Challenger Energy Ltd

ASX:CEL
www.challengerenergy.com.au

31 July 2018

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)

50,750,000 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 30 JUNE 2018

HIGHLIGHTS

- **Continued positive momentum in South Africa following the election of Cyril Ramaphosa and key cabinet changes with progress on the MPRDA Amendment Bill, statements from the Minister of Mineral Resources of intent to fast-track the finalisation of the shale gas exploration rights applications, reports that the Department has appealed the Eastern Cape High Court's decision to set aside the Technical Regulations, and ministerial notice inviting the public to submit comments on pending shale gas applications.**

- **Agreement to satisfy accrued directors' fees and salary.**

- **Rights Issue placed on hold as the Company works to advance other opportunities that could add a further dimension to the Company's portfolio.**

- **Clinton Carey joins board as Non-Executive Director, replacing Bill Bloking.**

Update on progress in South Africa

The Company continues to pursue its application for shale gas exploration rights in South Africa. As previously indicated, Challenger is encouraged by recent developments in this regard with the election of Cyril Ramaphosa as President in February 2018 and a number of key changes in cabinet announced shortly thereafter, including new ministers of Finance, Mineral Resources and Energy. There appears to be newfound political momentum, with progress on the final draft of the long awaited MPRDA Amendment Bill at the parliamentary select committee in anticipation of the Bill proceeding to the National Assembly. We have been advised that the select committee has concluded the voting process in relation to amendments to the MPRDA Amendment Bill received during the public participation process, following which the final draft of the Bill was collated by the South African State Legal Advisors.

Some procedural issues with the final draft of the Bill have been raised in relation to the inclusion of amendments in the Bill which amend the underlying MPRDA Act directly (as opposed to amending the Bill). These issues are currently under consideration by the National Council of Provinces. Parliament is in recess until the end of July when the subsequent parliamentary term will commence. It is expected that a determination on the procedural issues raised with the final draft will have been made during the recess, and the final draft of the Bill will be voted on early in the upcoming term as significant political pressure is being exerted to finalise the Bill.

In his budget vote speech on 15th May the Minister of Mineral Resources, Gwede Mantashe, acknowledged that the processing of mineral rights applications in general has been too slow and indicated that measures are being taken to speed this up. He urged Parliament to proceed faster towards finalisation of the MPRDA, *"because it is key in entrenching regulatory and policy certainty necessary for investment, thereby attainment of sustainable growth, development and transformation in the sector"*.

He further stated that;

> *"According to the Fraser Institute, an international rating agency that rates 91 mining economies, South Africa could potentially be rated at 21 overall. Currently, on investor attractiveness, we are rated number 47; and are placed number 80 in policy and regulatory framework. It is evident that the conflict in the industry around the mining charter and, therefore, failure to have the sector coalesce contributed to uncertainty and fear among investors. This has further been exacerbated by delays in finalising the Mineral and Petroleum Resources Development Act (MPRDA)."*
>
> *"Since South Africa is part of the global economic village it is necessary to heed surveys from rating agencies. We should aim to be competitive and use our competitive advantages to attract investment. This will give us the necessary capacity to transform and meet our Social Labour Plan commitments for community development and the improvement of the living conditions of mineworkers."*

He also specifically addressed the matter of shale gas, stating that;

"The southern Main Karoo Basin is considered the most prospective area for shale gas, with a possible estimation of 205 Trillion cubic feet of gas technically recoverable, as reported by Petroleum Agency SA. The successful development of this resource has the potential to transform the national energy economy of South Africa. To that end, we intend to move with speed to fast-track the finalisation of Exploration Rights applications so that South Africa can maximise its chances of reaping the benefits from shale gas exploration and exploitation."

The South African media has also reported that the High Court in Pretoria has dismissed a joint application by AfriForum and Treasure the Karoo Action Group ("TKAG") to set aside the Regulations for Petroleum Exploration and Production 2015 (the "Technical Regulations"). The Technical Regulations cover technical details relating to exploration and production of petroleum through hydraulic fracturing and must be promulgated before licences for shale gas exploration by means of hydraulic fracturing can be granted.

While the Technical Regulations were previously set aside by order of the Eastern Cape High Court in October 2017, and notwithstanding the decision of the Pretoria High Court remain so, this new decision indicates that there is a strong argument to be made that the Technical Regulations were lawfully promulgated. It has been reported that the Department of Mineral Resources has appealed the decision of the Eastern Cape High Court, and it is hoped that on appeal the Technical Regulations will be reinstated.

On 28 June 2018 the Minister of Mineral Resources imposed a moratorium on the granting of new applications for technical co-operation permits, exploration rights and production rights in terms of sections 67, 79 and 83 of the MPRDA. The restriction has immediate effect from the date of publication and will run until the Minister publishes a Notice of Invitation for applications. Although timelines were not specified in the notice, and are currently unclear, PASA has advised that the intention of the moratorium is to move from an open application system, to a system based on licencing rounds.

The restriction will not affect the processing of applications for reconnaissance permits, technical co-operation permits and exploration and production rights received before the date of publication, nor will it affect renewals or transfers. PASA has also made it clear that the intention of the Minister is for holders of existing TCPs and Exploration Rights to be able to enforce their exclusive rights to apply for Exploration Rights or Production Rights as applicable, however, this is not reflected in the wording used in the section 49 Notice and numerous parties have engaged the Department to try and have this amended.

The Department appears receptive to the feedback received, and we expect to receive further clarification on this point in the upcoming weeks.

Finally, on 11 July 2018 the Minister of Mineral Resources published a notice in the provincial government gazette in terms of sections 3(2)(b) and 4(3) of the Promotion of Administration Justice Act no 3 of 2000. He invited persons that may be materially and adversely affected, by an administrative decision regarding the exploration right applications submitted by Bundu Gas and Oil (Pty) Ltd, Falcon Oil and Gas Limited and Shell Exploration South Africa BV, to make representations before 11 August 2018. This is a further indication of positive momentum.

Corporate

Satisfaction of accrued Directors' fees and salary

At the Company's request and in order to preserve working capital, the Directors had previously agreed to accrue a significant proportion of fees and the Managing Director's salary. These amounts have been accordingly accrued and noted in the audited financial statements of the Company. As at the end of May 2018 the total accruals stood at $948,750. The Company has now entered into an agreement with each individual Director and former Director to satisfy the accrued fees and salary as follows;

- The Managing Director to receive accrued salary of $200,000 following a further capital raising of not less than $1,000,000 together with an invitation to apply for 10,000,000 performance rights based on the granting of Bundu's exploration rights in the Karoo;
- Mr Michael Fry and Mr William Bloking have agreed to forgo their accrued fees;
- No further board fees to be payable until completion of the Rights Issue, following which the Managing Director's remuneration to be reduced to $10,000 per month for a three-month term and revisited at the end of this period, and the Non-executive Directors' fees to be accrued and paid in cash upon a further capital raising of not less than $1,000,000.

Rights Issue

The previously planned Rights Issue has been placed on hold as the Company works to advance other opportunities that could add a further dimension to the Company's portfolio.

Board Representation

In June Challenger announced the appointment of Clinton Carey to the board as a Non-Executive Director. Mr Carey has more than twenty years' experience as a manager and director in a range of listed companies in the resources, oil & gas and technology sectors. He has extensive experience in the resources sector providing management, capital raising and corporate advisory services to a range of listed mining and energy companies and has worked for mining and energy companies in Russia, Brazil, Australia and the UK.

Mr Carey replaces Bill Bloking, who has elected to stand down as a Director. Commenting on Mr Carey's appointment, Challenger Chairman Michael Fry said:

> *"We are pleased to welcome Clinton as a Non-Executive Director and look forward to adding his experience to the Board.*
>
> *"On behalf of the Company, I would also like to thank Bill for his invaluable contribution as a director. We wish him all the best for the future."*

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. 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.*

+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	30 June 2018

	Consolidated statement of cash flows	Current quarter $A'000	Year to date (12 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)	(37)	(163)
	(b) development		
	(c) production		
	(d) staff costs (not included above)	(18)	(110)
	(e) administration and corporate costs	(87)	(268)
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**	**(142)**	**(541)**

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	27	27
2.6	**Net cash from / (used in) investing activities**	**27**	**27**

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	75	275
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**	**75**	**275**

4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	133	331
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(142)	(541)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	27	27
4.4	Net cash from / (used in) financing activities (item 3.10 above)	75	275
4.5	Effect of movement in exchange rates on cash held		1
4.6	**Cash and cash equivalents at end of period**	**93**	**93**

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	93	133
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)**	**93**	**133**

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	41
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 *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	300	275
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. The Company called on and has received $75,000 in unsecured loans during the quarter. This facility has a nil interest rate and is repayable by way of an issue of shares in the Company.

9.	Estimated cash outflows for next quarter	$A'000
9.1	Exploration and evaluation	(10)
9.2	Development	
9.3	Production	
9.4	Staff costs (not included above)	
9.5	Administration and corporate costs	(85)
9.6	Other (provide details if material)	
9.7	**Total estimated cash outflows**	**(95)**

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 $95,000 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: .... Date: 31/7/2018

....
(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.