



ASX and MEDIA RELEASE

<Shareholder name>

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12 December 2013

Dear Shareholder,

CHAIRMAN'S YEAR-END MESSAGE

As 2013 draws to a close, I would like to take the opportunity to reflect on Challenger Energy's significant progress in the past year. And with momentum building towards both the award of exploration rights, and securing a farm-in partner for the Cranemere Project in South Africa's Karoo Basin, we look forward to further exciting developments in 2014.

Before doing so, however, it is worth a brief recap of the remarkable position Challenger has achieved.

As you are no doubt aware, Challenger is focused on the fast emerging world-scale shale gas province in South Africa's Karoo Basin, which is strategic and central to the government's agenda given the country's power crisis and need for economic growth.

Via its South African subsidiary, Bundu Gas and Oil Exploration Pty Limited (Bundu), Challenger was first to recognise this opportunity and apply for an exploration right in the Karoo Basin – and was soon followed by Shell, Falcon Oil and Gas Ltd (Falcon), and more recently, Chevron. Indeed now that Chevron has announced an agreement with Falcon to jointly co-operate on unconventional gas opportunities in the region, the profile of Challenger's position is significantly raised, as the only "pure play" investment opportunity with exposure to this exciting new province.

Technically, the Karoo Basin contains organic rich shales 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 five wells, all pre 1970, intersected the shales with significant gas shows. As first mover, Bundu selected its application area of approximately 1 million acres to be centred around the Cranemere CR 1/68 well, which flowed more than 8 million cubic feet per day (mmcf/d) of natural gas from a vertical, unstimulated well. This is an unusual and highly promising indicator of the area's potential.

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The Year in Review

2013 began with the successful closure of the sale of Challenger's interest in the Maricopa Project in the San Joaquin Basin.

Coinciding with the shift in focus to the South African opportunity, in April, Mr Robert Willes joined Challenger as Managing Director, replacing Mr Paul Bilston who remains on the board as a Non-Executive Director. Mr Willes brings over 25 years of extensive international experience in the oil, gas and energy industries, primarily with BP. We are fortunate to have secured an executive of his calibre at this stage of the Company's development.

The U.S. Energy Information Administration (EIA) updated its 2011 report on World Shale Gas Resources in June. The EIA estimates that the Lower Permian Ecca Group shales in the Karoo Basin contain 1,559 trillion cubic feet (Tcf) of risked shale gas-in-place, with 370 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.

In August 2013 the Company completed a private placement to raise \$1 million before associated costs to boost the Company's working capital as it progresses the permit application process in South Africa. The placement was taken up by a small number of existing shareholders, all of whom are sophisticated investors pursuant to Chapter 7 of the ASX Listing Rules.

In September one of the minority shareholders in Bundu made a proposal to sell his 5% interest. Challenger exercised its pre-emption rights in regard to the proposed sale, and the share sale agreement was duly executed on 15th October, raising Challenger's interest in Bundu to 95%.

In October the South African Mineral Resources Minister announced that Cabinet had approved the long awaited gazetting of Technical Regulations on Petroleum Exploration and Exploitation. This announcement represents a key milestone in the South African Government's progress towards the award of exploration rights for shale gas exploration. Challenger views this development as very positive and has engaged in industry consultation via Bundu and the industry association, the Onshore Petroleum Association of South Africa (ONPASA). We look forward to the publication of the Technical Regulations in early 2014.

Challenger and Bundu also continue to be closely involved in industry consultation regarding proposed amendments to key legislation, specifically the draft Mineral and Petroleum Resources Development Amendment (MPRDA) Bill, with submissions made to the government's Mineral Resources Portfolio Committee. We understand that there is now growing appreciation of the importance of the nascent shale gas industry and its potential beneficial impact to the broader South African economy, which will likely inform Parliament deliberation on the bill.

Throughout the period Challenger and Bundu have also continued to build and reinforce key relationships including positive dialogue with the South African Mineral Resources Minister, Australia's High Commissioner to South Africa, Austrade, and the local regulatory authority - Petroleum Agency SA (PASA).

The Way Ahead

Looking forward, 2014 looks set to be an exciting year for your Company. It has been a long time coming, but there is a growing sense of momentum building around shale gas exploration in South Africa.

The low economic growth rates and power crisis continue to provide strong motivation for the country's government to urgently pursue potential shale gas resources as a catalyst to transform the economy, underscored by recent announcements from Eskom (the State energy utility) of further constraints on large power users to avoid power blackouts.

Following recent comments in the South African media attributed to a number of key political leaders including President Zuma, the industry anticipates that exploration rights may be awarded during the first quarter of 2014, potentially prior to the upcoming elections in April/May.

Against this encouraging backdrop, discussions with parties interested as potential farm-in partners are gaining traction. We will continue to keep shareholders informed as and when there is material progress in this regard.

It remains for me to thank you for your support in 2013, and to wish you and your families all the best for the festive season, and for a happy and prosperous New Year ahead.

Yours faithfully

A handwritten signature in blue ink, appearing to be 'M. Fry', with a stylized flourish at the end.

Michael Fry

Chairman

Challenger Energy Limited