

31 January 2019

Board of Directors:

Michael Fry
(Non-executive Chairman)

Robert Willes
(Managing Director)

Clinton Carey
(Non-executive Director)

Issued capital:

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

38,750,000 unlisted options
and rights

Substantial holders:

LQ Super 11.06%

W&M Brown 7.47%

Registered office:

Level 3, Suite 302,
17 Castlereagh Street,
Sydney
NSW 2000
Tel +61 2 9299 9580
ABN: 45 123 591 382

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDING 31 DECEMBER 2018

HIGHLIGHTS

- The Department of Mineral Resources begins drafting a new bill specific to the petroleum sector, and which can be fast tracked without being impacted by the historic issues which have affected the MPRDA Amendment Bill.
- On 7 August 2018 ASX advised that the Company's securities would be suspended from quotation, following receipt of an announcement regarding a transaction that could result in a change of its activities. The Company continues to liaise with ASX on this matter.

Update on progress in South Africa

The Company continues to pursue its application for shale gas exploration rights in South Africa. As previously indicated, there appears to be newfound political momentum, with an important decision made to abandon the long delayed MPRDA Amendment Bill¹ and fast track a new piece of legislation specific to the petroleum industry. Challenger is advised that on 20 September 2018 the Minister of Mineral Resources, Gwede Mantashe, withdrew the MPRDA Amendment Bill from parliament with the full support of Cabinet after a decision was taken to separate the legislation applicable to the petroleum sector from that applicable to the mining sector. The Department of Mineral Resources has begun drafting a new bill which can be fast tracked without being impacted by the historic issues which have affected the MPRDA Amendment Bill. Challenger looks forward to the swift promulgation of the new bill.

During November, South African media reported that Mineral Resources Minister Gwede Mantashe had announced that he would amend the moratorium currently in place for the oil and gas sector to allow for the processing of applications. Mantashe is reported as saying;

“We can’t delay exploration. We know the sector has been worried. We want to accelerate investment and boost investor confidence in the economy. The amendment will ensure that applications currently in our system are processed and granted.”

Corporate

In June 2018 the Company announced that it intended to undertake a rights issue to raise approximately \$973,000 before costs, with confirmation of support from major shareholders to take up their respective entitlements and shortfall for a total of approximately \$500,000. The Company subsequently advised that the previously planned rights issue had been placed on hold as the Company works to advance other opportunities that could add a further dimension to the Company’s portfolio, and on 3 August 2018 the Company requested a trading halt of its securities from ASX pursuant to ASX Listing Rule 17.1, pending an announcement of a material acquisition. On 7 August ASX advised that the Company’s securities would be suspended from quotation, following receipt of an announcement regarding a transaction that could result in a change of its activities. ASX further advised that;

“The Company’s securities will remain suspended until it has either complied with Chapters 1 and 2 of the Listing Rules in accordance with Listing Rule 11.1.3, or provided ASX Limited with sufficient information to satisfy ASX that it should not

¹ The MPRDA Amendment Bill (the “Bill”) was referred back to Parliament by then President Jacob Zuma on the basis that further public hearings were required to correct defects in the initial public participation process. The NCOP Select Committee on Land and Mineral Resources (the “Select Committee”) held public hearings on the Bill in each province of South Africa from 25 January to 20 April 2017. In addition to the public hearings the Select Committee called for written and oral submissions directly, the latter being hosted in Parliament from 13 to 28 June 2017. The Select Committee was mandated to vote on any amendments to the Bill before sending the final draft to the National Assembly for parliamentary approval, and each provincial legislature was requested to propose amendments in accordance with comments received in the public hearings. Following the Select Committee voting process, the final draft Bill was collated by the State Legal Advisors. Procedural issues were raised in relation to the inclusion of amendments in the Bill which amend the underlying MPRDA Act directly (as opposed to amending the Bill).

exercise its discretion under Listing Rule 11.1.2 to require the transaction to be conditional on the approval by the Company's ordinary security holders, and under Listing Rule 11.1.3 to require the Company to re-comply with Chapters 1 and 2 of the Listing Rules."

The Company continues to liaise with ASX on this matter and will advise further in due course.

Funding

A further \$50,000 has been drawn under an unsecured convertible facility related to the proposed transaction under consideration with ASX.

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.

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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.

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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 December 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 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)	(43)	(52)
(b) development		
(c) production		
(d) staff costs		
(e) administration and corporate costs	(86)	(163)
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	(129)	(215)

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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 – deposits refunded		
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	50	225
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	50	225

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	182	93
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(129)	(215)
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)	50	225
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	103	103

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	103	182
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)	103	182

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	
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 were suspended during the quarter.

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	800	500
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 called upon unsecured loans of \$200,000 incur a 5% p.a. interest rate.

The Company has entered into an unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd and Seco Resource Finance Pty Ltd for up to \$100,000. This facility has been fully called, has a nil interest rate and is repayable by way of an issue of shares in the Company.

Related to the proposed transaction currently under discussion with the ASX, the Company has entered into an unsecured loan facility provided by AEP Corporation Pty Ltd for \$200,000. This facility provides for additional drawdowns of up to a further \$300,000 and is convertible at a deemed issue price of \$0.004 in circumstances whereby the transaction does not complete by 30 June 2019 (or such later date as may be agreed between the parties). The issue of shares is subject to the Company obtaining all required regulatory and/or shareholder approval(s) for the issue and compliance with all applicable laws, including the Corporations Act 2001 (Cth) (**Act**). This facility has been called upon for \$200,000 and has a nil interest rate.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	(15)
9.2 Development	
9.3 Production	
9.4 Staff costs (not included above)	(15)
9.5 Administration and corporate costs	(140)
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	(170)

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 funds its current activities.

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Mining exploration entity and oil and gas exploration entity quarterly report

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 \$170,000 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.

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: 31 January 2019.....

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.