



7 February 2012

ASX release

Challenger funded to complete testing program at Mercury Stetson

- ***Share Placement to raise \$2.8M at \$0.05 per share***
- ***Drilling to commence second half of this month.***

The Board of Challenger Energy Ltd ("Challenger") is pleased to announce that it has completed a placement of approximately A\$2.8 million to fund the further completion of the sidetrack and testing of the Mercury Stetson Project in Texas and for working capital purposes. Patersons Securities Limited acted as Lead Manager to the Placement.

Challenger Energy will apply the majority of the funds raised to completing the drilling and testing of the Barnett and Woodford shales within the Mercury Stetson project.

The share placement will be structured in two tranches. Tranche 1 will involve the issue of 30 million fully paid ordinary shares at A\$0.05 per share (raising a total of A\$1.5 million before costs). These shares will be issued under the Company's existing placement capacity. Up to a further 26 million fully paid ordinary shares at A\$0.05 will be issued in Tranche 2, subject to shareholder approval (raising an additional A\$1.3 million before costs). The new shares will rank equally with the Company's existing ordinary shares.

The Company expects to hold a shareholders' meeting regarding ratification of Tranche 1 and approval to issue the Tranche 2 shares in mid March 2012. Further information and documentation regarding the shareholders meeting will be distributed to shareholders shortly.

The planned drilling program is expected to commence with the mobilisation of Unit Drilling Rig 25 later this month. The program will include a sidetrack from the existing well bore at ~5,100 feet and drilling a new hole to a total depth of approximately 12,500 feet. The well will be logged and cased.

Following demobilization of the drilling rig, fracture stimulation and production testing equipment will be mobilized to site to conduct these operations.

Prospect Overview.

The Mercury Stetson Prospect contains two of the premier shale formations in the US – the Woodford and Barnett shales – in geological extensions of the core producing areas in the Arkoma and Fort Worth Basins.

The key well on the Mercury Stetson Prospect was drilled in 1978 before the development of any of the shale gas plays in the US. It identified that both shales present in the well had the same log signatures, geochemical characteristics and thicknesses as those found in the core producing areas of both the Barnett and Woodford shales.

Based on the technical information available from this well, the two shales are estimated to contain in excess of 360 BCF/sq mile of gas in place. Interpretation of the current seismic data suggests that the prospect area is ~ 55,000 acres(85 sq miles).

The core objective of the testing program is to demonstrate that gas can be delivered to surface from both the Barnett and Woodford shales in the prospect area. This is the critical piece of information that will underpin the validity of the massive gas in place and commercial potential of the prospect area.

Further updates will be provided in due course.

Mr Paul Bilston
Managing Director
P: 0402 060 405

About Challenger

Challenger Energy Limited is a public company listed on the Australian Stock Exchange (ASX:CEL) with a growing portfolio of exciting Oil and Gas exploration opportunities in South Africa and the USA.

Challenger's strategy is to utilise its network of global contacts to identify and acquire material upstream oil and gas exploration opportunities at a low entry cost which enables it to focus its exploration expenditure on drilling wells and other direct expenditure.

Challenger is targeting opportunities where it can act as operator, and which have significant scale and materiality (more than 1 TCF of gas or 10 Million bbl of Oil). The scale of these opportunities provides potentially significant upside for the company.

Forward Looking Statements

This announcement contains "forward-looking statements". Such forward-looking statements include, without limitation: estimates of future earnings, the sensitivity of earnings to oil & gas prices and foreign exchange rate movements; estimates of future oil & gas production and sales; estimates of future cash flows, the sensitivity of cash flows to oil & gas prices and foreign exchange rate movements; statements regarding future debt repayments; estimates of future capital expenditures; estimates of reserves and statements regarding future exploration results and the replacement of reserves; and where the Company expresses or implies an expectation or belief as to future events or results, such expectation or belief is expressed in good faith and believed to have a reasonable basis. However, forward looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from future results expressed, projected or implied by such forward-looking statements. Such risks include, but are not limited to oil and gas price volatility, currency fluctuations, increased production costs and variances in reserves or recovery rates from those assumed in the company's plans, as well as political and operational risks in the countries and states in which we operate or sell product to, and governmental regulation and judicial outcomes. For a more detailed discussion of such risks and other factors, see the Company's Annual Reports, as well as the Company's other filings. The Company does not undertake any obligation to release publicly any revisions to any "forward looking statement" to reflect events or circumstances after the date of this release, or to reflect the occurrence of unanticipated events, except as may be required under applicable securities laws.