

Recommendation: SPECULATIVE BUY Challenger Energy Corp. (CHQ_{TSXV,AMEX})

Target Price: \$5.00 Company Update

Report Type	Company Update
Company Name	Challenger Energy Corp.
Ticker	CHQ
Exchange	TSX Venture/AMEX
Recommendation	Speculative Buy
Target Price	\$5.00
Current Price: (January 15,2007)	\$3.50
Potential Return	43%
52 Week High	\$3.50
52 Week Low	\$1.45

Capital Structure	2006a	2007e	2008e
Shares O/S - Basic w.a. (mm)	29.9	32.3	39.4
Shares O/S - Fully Diluted w.a. (mm)	29.9	33.7	44.1
Market Capitalization (mm)	\$84.6	\$114.7	\$114.7
Net Debt (mm)	(\$8.4)	(\$3.6)	\$27.3
Enterprise Value (mm)	\$76.2	\$111.2	\$142.0
Capex (mm)	\$10.3	\$8.0	\$60.0
Net Debt / Cash Flow	NMF	NMF	NMF
Financial Estimates	2006a	2007e	2008e
Cash Flow (mm)	(\$0.47)	(\$0.39)	\$0.63
DACF (mm)	(\$0.46)	(\$0.35)	\$0.63
CFPS - Basic w.a.	(\$0.02)	(\$0.01)	\$0.02
CFPS - FD w.a.	(\$0.02)	(\$0.01)	\$0.01
Net Income (mm)	(\$2.52)	(\$4.56)	(\$3.87)
EPS - Basic w.a.	(\$0.08)	(\$0.14)	(\$0.10)
EPS - FD w.a.	(\$0.08)	(\$0.14)	(\$0.09)

Core Properties

Trinidad & Tobago	
Victory Well	Tested 1Q08: tie-in late 2009
Bounty Well	Completion 2Q08: tie-in late 2009
Endeavour Well	Completion 4Q08: tie-in late 2009
Mayaro / Guayaguayare Bay	Potential future project
Offshore Nova Scotia	Potential future project



Company Profile:

Challenger Energy is a Calgary-based oil and gas exploration and production company with core properties offshore Trinidad and Tobago.

All figures in Canadian dollars unless otherwise noted.

VICTORY !!!

Challenger Energy has announced the results from its “Victory” well, the first well of a three well exploration program on the Intrepid Block 5(c), offshore Trinidad and Tobago. The first zone in the “Victory” well (25% WI) tested at a restricted rate of 40 – 45 mmcf/d (6.7 – 7.5 mboe/d) with high gravity condensate of 30 b/mmcf of gas produced. The Company’s partner, Canadian Superior Energy, estimated “Victory” flowed unrestricted at a rate of roughly 100 mmcf/d. Challenger is now moving up hole to test at least one more horizon which is expected to have productive capability similar to the zone tested. Following testing completion, the well will be tied-in to a pipeline ~3 miles in distance.

Once work on “Victory” is completed, the rig will move ~5 km east to “Bounty”, the second well in the three well program. Challenger expects to spud the “Bounty” well early in February 2008. It is anticipated the well will take just over 100 days to reach TD.

Given Challenger’s well commitments this year, we expect the company will require financing at some point in H1/08.

Recommendation: Maintaining Speculative Buy and increasing our 12-18 month target by \$1.00/sh to \$5.00/sh. Success on the “Victory” well is a key milestone for Challenger, as the company now transitions from a purely e-player to a resource developer, with a portfolio of high-impact exploration prospects. While all three wells in Challenger’s drilling program lie on different fault structures, success on one well does not necessarily de-risk the chance of success on the next well. We believe the experience BG brings to the JV as a seasoned operator in Trinidad and Tobago along with past exploration work on the Intrepid Block will certainly work in Challenger’s favour.

Since initiating coverage on Challenger, the stock price has gained ~84% (+\$1.60/sh), based on yesterday’s close. We continue to see further upside in the stock with the drilling of “Bounty” in the near future and would look to build or add to existing positions at current levels. Our 12-18 month target price of \$5.00/sh implies a total return of 43%.

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