



31 January 2013

ASX Companies Announcements Office
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ASX :CEL

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 31 DECEMBER 2012

HIGHLIGHTS

South Africa

- **Continued interest in the Southern Karoo Basin**
- **Chevron enters the Karoo**
- **Ongoing discussions regarding approval of exploration right.**
- **Discussions continue with Farm-out pending award of the right.**

Maricopa

- **Challenger Energy sells Maricopa Asset for US\$625,000**

South Africa (90%)

During the quarter Bundu (90% owned by Challenger Energy Limited) continued to support the ongoing assessment of its application for an exploration right located around Cranemere in the Southern Karoo Basin.

The permit is centred around the CR 1/68 well located within the application area flowed high rates of gas of more than 8 MMcf/day of natural gas from the Fort Brown shale during testing in 1968.

Challenger is pleased to note that Chevron Business Development South Africa Limited (Chevron) has entered into an Agreement with Falcon Oil and Gas Ltd to jointly co-operate on unconventional gas opportunities in the Karoo Basin, the full terms of the agreement have not been disclosed, and this agreement now means that Challenger through its 90% owned subsidiary Bundu Gas & Oil (Pty) Ltd is the only small company with interests in the basin alongside Shell and Chevron.

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 Oil & Gas Pty Ltd (acquired by CEL in April 2010) in February 2009.

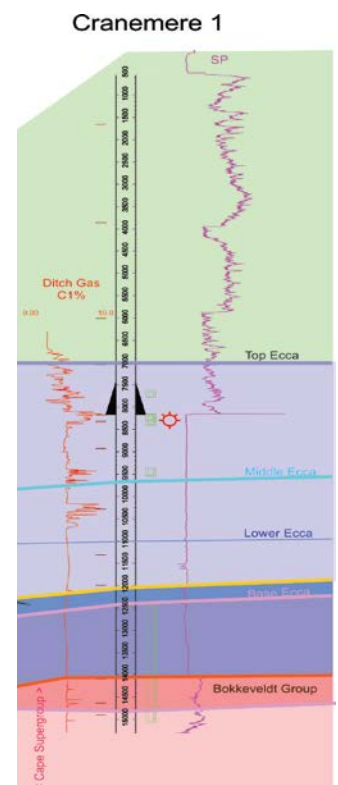
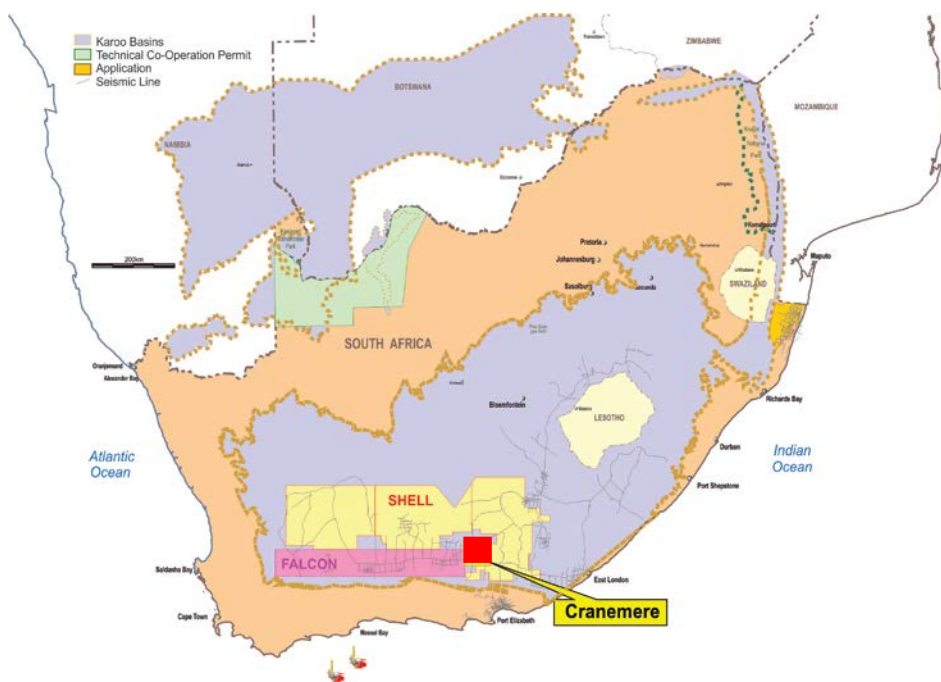
The US Department of Energy in its April 2011 report: "World Shale Gas Resources: An Initial Assessment" estimated that there is 485 trillion cubic feet of risked technically recoverable shale gas resources in South Africa's Karoo. This ranks as the fifth largest among 32 countries included in the study and is almost half of

the reports estimate of risked technically recoverable shale gas resources in North America. The US Department of Energy “World Shale gas resources report” identified a “Risked Recoverable Resource” of approximately 6.8 BCF per square mile across the basin. Applying this to the size of Challengers TCP application is equivalent to more than 8.5 TCF of recoverable resource¹.

Econometrix, South Africa’s largest independent macro-economic consultancy has released a study (commissioned by Shell) on the potential economic and employment benefits of a successful natural gas development in the southern Karoo basin. The Econometrix report estimates that a relative conservative find of 20 TCF could have an annual economic impact of ZAR80 billion and at 50 TCF the impact on the South African economy could be a high as ZAR200 billion. Hundreds of thousands of sustainable employment opportunities could be created and have a knock-on effect on producers, government and consumers.

Importantly Challengers application is in the heart of the basin so CEL’s application covers an area containing thicker and deeper shales which would be expected to significantly exceed the basin average.

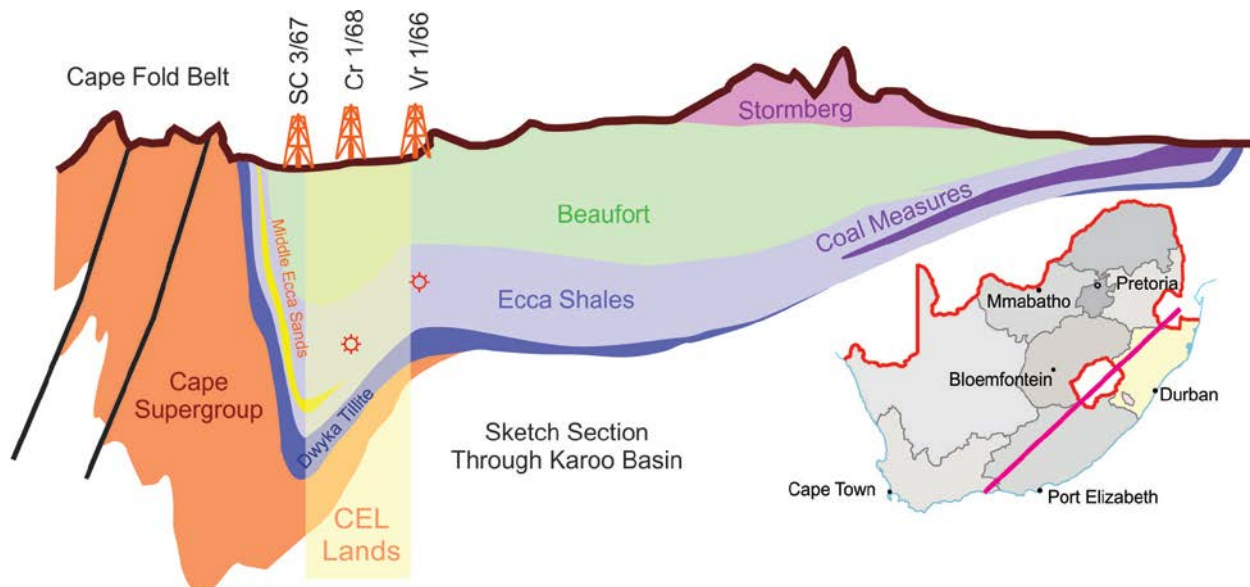
The Karoo Basin, which measures 600,000 km² is located in central and southern South Africa and contains organic rich shales such of Permian age with combined thickness up to 5000 feet. The focus for shale gas exploration is in the southern portion of the basin where the shales are at sufficient depth and where five wells, all pre 1970, have intersected these shales and all had significant gas shows. One well, the Cranemere CR 1/68 well, area flowed 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.



Note 1: Based on ~800,000 acres conservative expected after accounting for Game Reserves



The Cranmere CR 1/68 well is located in the middle of CEL's Application.



Challenger continues to observe a broadly supportive sentiment in the media and an increased interest in the shale industry in South Africa. The company continues to progress discussions on a potential farm-in with interested parties within this more favourable environment.

Mercury Stetson (earning 50%)

The company has completed the plugging and abandoning of the well drilled in the permit.

Maricopa Project: 50% Working Interest (San Joaquin Basin)

The Maricopa project averaged 19.6 bopd during the quarter.

During the December 2012 quarter, the average price of oil received from the Kern Oil Refinery was US\$101/bbl.

Challenger Energy has a 50% Working Interest. Solimar Energy holds a 50% Working Interest and is the operator.

Challenger is pleased to report that the Company has entered into an agreement to sell the 120 acre Maricopa property to an undisclosed private buyer for a total purchase price of USD \$1,250,000. Challenger's 50% Working Interest proceeds are US \$625,000 before costs and expenses associated with the sale.

The sale closed on 30 January 2013, with the funds now transferred to Challengers Account.

CORPORATE

The company has focussed on reducing its cash expenditure over the quarter, and has minimised administration and other costs as much as possible whilst waiting on the outcome of the current processes in South Africa.

Yours faithfully

A handwritten signature in blue ink, appearing to read "Paul Bilston". The signature is fluid and cursive, with a long horizontal stroke at the end.

Paul Bilston
Managing Director

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Challenger Energy Limited

ABN

45 123 591 382

Quarter ended ("current quarter")

31 December 2012

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	143	143
1.2 Payments for (a) exploration & evaluation	(35)	(227)
(b) development	-	-
(c) production	(63)	(63)
(d) administration	(59)	(189)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	2
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other – restoration costs	(61)	(136)
- rental income	9	26
Net Operating Cash Flows	(65)	(444)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – deposits returned/(paid)	157	208
Net investing cash flows	157	208
1.13 Total operating and investing cash flows (carried forward)	92	(236)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	92	(236)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Cost of share/option issues	-	(31)
Net financing cash flows		-	(31)
Net increase (decrease) in cash held		92	(267)
1.20	Cash at beginning of quarter/year to date	155	516
1.21	Exchange rate adjustments to item 1.20	(1)	(3)
1.22	Cash at end of quarter	246	246

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	-
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

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Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	100
4.2 Development	-
4.3 Production	50
4.4 Administration	184
Total	334

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	246	155
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	246	155

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	-	-	-	-
6.2 Interests in mining tenements acquired or increased	-	-	-	-

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	311,482,540	311,482,540		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	2,000,000 2,000,000 2,000,000 11,500,000 2,000,000 7,500,000	- - - - - -	<i>Exercise price</i> 25 cents 35 cents 25 cents 15 cents 35 cents 15 cents	<i>Expiry date</i> 28/02/2013 28/02/2015 01/02/2014 20/11/2014 01/02/2015 20/11/2016
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (<i>totals only</i>)		
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Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  Date: 31 January 2013
Managing Director

Print name: Paul Bilston

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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities:** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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