

30 Apr 2018

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 11.06%

W&M Brown 7.47%

Registered office:

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QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 MARCH 2018

HIGHLIGHTS

- Vice President and President of the ANC Cyril Ramaphosa elected as President of South Africa, representing a major change in power.
- Gwede Mantashe, the former Secretary General of the ANC, appointed as the Minister of Mineral Resources.
- Select Committee currently deliberating the proposed amendments to the Bill submitted during the public participation process.
- Given past delays and remaining uncertainties around the timing of exploration rights awards, the Company continues to focus on internal cost control and is actively pursuing other opportunities that could add a further dimension to the Company's portfolio.

Changing Political Landscape

In December 2017, Vice President Cyril Ramaphosa was elected as the President of South Africa's governing political party, the African National Congress ("ANC"). In February 2018, he was elected President of South Africa in a parliamentary vote following the resignation of Jacob Zuma. This represents a major change in power with key changes in cabinet announced on 26 February 2018, most notably:

1. The Minister of Finance (formerly Malusi Gigaba, now Nhlanhla Nene);
2. The Minister of Mineral Resources (formerly Mosebenzi Zwani, now Gwede Mantashe, former Secretary General of the ANC); and
3. The Minister of Energy (formerly David Mahlobo, now Jeffery Radebe).

The appointment of Minister Mantashe was welcomed by the South African Chamber of Mines. The spokesperson of the Chamber of Mines, Charmane Russell, said:

"He is known to be a man of integrity and dignity. He brings with him a very sound and fundamental knowledge of the industry, which he will lead and enable."

Subsequent to the reporting period, in his first state of the nation address in February 2018, President Ramaphosa stated that;

"We need to see mining as a sunrise industry."

"With the revival in commodity prices, we are determined to work with mining companies, unions and communities to grow the sector, attract new investment, create jobs and set the industry on a new path of transformation and sustainability."

"This year, we will intensify engagements with all stakeholders on the Mining Charter to ensure that it is truly an effective instrument to sustainably transform the face of mining in South Africa."

"By working together, in a genuine partnership, underscored by trust and a shared vision, I am certain we will be able to resolve the current impasse and agree on a Charter that both accelerates transformation and grows this vital sector of our economy."

"Processing of the MPRDA Amendment Bill through both houses of Parliament is at an advanced stage, with an indication by Parliament that the Bill will reasonably be finalised during the first quarter of 2018."

"The Bill, once enacted into law, will entrench existing regulatory certainty, provide for security of tenure and advance the socio-economic interests of all South Africans."

Legislative Framework

As previously reported, the MPRDA¹ Amendment Bill (the "Bill") is under consideration by the National Council of Provinces Select Committee on Land and Mineral Resources ("the Select

¹ Mineral and Petroleum Resources Development Act, 28 of 2002 - "MPRDA"

Committee”), who are mandated to vote on any amendments to the MPRDA Amendment Bill proposed by the public in the public participation process held last year before the final draft is sent to the National Assembly for final parliamentary approval.

As part of this process, each provincial legislature was requested to propose amendments to the MPRDA Bill in accordance with comments received in the provincial public hearings which took place last year (“Negotiating Mandates”). In November 2017 the Select Committee received Negotiating Mandates from 8 of the 9 provinces (the Western Cape being delayed in their response).

In February 2018, the Select Committee began voting on the amendments proposed in each Negotiating Mandate. Once each amendment in the Negotiating Mandates has been voted on to form a final set of proposed amendments to the Bill, each provincial legislature will mandate their representative on the Select Committee to vote for or against each amendment accepted in Negotiating Mandate stage (“Final Mandates”). Once the Select Committee have voted in line with their Final Mandates, the amendments which pass will be incorporated in order to arrive at the final draft MPRDA Amendment Bill to be sent to the National Assembly. While the voting process is not proceeding as quickly as was hoped, the Chairperson of the Select Committee has called for a number of special sittings of the Select Committee to be held to complete the process (including during parliamentary recess). This is a positive indication of the political will driving the finalisation of the Bill. The first of these sessions took place on Tuesday 24 April 2018, with another planned in the coming weeks (date to be confirmed).

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. A significant number of potential projects have been assessed, and the Company continues to actively pursue new opportunities.

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 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. Shell 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.

Yours faithfully



Robert Willes
Managing Director

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CHALLENGER ENERGY (ASX code: CEL) is focused on the 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.

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

45 123 591 382

Quarter ended ("current quarter")

31 March 2018

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)	(47)	(126)
(b) development		
(c) production		
(d) staff costs (not included above)	(29)	(92)
(e) administration and corporate costs	(39)	(181)
1.3 Dividends received (see note 3)		
1.4 Interest received		
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	(115)	(399)

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	100	200
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	100	200

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	148 *	331 *
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(115)	(399)
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)	100	200
4.5	Effect of movement in exchange rates on cash held		1
4.6	Cash and cash equivalents at end of period	133 *	133 *

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	133 *	148 *
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)	133 *	148 *

* In addition to the stated cash balances above, the Company has a security term deposit of \$33,000 available to be redeemed and utilised for working capital purposes if required.

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 wages and 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 <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	200,000	200,000
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.		

The Company has entered into an unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd for up to \$200,000. The Company called on and has received \$100,000 in unsecured loans during the quarter. The called upon unsecured loans incur a 5% p.a. interest rate.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(32)
9.2 Development	
9.3 Production	
9.4 Staff costs (not included above)	(30)
9.5 Administration and corporate costs	(86)
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	(148)

The Company will rely on its existing cash resources and future capital raising (either debt and/or equity), including its ability to place securities under LR7.1 and LR7.1A to fund its current activities.

In light of the above factors, the Company believes that it will have sufficient cash to fund its existing activities. The Company expects to have negative cashflows from operations of approximately \$148,000 for the forthcoming quarter. The Company's Board and Management is focused on meeting its current objectives and confirm that it is in compliance with ASX Listing Rules, in particular, Listing Rule 3.1.


Mining exploration entity and oil and gas exploration entity quarterly report

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:



.....
(Director)

Date:30/4/18.....

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.