

25 Jan 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 DECEMBER 2017

HIGHLIGHTS

- Vice President Cyril Ramaphosa elected as President of the ANC, representing a major change in power.
- Parliamentary Select Committee receives proposed amendments to the MPRDA Bill (negotiating mandates) from 8 out of 9 provinces in November 2017.
- Select Committee to resume deliberation of the proposed amendments on 18 February 2018, with the Bill anticipated to be presented to Parliament during the first term of 2018.
- Eastern Cape High Court grants order setting aside the Regulations for Petroleum Exploration and Production.
- 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

In mid-October, President Jacob Zuma announced a further Cabinet re-shuffle including the appointment of a new Minister of Energy. The Minister for Mineral Resources, however, remains unchanged.

In December 2017, Vice President Cyril Ramaphosa was elected as the President of South Africa's governing political party, the African National Congress ("ANC"). This represents a major change in power in the ANC, and it is anticipated that the President of South Africa, Jacob Zuma, may be recalled by the Party during 2018 as a result. Should this occur, consequent cabinet changes may follow.

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 Committee"), who are mandated to vote on any amendments to the MPRDA Amendment Bill before the final draft is sent to the National Assembly for 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).

The Select Committee must now vote on each amendment proposed in each negotiating mandate in order to arrive at the final draft MPRDA Amendment Bill to be sent to the National Assembly. The Select Committee will resume its deliberation of the MPRDA Amendment Bill on 18 February 2018. We hope that the Bill will thereafter be voted on in the National Assembly during the first parliamentary term of 2018 (ending 29 March 2018).

On 19 July 2017, the Minister of Mineral Resources, Mosebenzi Zwane, gazetted a notice inviting stakeholders to submit representations on a proposed restriction under the MPRDA on the granting of any new application for a prospecting or mining right, the processing of any application for renewal of a prospecting or mining right, and the receiving of any applications for the transfer of a right. The notice was clear that the moratorium would 'not be applicable to applications received and accepted before the date of publication of this notice'. Consequently it is not expected that this will affect Bundu's application.

Following a court challenge by the South African Chamber of Mines, the Department of Mineral Resources agreed to withdraw the proposed moratorium. This agreement was made an order of court on 4 August 2017.

As previously reported, on Wednesday 18 October 2017, in *John Douglas Stern v the Minister of Mineral Resources, (2015) EC*, the Eastern Cape High Court in Grahamstown granted an order setting aside the decision of the Minister of Mineral Resources to make the Regulations for Petroleum Exploration and Production, 2015 (the "Technical Regulations"). There is as yet no indication as to whether the Department of Mineral Resources will be appealing this decision. Subject to any appeal on behalf of the Minister, the Technical Regulations, which

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

cover technical details relating to exploration and production of petroleum through hydraulic fracturing, may now have to be redrafted.

The Regulations were rejected primarily due to the inclusion of provisions which cover environmental issues (which the Department of Mineral Resources is allegedly no longer authorised to regulate). These provisions would need to be provided for in regulations published by the Department of Environmental Affairs, in accordance with the provisions of the National Environmental Act ("NEMA").

While the court made no substantive ruling relating to hydraulic fracturing as a practice in South Africa, the ruling may delay the granting of licences to explore for petroleum products through hydraulic fracturing until new regulations can be passed following the mandatory public participation process.

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 a number of 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 December 2017

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)	(45)	(79)
(b) development		
(c) production		
(d) staff costs (not included above)	(30)	(63)
(e) administration and corporate costs	(63)	(142)
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	(138)	(284)

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	100
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	100

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	185	331
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(138)	(284)
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	100
4.5	Effect of movement in exchange rates on cash held	1	1
4.6	Cash and cash equivalents at end of period	148	148

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	148	185
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)	148	185

6. Payments to directors of the entity and their associates

- 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

Current quarter \$A'000
62

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	100,000
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 entered into an unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd for up to \$200,000. The Company has 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	(45)
9.2 Development	
9.3 Production	
9.4 Staff costs (not included above)	(30)
9.5 Administration and corporate costs	(90)
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	(165)

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:25/1/18.....

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.