin, which extends across 600,000 km^2, 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 at a rate of 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 centred on 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. The recent downgrade of South Africa's foreign currency sovereign credit rating to junk status by S&P Global Ratings and Fitch Ratings is expected to add to the pressure on 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 unpartnered junior company with interests in the basin, alongside Shell and Chevron.

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.

+Rule 5.5

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, 01/05/13, 01/09/16

Name of entity

Challenger Energy Limited

ABN	**Quarter ended ("current quarter")**
45 123 591 382	31 March 2017

Consolidated statement of cash flows		**Current quarter $A'000**	**Year to date (9 months) $A'000**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation (assessing potential new projects)	(28)	(112)
	(b) development		
	(c) production		
	(d) staff costs (not included above)	(34)	(124)
	(e) administration and corporate costs	(34)	(155)
1.3	Dividends received (see note 3)		
1.4	Interest received	1	4
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Research and development refunds		
1.8	Other (provide details if material)		
1.9	**Net cash from / (used in) operating activities**	**(95)**	**(387)**

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**		

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible notes		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings		
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	**Net cash from / (used in) financing activities**		

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	560	851
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(95)	(387)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		
4.4	Net cash from / (used in) financing activities (item 3.10 above)		
4.5	Effect of movement in exchange rates on cash held		1
4.6	**Cash and cash equivalents at end of period**	**465**	**465**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000**	**Previous quarter $A'000**
5.1	Bank balances	465	560
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**465**	**560**

6.	**Payments to directors of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to these parties included in item 1.2	62
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	

6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Payment of director fees.

7.	**Payments to related entities of the entity and their associates**	**Current quarter $A'000**
7.1	Aggregate amount of payments to these parties included in item 1.2	
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

None.

8.	**Financing facilities available** *Add notes as necessary for an understanding of the position*	**Total facility amount at quarter end $A'000**	**Amount drawn at quarter end $A'000**
8.1	Loan facilities		
8.2	Credit standby arrangements		
8.3	Other (please specify)		
8.4	Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

None.

9.	**Estimated cash outflows for next quarter**	**$A'000**
9.1	Exploration and evaluation	(75)
9.2	Development	
9.3	Production	
9.4	Staff costs (not included above)	(35)
9.5	Administration and corporate costs	(70)
9.6	Other (provide details if material)	
9.7	**Total estimated cash outflows**	**(180)**

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Sign here: .... Date: ....28 April 2017...................
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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.