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SHALE GAS:

NEW ENERGY IMPERATIVE FOR SOUTH AFRICA

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DISCLAIMER



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INTRODUCTION



- Unique opportunity to invest in emerging world-class shale gas province in South Africa
 - proven gas from 1968 Soekor drilling
- Renewed interest in Karoo gas potential
 - recoverable resource estimate: 390 trillion cubic feet (tcf) (EIA, June 2013)
 - ranked eighth-largest basin globally
 - Challenger 'first-mover'
- Key drivers of corporate and state interest:
 - South African energy crisis
 - South African economy and employment imperatives
 - strategic role of shale gas in any potential energy mix for South Africa

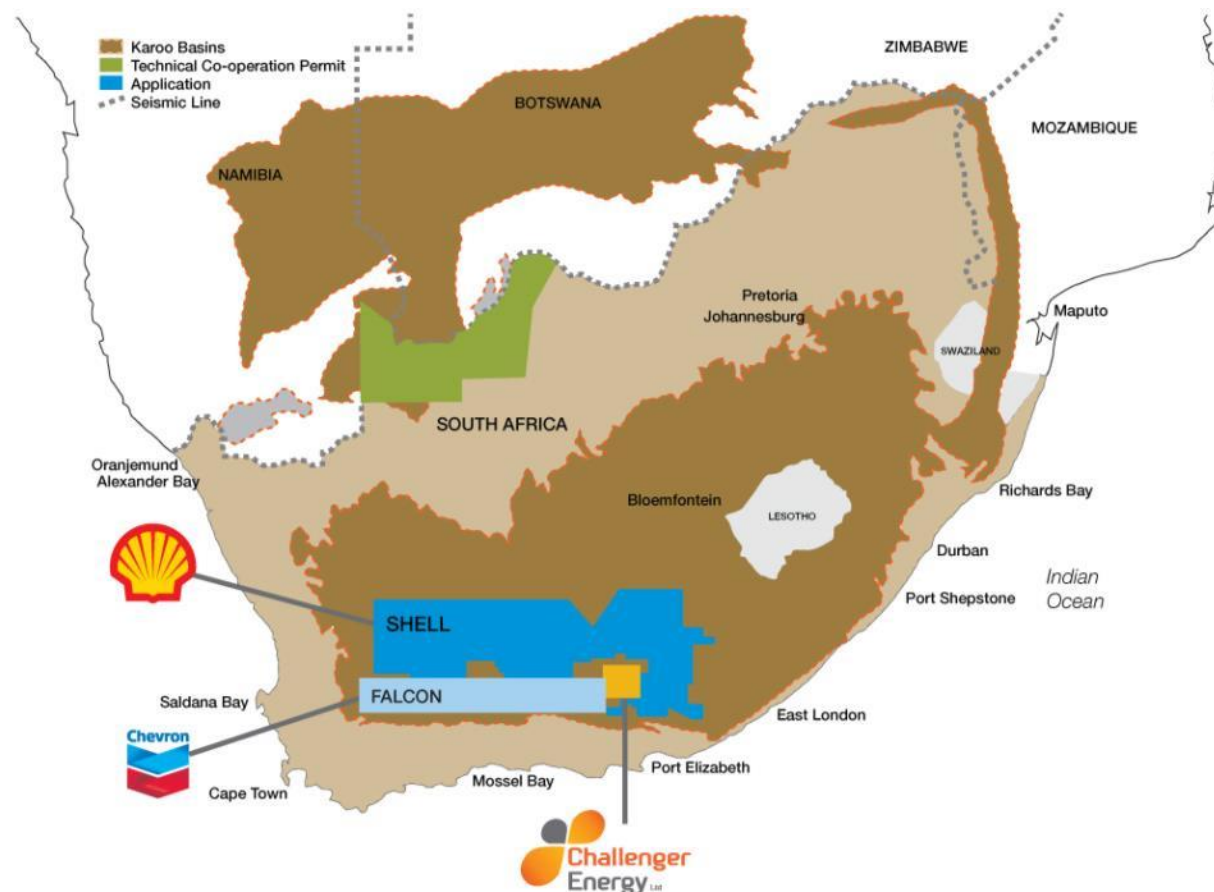
"We will soon be issuing licences for the exploration of shale gas drilling through hydraulic fracturing..."

President of South Africa, Jacob Zuma
Presentation of credentials by new Heads
of Mission accredited to South Africa
(11 August 2015)

OVERVIEW



- Australian-listed shale gas exploration junior (ASX: CEL)
- South African subsidiary: Bundu Gas and Oil Exploration (Pty) Limited (Bundu)
 - 95% Challenger, 5% BEE (Don Ncube)
- Bundu first company to apply for shale gas exploration right
- Application made over ~3,500km² (~870,000 acres) centred on 1968 discovery well*
- Neighbouring applicants: Shell and Falcon/Chevron
- Advancing farm-in discussions



Challenger is the only small cap player with exposure to this play

*Application amended at the regulator's request from ~4,200km² (~1 million acres) to exclude protected areas

BOARD AND MANAGEMENT

- ▶ 200 years' collective experience
- ▶ Highly experienced technical team

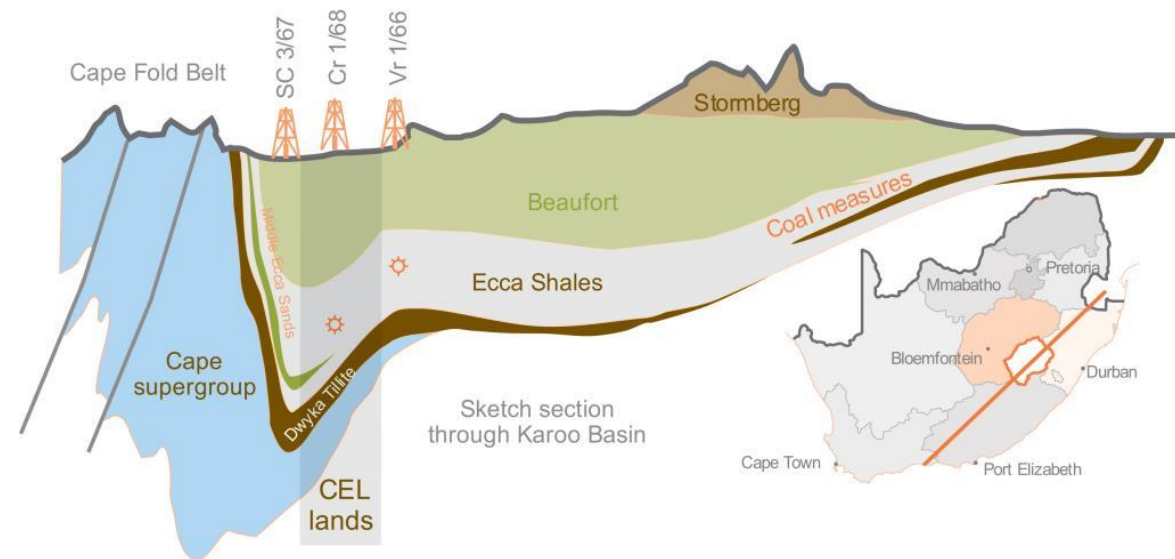


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CHALLENGER ENERGY	BUNDU
<p>Michael Fry, Chairman Industry experience: seven years E&P; 30 years capital markets Chair <i>Red Fork Energy</i>, <i>Norwest</i> USA, Australia</p>	<p>Robert Willes, Director Industry experience: 27 years Non-executive director, <i>Buru Energy</i>, <i>BP</i> (24 years), CEO <i>Eureka Energy</i> UK, Norway, Algeria, Belgium, Australia, Asia, South Africa</p>
<p>Robert Willes, Managing Director Industry experience: 27 years Non-executive director, <i>Buru Energy</i>, <i>BP</i> (24 years), CEO <i>Eureka Energy</i> UK, Norway, Algeria, Belgium, Australia, Asia, South Africa</p>	<p>Don Ncube – Director, BEE partner Industry experience: 40 years Executive Chairman, <i>Badimo Gas</i>; Director, <i>Gold Fields</i>, <i>Vula Mining Supplies</i>; Chairman, <i>Chiporo Rail</i>; former Chairman, <i>South African Airways</i>, <i>Atomic Energy Corporation</i>, <i>Real Africa Holdings</i>, <i>Oceana</i>, <i>Sun International</i> South Africa</p>
<p>Bill Bloking, Non-executive Director Industry experience: 40 years <i>Exxon</i>, <i>BHPB</i>, MD <i>Eureka Energy</i>, Chair <i>Nido Petroleum</i> USA, Australia, Asia, Europe, South America</p>	<p>Peter Price, Director Industry experience: 55 years <i>Anglovaal</i>, <i>Anglo American</i>, <i>Lonhro</i>, <i>Rand Corp</i>, <i>Babcock</i>, <i>Molopo</i> South Africa, Zimbabwe, Zambia, UK, Belgium</p>
<p>Paul Bilston, Technical Adviser Industry experience: 20 years Former MD <i>Challenger</i>, GM <i>Lucas Energy</i>, <i>AGL Energy Ltd</i> Australia, Asia, USA, South Africa</p>	<p>John Zetzman – Director Industry experience: 35 years Assembled, managed oil and gas projects world-wide. Exploited oil/gas opportunities in Europe, South Africa, USA</p>

BUNDU PERMIT APPLICATION: CRANEMERE

- Late 1960s: three wells drilled; uniform shale sections
- Application area surrounds discovery well (CR 1/68)
 - strong gas 'kick' and flow to surface, extensive core collected
- Thick shales
 - upper, middle Ecca shales 1 500-1 800m
 - Basal Ecca shales 110-150m
- EIA only considers Basal Eccas
 - higher organic content
 - gas flow came from upper shales
- EIA study implies ~32tcf GIP, >7tcf risked recoverable in permit area, Basal Ecca only
 - further upside potential?

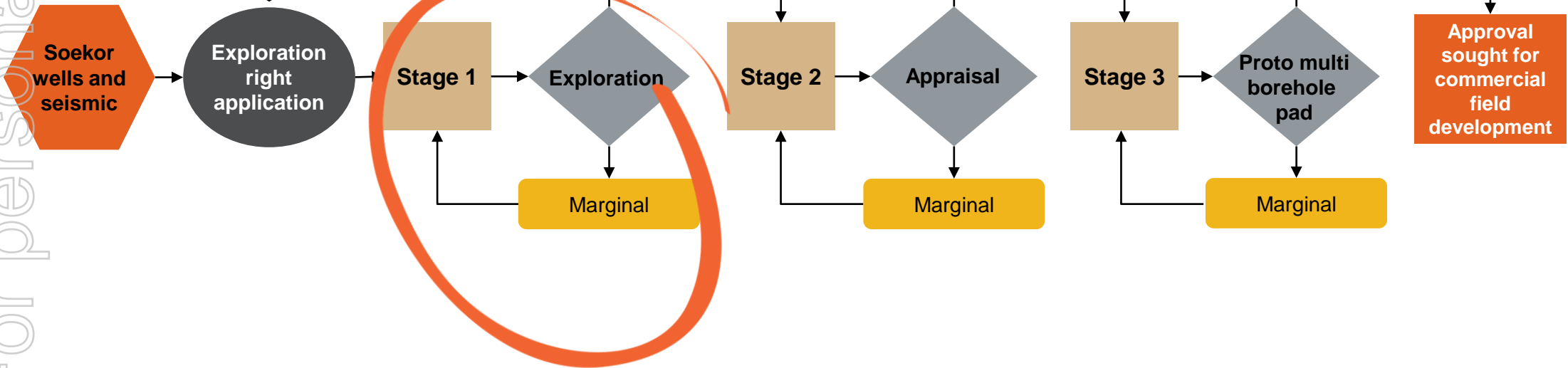


WHERE WE ARE NOW



- Multi-year process
- Exploration right – three years, extendable to nine years

We are here



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EXPLORATION WORK PROGRAMME

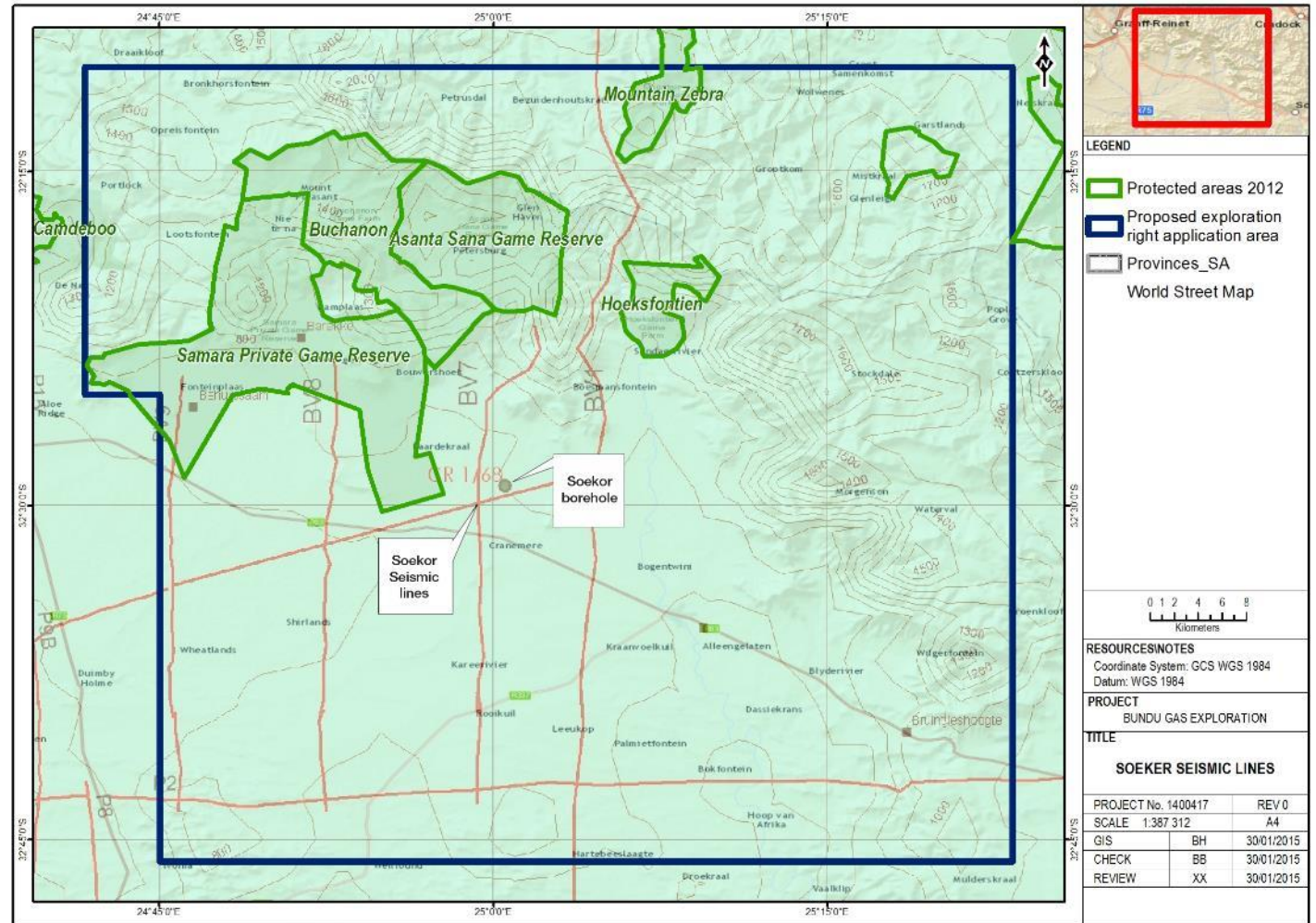


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PHASE 1	
DESKTOP STUDIES AND DATA GATHERING <ul style="list-style-type: none">▪ Water sampling (results shared with landowners)▪ Geological data gathering▪ Data from Soekor borehole (eg core, borehole logs)	Six to nine months
PHASE 2	
DEVELOP GEOLOGICAL MODEL <ul style="list-style-type: none">▪ Understanding of rock types/layering of rock types/ structural features▪ Reprocess seismic data▪ Identify locations for Phase 3	Six to nine months
PHASE 3	
<ul style="list-style-type: none">▪ Up to three conventional exploration boreholes to gather new geological data	Two to three months per borehole, plus permitting and land access

SEISMIC

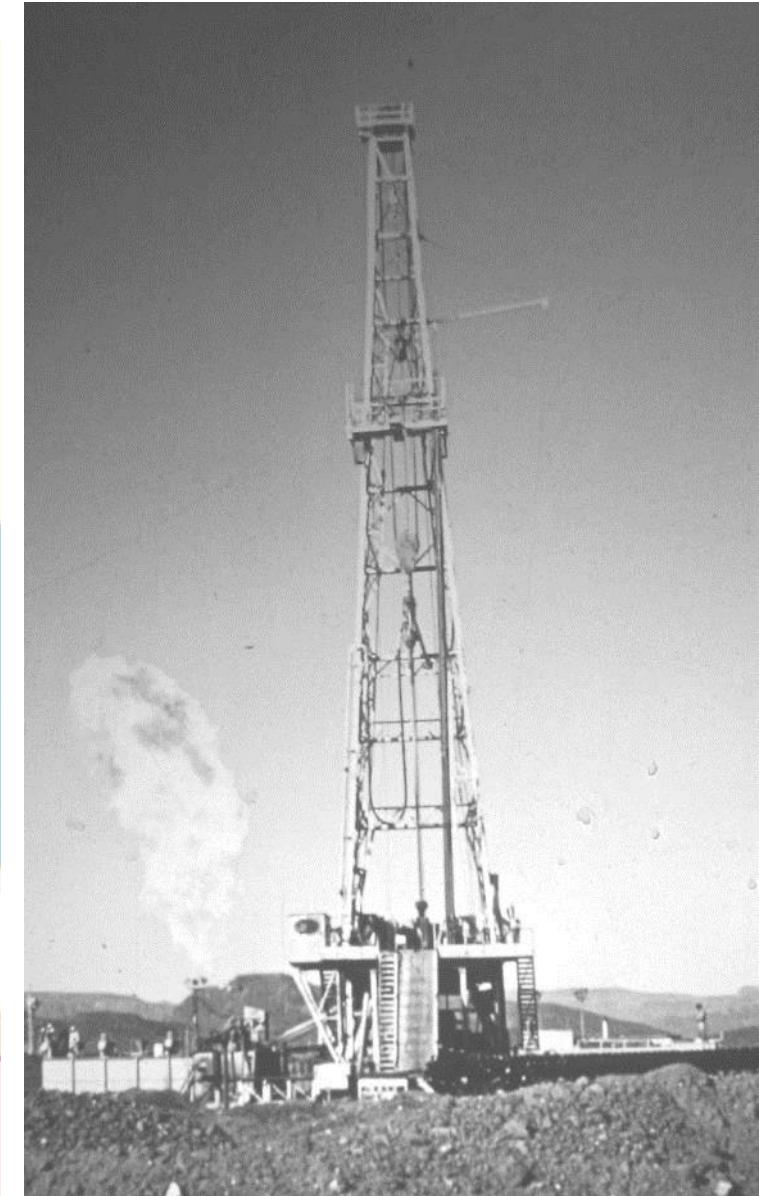
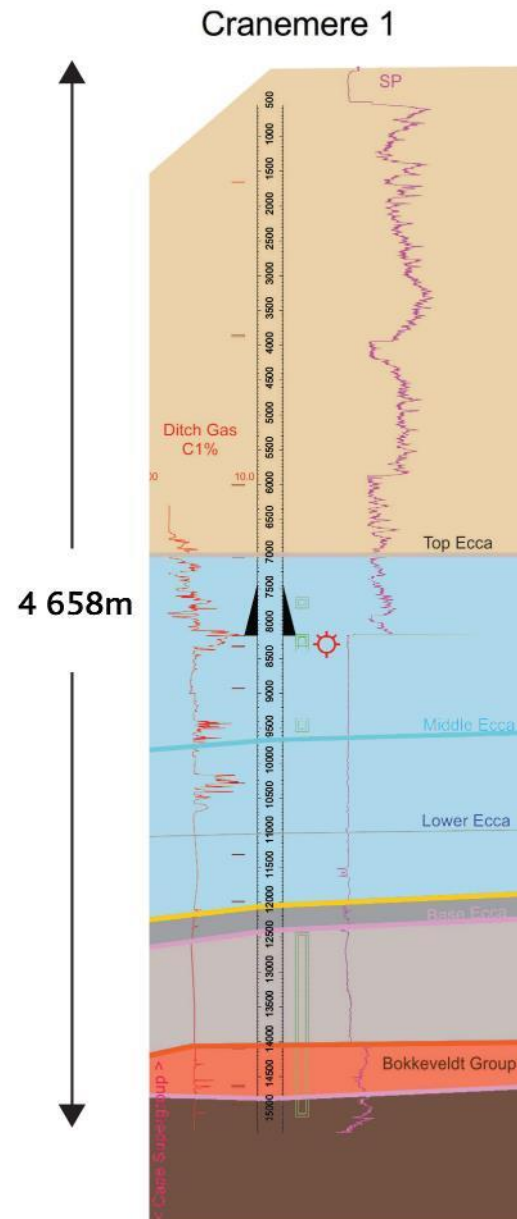
- Soekor seismic lines
 - re-processing original data using modern software can yield additional information
 - if existing data insufficient, Bundu may seek to gather new seismic data
 - not anticipated at this stage



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ABOUT THE CRANEMERE WELL

- Drilled by Soekor in 1968
 - to 15 282ft (4 658m)
 - gas flowed to surface from circa 8 150ft (2 484m) for ~24 hours
 - core, other samples collected



RISING ELECTRICITY COSTS IN SOUTH AFRICA



- International Electricity and Natural Gas Report and Price Survey in 2013/2014:
 - South Africa ranked 15 out of 18 countries for highest average electricity prices
 - had the biggest rise in tariffs with 7.5%, to rate of 8.97 US cents (R0.96)*
- Eskom electricity pricing (MYPD3) regulated by National Energy Regulator of South Africa (NERSA)
 - Nersa approved Eskom's plans to recoup losses, due to under-recovery during 2010-2013
 - wholesale tariffs increased by 12.7% in 2015
 - up from previously-sanctioned 8%
- Eskom financial difficulties are well-known:
 - over-reliance on diesel
 - previous requests for bail-outs from SA government
- Long lead time for other sources of energy (e.g. nuclear)
 - will not solve short-term energy problems
 - valuable position for gas in energy mix

Source: NUS Consulting Group

* The price survey is based on fixed, 12-month contract prices for the supply of 1,000kW with 450 hours use, expressed in US cents, excluding VAT (% changes were calculated in local currency).

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SEPTEMBER 2015: MCKINSEY REPORT – SOUTH AFRICA’S ‘BIG FIVE’



- Natural gas one of five priorities for SA economic growth
 - growth constrained by electricity shortage
 - continued shortfall predicted to 2025-2035, in spite of increased capacity
 - natural gas plants an alternative to diversify power supply
 - fast to build
 - low capital cost
 - low carbon footprint
- With regulatory certainty:
 - up to 20GW of gas-powered plants possible by 2030
 - gas provided through:
 - imports
 - local shale gas resources
 - or both

BIG FIVE:

- advanced manufacturing
- infrastructure productivity
- natural gas
- service exports
- raw and processed agriculture exports

If government and business prioritise this:

- annual increase in GDP growth by 1.1 percentage points possible
- add R1 trillion (\$87 billion to annual GDP by 2030)
- create 3.4 million new jobs

Source: McKinsey & Company

SA: EMERGING ENERGY INVESTMENT

- In 2014, Bloomberg New Energy Finance:
 - global interest in investing in renewable energy increased
 - South Africa ranked ninth, in top 10 clean energy investment countries
 - fast, important growth in the sector
- At the Energy Budget Vote NCOP, 2015/16:
 - significant emphasis placed on the development of gas, including shale gas
 - past year has seen a rapid evolution of energy system
 - contracted 5 243MW green energy, to be connected to national grid
 - SA has an effective IPP programme for renewables
 - focus on gas for future energy needs

Joemat-Pettersson re-affirms plan to expand role of gas



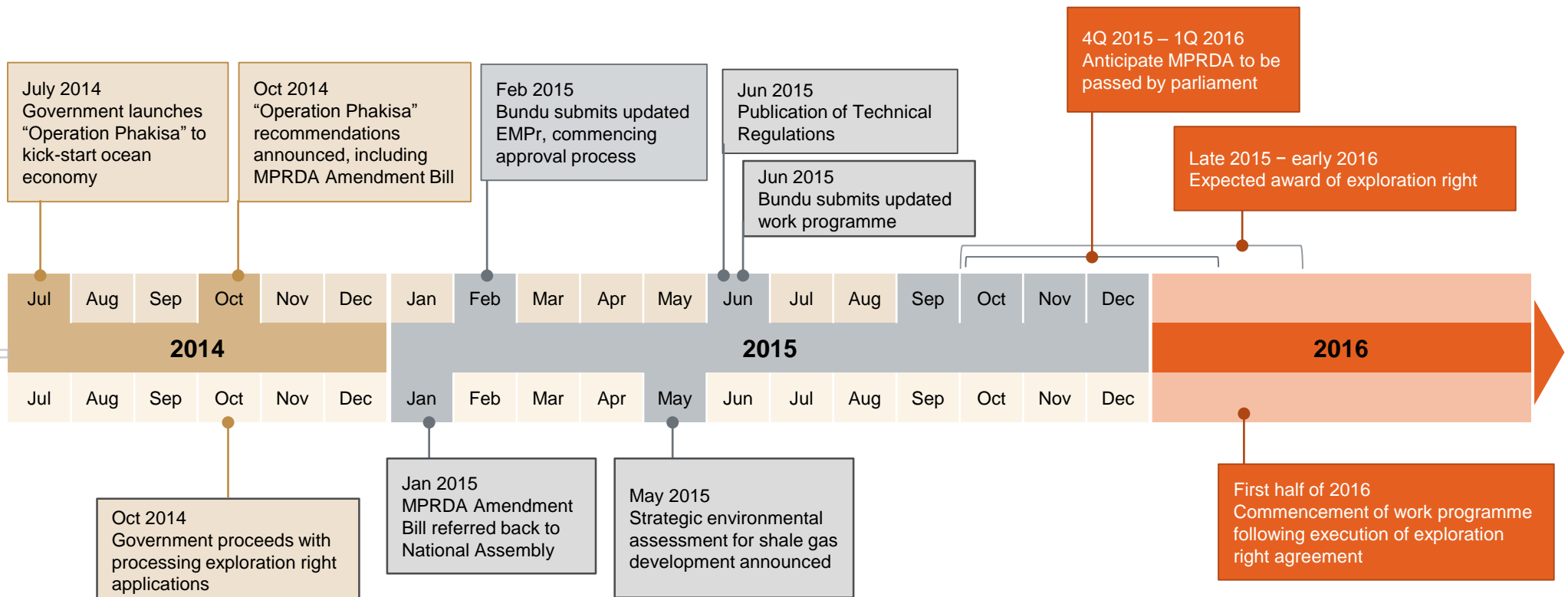
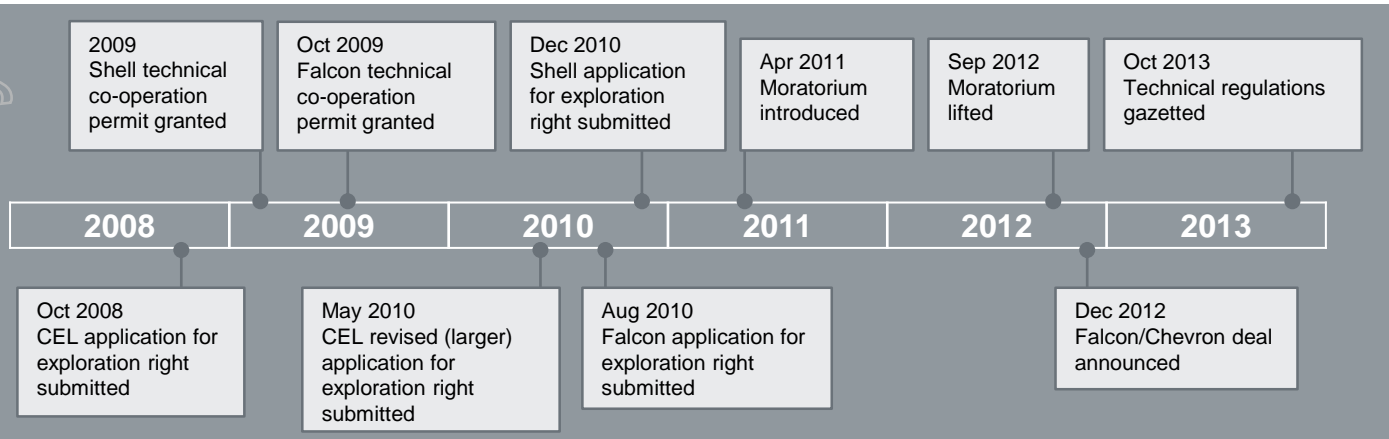
Diesel addict Eskom needs a new drug

“I have to take this diesel addict off this substance, I have to give it another drug – one that is a little cheaper – and that is gas.”

COUNTDOWN TO LICENCE AWARD



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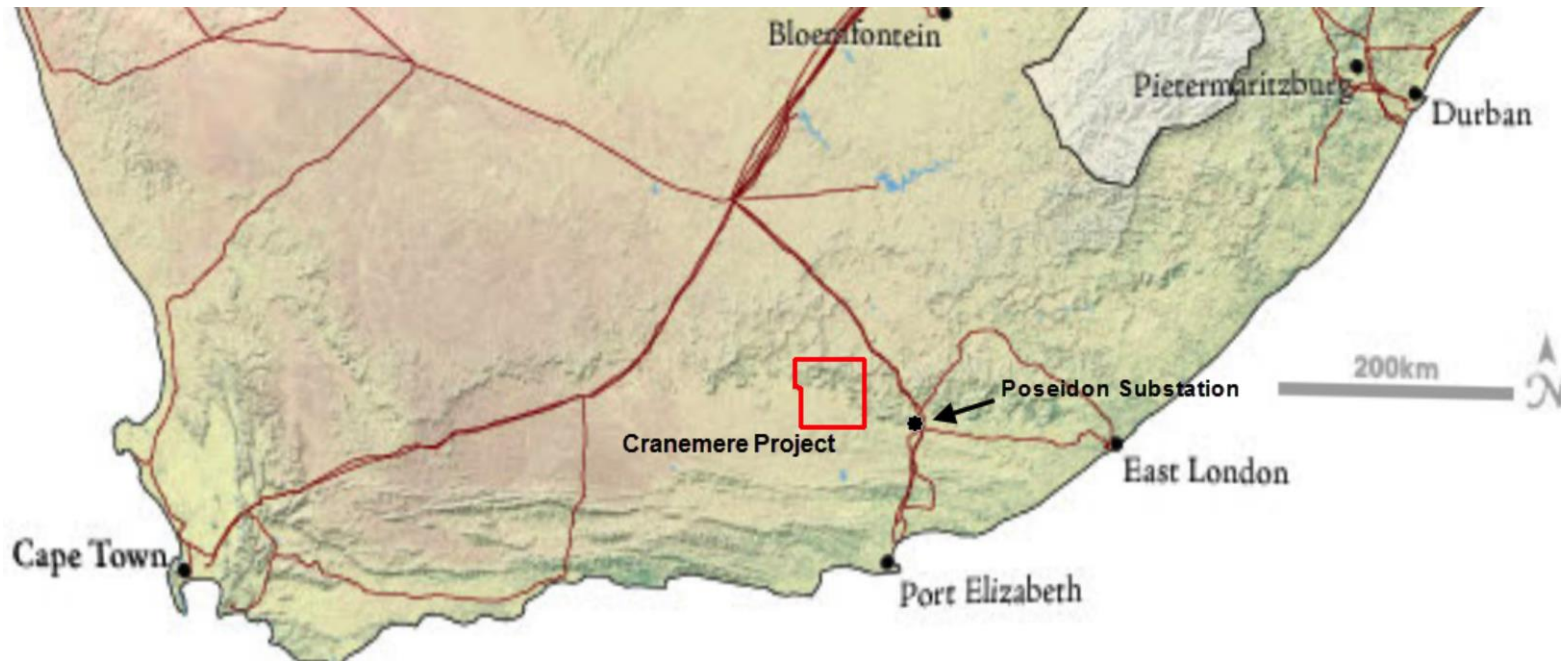
RISKS AND MITIGATION



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KEY RISKS	MITIGATION
Geological	<ul style="list-style-type: none"> ▪ Encouraging gas flow from earlier drilling ▪ Next stage exploration work ▪ Strong interest from oil majors
Political	<ul style="list-style-type: none"> ▪ Energy crisis in South Africa ▪ Emerging policy and licensing regime ▪ Exploration licence expected imminently
Commercial	<ul style="list-style-type: none"> ▪ Energy deficit ▪ Rising domestic energy demand and pricing
Evacuation	<ul style="list-style-type: none"> ▪ Well-head power generation options ▪ Grid and substations already available ▪ Pipeline or small-scale LNG to serve industrial offtakers

ENERGY INFRASTRUCTURE AND POSEIDON SUBSTATION



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FINANCIAL OVERVIEW



Share price performance (ASX: CEL)



Liquidity (as at close of business on 30 September 2015)

One month	\$249 248
Six months	\$2 048 355
One year	\$3 446 972

Capital structure

Fully paid ordinary shares	352 025 933
Listed options	65 896 502
Unlisted options and rights ¹	26 000 000
Share price ²	A\$0.028
Market capitalisation ²	A\$9.85m
Cash ³	A\$0.715m
Shareholders	1 127
Top 20	40.3%

Significant shareholders²

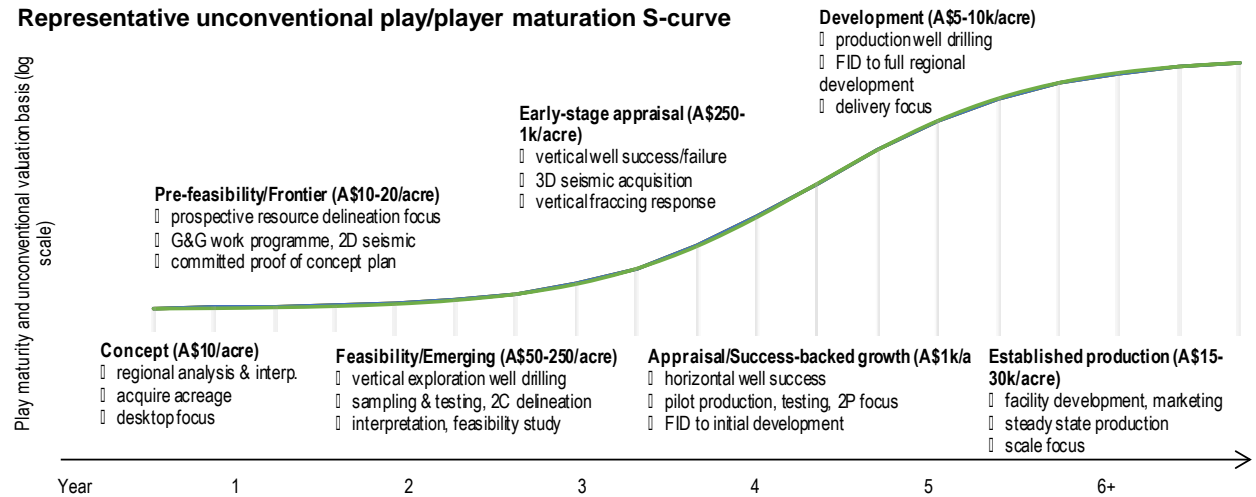
LQ Super Pty Ltd	11.72%
W & M Brown	7.32%
Challenger directors	1.27%

- Includes 7.5 million options with an exercise price of AUD\$0.15 and 18.5 million Performance Rights.
- As at close of business 19 October 2015.
- As at 30 June 2015.

THE OPPORTUNITY



- Previous discovery area in world-scale shale basin, surrounded by supermajors (Shell/Chevron)
- Near-term value catalyst: exploration licence award expected late 2015/early 2016
- Farm-in discussions continue



Source: Edison Investment Research

- High-profile project, strategic fit with government agenda:
 - generates economic growth
 - solving the energy crisis
- Opportunity for new investors
 - funding to access value uplift as exploration and appraisal milestones are achieved
 - potential access to investment opportunities in future associated power and infrastructure projects

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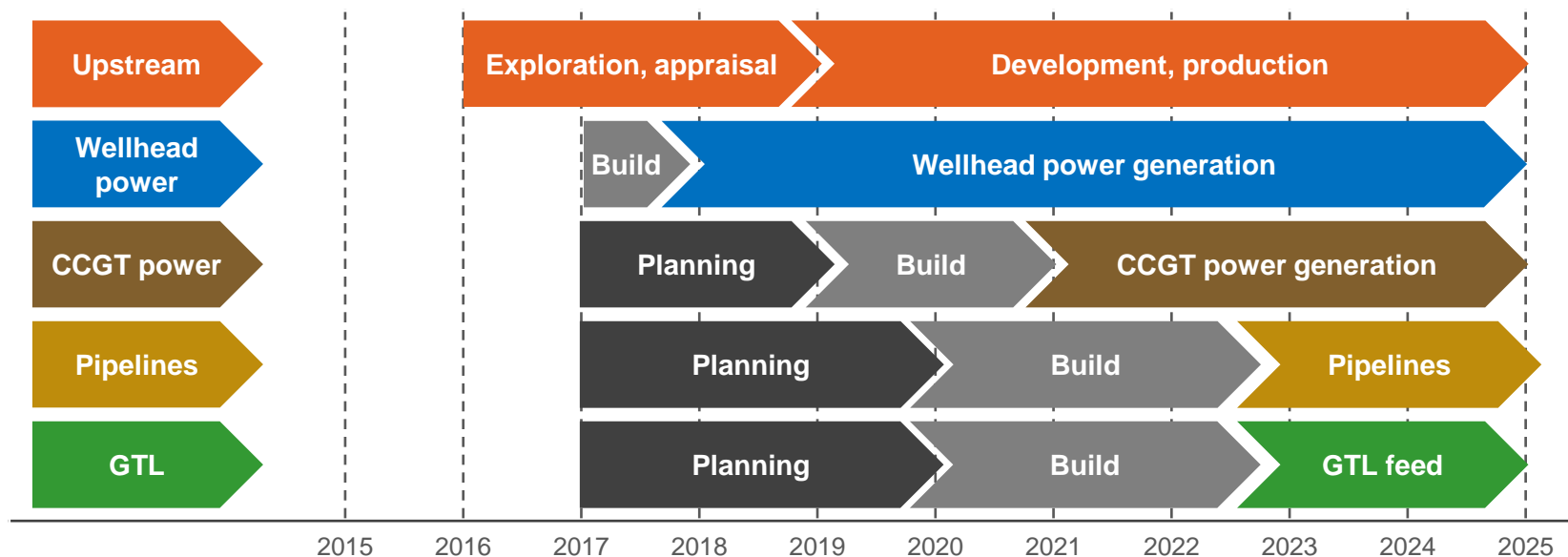


APPENDICES

COMMERCIALISATION



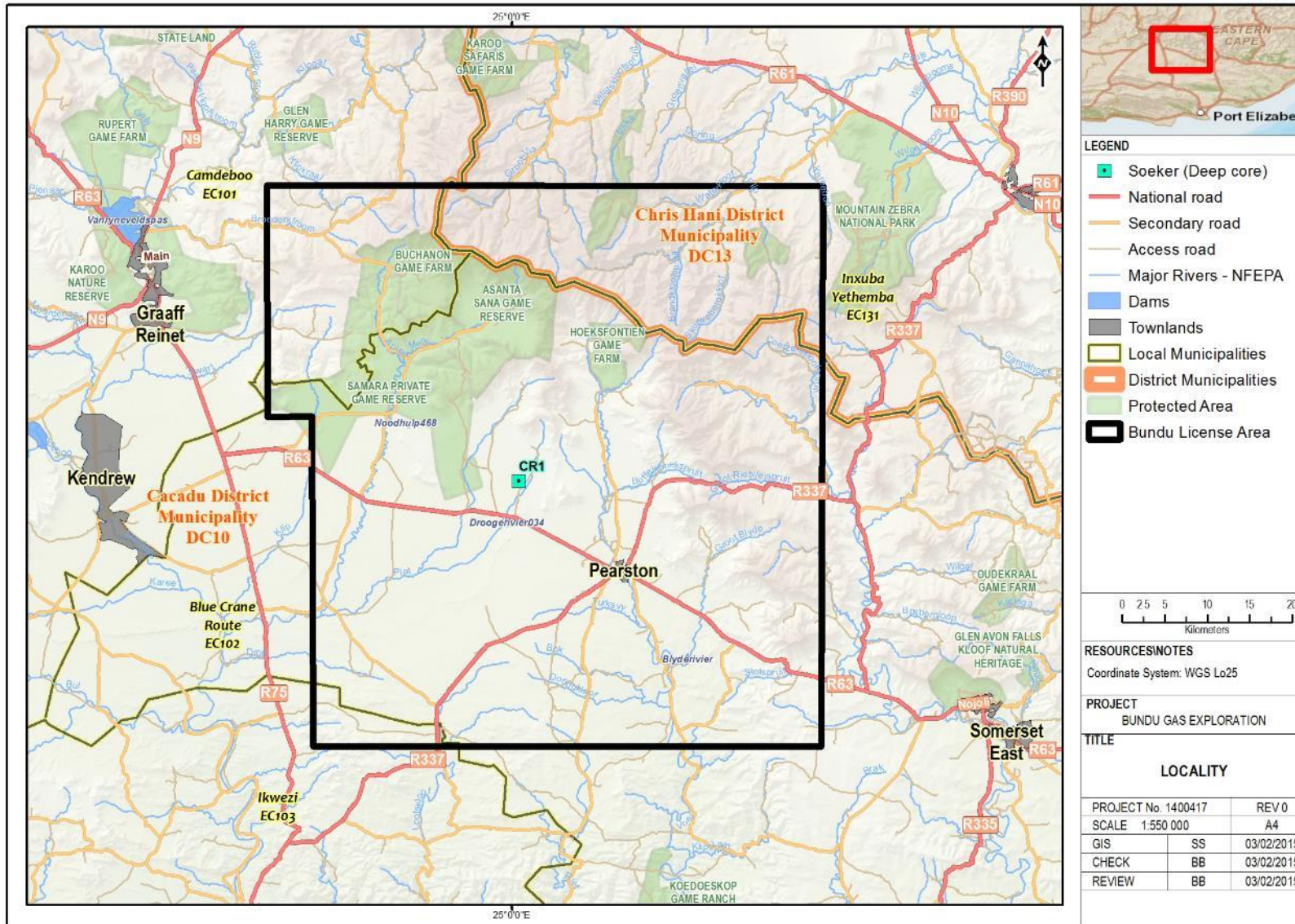
- Shale likely to play significant role in future:
 - drive to early gas-fired power generation
 - potential to spark a “dash for gas” as in UK (gas-fired power generation: 5% of installed capacity in 1990, 30% by 2002)
- Existing synthetic fuels industry:
 - coal and gas to liquids plants at Secunda and Mossel Bay with declining feedstock
 - potential domestic and export markets for shale gas



BUNDU'S APPLICATION AREA



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