Challenger Energy Limited

(formerly Sunset Energy Limited)

ABN 45 123 591 382

Half Year Report
31 December 2010

COMPANY DIRECTORY

Non Executive Chairman
Michael Fry

Managing Director
Paul Bilston

Executive Director
David Prentice

Company Secretary
Adrien Wing

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Telephone: (03) 9674 7161
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Auditors
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PERTH WA 6000

Share Registrar
Security Transfer Registrars Pty Ltd
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Securities Exchange Listing
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: CEL

CONTENTS **PAGE**

DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names of directors who held office during or since the end of the half year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Michael Fry	Non Executive Chairman
Paul Bilston	Managing Director
David Prentice	Executive Director

Review of Operations

PROJECTS

HIGHLIGHTS

Triple Crown

- Drilling and logging operations completed on the first well on this prospect
- Original Gas In Place (OGIP) assessment completed with 9 TCF in place across existing land holdings of 45,000 acres with significant opportunities to increase this by securing additional lands which is already underway
- Pre-drill objectives achieved beyond expectations

South Africa

- Black Empowerment Partners Finalised
- Environmental Management Plan submitted and application currently being reviewed.

Maricopa

- Oil sales for the December Half of 4,270 barrels
- Wellington Maricopa #6 continued at good rates of oil production

Triple Crown prospect – Edward County, Texas 80% WI

Drilling to appraise the Triple Crown prospect was undertaken during the half. Challenger engaged an experienced Midland based contract operator to assist with operations. The operator was supported by Challenger's own Texas based personnel and technical staff from our partner on this project.

The well commenced drilling on the 9th November 2010, however it had to be plugged and abandoned as the drill bit became stuck during a routine trip out operation. The rig was skidded across and a drilling recommenced on the 2nd December 2010. This well was drilled to a total depth of 7,431 ft and the shows during drilling and interpretation of wireline logs, suggest that the well intersected a combined gas column of over 2,300 ft. Drilling operations were completed on 20th January 2011. Wireline logs including formation imaging log were acquired at this time and the well temporarily secured in accordance with regulations until the next stage of the evaluation program has been finalized.

The well was designed to test the three targets within the Triple Crown Prospect:

- Ellenburger - Well to determine net pay thickness and presence of gas. Canyon Sands - Well to determine net pay thickness and presence of gas. Unconventional Gas - Well to test presence of gas via gas shows during drilling and if suitable drilling conditions prevail sidewall cores will be taken to allow geochemical analysis.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

PROJECTS (CONTINUED)

Triple Crown prospect – Edward County, Texas 80% WI (continued)

An initial assessment of the gas in place for the Triple Crown prospect was completed, which incorporated the data from the recently drilled well as well as other wells in the area.

This assessment was made based on an extensive set of existing data from the recently drilled well and a number of surrounding wells, including:

- Wireline logs
- Mud logs
- Xray Diffraction, Total Organic Carbon (TOC) and Image porosity analysis (from other wells drilled in the area).

The gas in place estimate consists of three reservoir zones:

Reservoir Zone	Gas In Place (TCF)
Canyon Sandstones	1.5
Unconventional Zones	5.9
Ellenburger	1.6
TOTAL	**9.0 TCF**

The next step is to determine the best completion techniques for the different zones and undertake an extensive testing program.

South Africa 90%

Challenger finalised an agreement which provides for Challenger to meet the requirement of the Broad Based Black Economic Empowerment Act 2003 ("BEE") for all of its activities in South Africa. Under this act, Challenger is required to provide that 10% of its interests are owned by BEE compliant entities.

Challenger has been fortunate to identify two exceptionally well regarded and connected partners Mr Donald Ncube and Mr H Thompson to join in its activities in South Africa. These individuals not only allow Challenger to meet its obligations under the BEE act but will also provide strong support for its activities through their extensive experience and contacts. Mr Ncube and Mr Thompson will each become owners of 5% of the issued capital in Challenger's previously wholly owned subsidiary Bundu Gas and Oil Exploration (Pty) Ltd ("Bundu").

Bundu has completed its initial consultation process, and submitted the EMP within the time periods dictated by PASA. The consultation process raised a number of concerns which have been incorporated into the EMP, ..

Bundu and Challenger have engaged and consulted extensively with PASA with the assistance and support of its new BEE partners to address the concerns raised in its refusal of the previous application. The EMP is the final documentation required by PASA before finalising its assessment of Bundu's application which is expected to take between 3 and 6 months.

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.

The Karoo basin has recently become an area of interest for a number of major international companies, including Shell, Falcon Oil & Gas, Chesapeake and Statoil. At Cranemere, the Company is targeting the Fort Brown shales, a massive (up to 5000 ft thick) lower Permian carbonaceous shale.

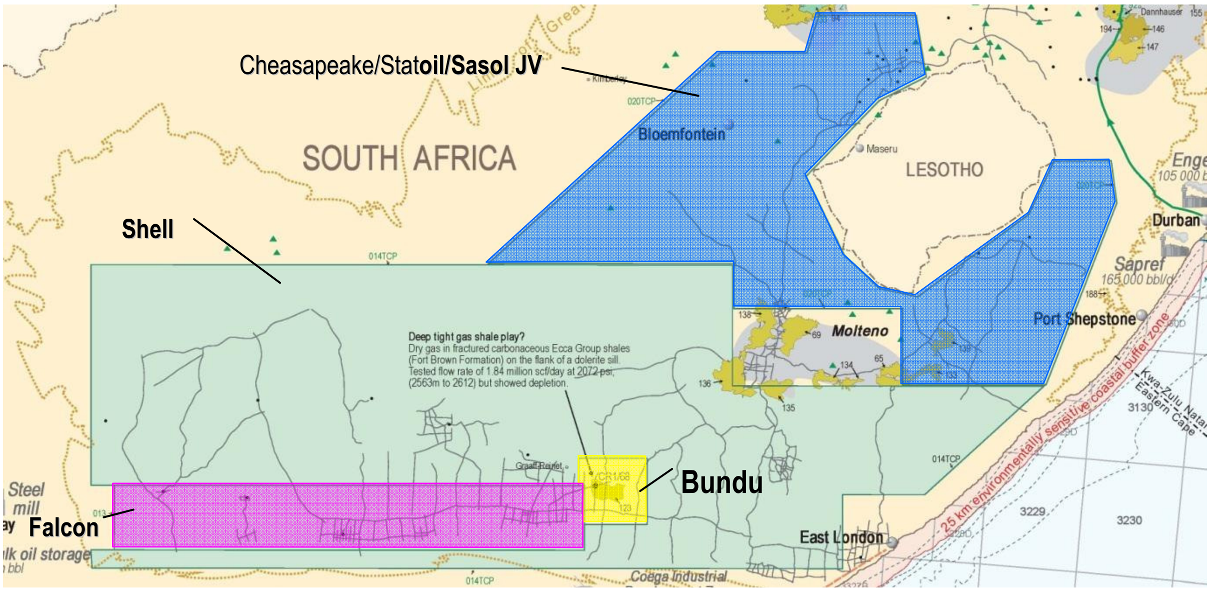
DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

PROJECTS (CONTINUED)

South Africa 90% (continued)

In the time since Bundu submitted its original application for the smaller Cranemere project area, the Karoo Basin has become an area of very significant interest for a number of major international companies, including Shell, Falcon Oil & Gas, Chesapeake and Statoil. A number of these have taken an initial 12 month Technical Co-Operation Permit (TCP) which only permits desktop evaluation of existing data over large areas surrounding Bundu's application area as shown in Figure 1.



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

The Maricopa #6 well averaged a rate of 24.5 bopd during the half year.

Improved oil prices during the half year have had a beneficial effect on the project with average prices of approximately US$77.23 per barrel being achieved in the December quarter.

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

The Silverthread Project: 18.5% - 20% Working Interest (Ventura Basin)

Solimar Energy is continuing to work on receiving assignments on the lease at Silverthread and is hopeful that a settlement can be reached shortly with the operator Mirada Petroleum Inc. This would provide the opportunity to re-enter, stimulate and re-test the oil zone penetrated in the Nesbitt #5 well.

The Deer Creek Project: 50% Working Interest and Operator (San Joaquin Basin)

The Company is currently evaluating the future of the Deer Creek project and how it fits in with the Company's plans and objectives.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

SALES PRODUCTION

During the half year, a total of 4,270 barrels of oil were sold from the Maricopa Project. The average price of oil received from the Kern Oil Refinery in the half year was approximately US$77.23/bbl. The Company's share of revenue from sales for the half year was US$165,000.

CORPORATE ACTIVITIES

On 2 September 2010, the Group completed a rights issue of 64,222,171 options at $0.015 each to raise $922,426 (before costs).

Effective 1 October 2010, the group disposed of 10% of its interest in Bundu Gas and Oil Exploration (Pty) Ltd to meet South African legislative requirements.

Pursuant to shareholder approval obtained at the 2010 Annual General Meeting, the Company changed its name from Sunset Energy Limited to Challenger Energy Limited.

During the period, the Company raised $4 million in funds via loan facilities to provide additional working capital to fund the drilling and testing operations of the initial well at the Triple Crown Prospect. The facilities were a direct, un-secured and un-subordinated obligation of the Company, with interest accruing at the rate of 10% per annum, calculated daily, compounded monthly, capitalised and payable by no later than 1 July 2011. Each of the participants in the loan facility were offered 10 listed options (with an exercise price of 20c and an expiry date of 30 June 2012) for every $1.00 dollar advanced under the facility.

Events Subsequent to Balance Date

On 31 January 2011, the Company held a shareholders' meeting whereby all resolutions were passed. Forming part of the meeting, shareholders approved the issue of new equity to satisfy the full amount payable under the financing facility. Shareholders approved the following resolutions:

- the prior issue of 4,000,000 options to Mr David Woodley, the Chief Operating Officer of the Company;
- the prior issue of 13,350,000 options in accordance with the terms of loan agreements;
- the placement of up to 12,050,000 options in accordance with the terms of loan agreements;
- the placement of up to 86,369,400 shares in accordance with the terms of loan agreements. The terms of the loans of $2.54m, plus interest at a rate of 10% per annum, allow for the Company to satisfy the loans and interest by issuing shares;
- permission for Mr Michael Fry and Mr Paul Bilston to acquire shares and options on the same basis as other loan holders; and
- the issue of up to 30,000,000 shares to professional and sophisticated investors and clients of Australian Financial Services Licence holders who are not related parties of the Company.

Since balance date, an additional $1,509,000 before costs has been received from loan issues to fund operating activities.

Settlement of $4 million of loans plus accrued interest ($2.4 million as at 31 December 2010, $1.5 million of loans received subsequently and $0.1 million of accrued interest) has occurred since balance date through the issue of 43,697,593 shares and 27,650,000 free attaching options. These options have an exercise price of 20 cents per share and an expiry date of 30 June 2012.

Since balance date there are no other items, transactions or events of a material and unusual nature likely, in the opinion of the Directors, to affect significantly, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 7 and forms part of this Directors' report for the half-year ended 31 December 2010.

This report is signed in accordance with a resolution of the Board of Directors made pursuant to s.306(3) of the Corporations Act 2001.

Yours faithfully

Paul Bilston
Managing Director
Dated this 15th day of March 2011

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Challenger Energy Limited for the half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

Perth, Western Australia	**N G NEILL**
15 March 2011	**Partner, HLB Mann Judd**

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Notes	Consolidated 31 December 2010 $	31 December 2009 $
Revenue			
Sales revenue		174,178	168,622
Other revenue		22,604	2,791
Cost of sales		(115,639)	(122,699)
Gross profit	2	**81,143**	**48,714**
Amortisation and depreciation		(6,264)	(3,612)
Consultant fees		(65,697)	(30,000)
Legal and compliance		(191,255)	(88,757)
Administration and travel expenses		(146,333)	(57,735)
Salaries, director fees and employee expenses		(330,801)	(371,681)
Exploration costs written off		(2,684,148)	-
Loss on disposal of minority interest	2	(654,182)	-
Finance costs		(188,984)	-
Foreign exchange (loss)/gain		(46,469)	(9,608)
Loss before income tax expense	2	**(4,232,990)**	**(512,679)**
Income tax expense		-	-
Net loss for the period		**(4,232,990)**	**(512,679)**
Other comprehensive income:			
Exchange differences on translation of foreign operations		(252,898)	(421,994)
Income tax on other comprehensive loss		**-**	**-**
Other comprehensive loss for the period		**(252,898)**	**(421,994)**
Total comprehensive loss for the period		**(4,485,888)**	**(934,673)**
Loss attributed to:			
Owners of the parent		(4,148,757)	(512,679)
Non-controlling interests		(84,233)	-
		(4,232,990)	**(512,679)**
Total comprehensive loss attributable to:			
Owners of the parent		(4,401,804)	(934,673)
Non-controlling interests		(84,084)	-
		(4,485,888)	**(934,673)**
Basic loss per share (cents per share)	8	(3.44)	(1.10)

Options on issue are not considered to be dilutive as their exercise would not show an inferior loss per share

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

	Notes	Consolidated 31 December 2010 $	30 June 2010 $
Assets			
Current Assets			
Cash and cash equivalents		303,969	1,716,000
Trade and other receivables		99,095	57,964
Other assets		30,897	41,564
Total Current Assets		**433,961**	**1,815,528**
Non-Current Assets			
Property, plant and equipment		2,086	8,350
Deferred exploration, evaluation and development costs	3	10,445,537	9,552,394
Production assets	4	1,340,003	1,361,158
Total Non-Current Assets		**11,787,626**	**10,921,902**
Total Assets		**12,221,587**	**12,737,430**
Liabilities			
Current Liabilities			
Trade and other payables		408,363	523,869
Other financial liabilities	5	2,411,409	-
Total Current Liabilities		**2,819,772**	**523,869**
Non-Current Liabilities			
Provisions		20,173	22,362
Total Non-Current Liabilities		**20,173**	**22,362**
Total Liabilities		**2,839,945**	**546,231**
Net Assets		**9,381,642**	**12,191,199**
Equity			
Issued capital	6	13,388,382	13,388,382
Reserves	7	1,450,131	681,029
Accumulated losses		(6,026,969)	(1,878,212)
Equity attributable to owners of the parent		**8,811,544**	**12,191,199**
Non-controlling interest		570,098	-
Total Equity		**9,381,642**	**12,191,199**

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Consolidated						
	Issued Capital	Accumulated Losses	Option Reserve	Foreign Currency Reserve	Attributable to owners of the parent	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2010	13,388,382	(1,878,212)	387,834	293,195	12,191,199	-	12,191,199
Loss for the period	-	(4,148,757)	-	-	(4,148,757)	(84,233)	(4,232,990)
Disposal of minority interest	-	-	-	-	-	654,182	654,182
Exchange differences on foreign currency translation	-	-	-	(253,047)	(253,047)	149	(252,898)
Total comprehensive loss for the period	-	(4,148,757)	-	(253,047)	(4,401,804)	570,098	(3,831,706)
Options issued during the half year	-	-	1,058,618	-	1,058,618	-	1,058,618
Transaction costs	-	-	(36,469)	-	(36,469)	-	(36,469)
Balance at 31 December 2010	13,388,382	(6,026,969)	1,409,983	40,148	8,811,544	570,098	9,381,642
Balance at 1 July 2009	4,171,810	(801,358)	136,606	316,782	3,823,840	-	3,823,840
Loss for the period	-	(512,679)	-	-	(512,679)	-	(512,679)
Exchange differences on foreign currency translation	-	-	-	(421,994)	(421,994)	-	(421,994)
Total comprehensive loss for the period	-	(512,679)	-	(421,994)	(934,673)	-	(934,673)
Shares issued during the half year	287,500	-	-	-	287,500	-	287,500
Options issued during the half year	-	-	251,228	-	251,228	-	251,228
Transaction costs	(17,651)	-	-	-	(17,651)	-	(17,651)
Balance at 31 December 2009	4,441,659	(1,314,037)	387,834	(105,212)	3,410,244	-	3,410,244

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Consolidated	
	31 December 2010 $	31 December 2009 $
Cash flows from operating activities		
Receipts from sales	145,364	158,403
Payments to suppliers and employees	(919,264)	(310,842)
Interest received	19,254	2,791
Net cash (used in) operating activities	(754,646)	(149,648)
Cash flows from investing activities		
Payments for production assets	(17,040)	-
Payments for exploration and evaluation	(3,875,844)	(68,499)
Net cash (used in) investing activities	(3,892,884)	(68,499)
Cash flows from financing activities		
Proceeds from issue of shares	-	287,500
Proceeds from issue of options	922,425	-
Proceeds from borrowings	2,405,000	-
Payment for equity issue costs	(84,883)	(20,447)
Net cash provided by financing activities	3,242,542	267,053
Net increase/(decrease) in cash and cash equivalents held	(1,404,988)	48,906
Cash and cash equivalents at 1 July	1,716,000	373,432
Foreign currency translation	(7,043)	(624)
Cash and cash equivalents at end 31 December	303,969	421,714

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The half-year financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001, applicable accounting standards including AASB 134: Interim Financial Reporting and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). Compliance with AASB 134 ensures compliance with IAS 34 'Interim Financial Reporting'.

It is recommended that this financial report be read in conjunction with the financial report for the period ended 30 June 2010 and any public announcements made by Challenger Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules. Pursuant to shareholder approval obtained at the 2010 Annual General Meeting, the Company changed its name from Sunset Energy Limited to Challenger Energy Limited.

The half-year report does not include full disclosures of the type normally included in an annual financial report. Therefore, it cannot be expected to provide as full an understanding of the financial performance, financial position and cash flows of the Group as in the full financial report.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2010 annual financial report for the financial period ended 30 June 2010.

Basis of Preparation

The half-year report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period. The entity has not elected to early adopt any new Accounting Standards or amendments that are issued but not yet effective.

Significant Accounting Judgments, Estimates and Assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next reporting period are:

Exploration and evaluation costs

Acquisition, exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward in respect of an area that has not at balance sheet date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When production commences, the accumulated costs of the relevant area of interest are amortised over 10 years, being the expected life of the area according to the rate of depletion of the economically recoverable reserves.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The net loss of the Group for the financial period amounted to $4,232,990 (2009: $512,679). Net assets as at 31 December 2010 were $9,381,642.

Despite the working capital deficiency of $2,385,811, in the opinion of the directors, it has been concluded that the going concern basis is the appropriate basis for preparing the financial statements based on the following key considerations:

• The directors expect that its major shareholders will continue to support fund raising as has been demonstrated in the past via share issues.

• Since balance date, $1,509,000 before costs has been received from loan issues to fund operating activities.

• Maricopa project in San Joaquin Basin, California USA is expected to continue generating an average monthly cash inflow of approximately US$30,000 from the sale of oil and gas.

• Settlement of $4 million in loans plus accrued interest has occurred since balance date, creating a positive working capital position, through the issue of 43,697,593 shares and free attaching options. Refer to Note 11 for details.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2010 $	31 December 2009 $
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(i) Interest revenue	19,254	2,791
(ii) Loss on disposal of minority interest	(654,182)	-

Effective 1 October 2010, the group disposed of 10% of its interest in Bundu Gas and Oil Exploration (Pty) Ltd to meet South African legislative requirements.

NOTE 3: DEFFERED EXPLORATION, EVALUATION AND DEVELOPMENT COSTS

	Consolidated	
	6 months to 31 December 2010 $	12 months to 30 June 2010 $
Costs carried forward in respect of areas of interest in the following phases		
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	9,552,394	1,997,638
Additions	-	7,260,291
Expenditure incurred	3,664,219	272,296
Impairment expense	(2,684,148)	(45,567)
Foreign exchange translation movement	(86,928)	67,736
Balance at end of reporting period	10,445,537	9,552,394

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 4: PRODUCTION ASSETS

	Consolidated	
	6 months to 31 December 2010 $	12 months to 30 June 2010 $
Production Assets – at net written down value		
Balance at beginning of reporting period	1,361,158	1,527,731
Expenditure incurred	18,151	10,741
Accumulated depreciation	(37,119)	(79,580)
Foreign exchange translation movement	(2,187)	(97,734)
Balance at end of reporting period	1,340,003	1,361,158

NOTE 5: OTHER FINANCIAL LIABILITIES

	Consolidated	
	31 December 2010 $	30 June 2010 $
Loan facilities		
Unsecured loans	2,411,409	-

During the half year, the consolidated entity raised $2.4 million via loan facilities. The facilities were direct, unsecured loans, with interest accruing at a rate of 10% per annum and payable by no later than 1 July 2010. Each of the participants in the loan facility were offered 10 listed options (with an exercise price of 20 cents and an expiry date of 30 June 2012) for every $1 advanced under the facility. The loans and accrued interest were convertible to shares by the Company upon shareholder approval being obtained.

These loans were settled upon the issue of shares subsequent to balance date. Refer to Note 11 for details.

NOTE 6: ISSUED CAPITAL

	Consolidated	
	31 December 2010 $	30 June 2010 $
Ordinary shares		
122,990,075 Issued and fully paid ordinary shares	13,388,382	13,388,382

	31 December 2010	
Movements in ordinary shares on issue	Number	$
At the beginning of the reporting period:	116,338,369	13,388,382
- Remaining shares issued 1 July 2010 pursuant to a prior period placement	6,651,706	-
At 31 December 2010	122,990,075	13,388,382

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 7: RESERVES

	Consolidated	
	31 December 2010 $	30 June 2010 $
Options reserve	1,409,983	387,834
Foreign exchange reserve	40,148	293,195
	1,450,131	681,029

	6 months to 31 December 2010 $	12 months to 30 June 2010 $
Movement in options reserves:		
At the beginning of the reporting period	387,834	136,606
Non-renounceable rights issue at $0.015	922,426	-
Share-based remuneration payments	98,700	-
Other equity settled payments	37,492	251,228
Issue costs	(36,469)	-
At the end of the reporting period	1,409,983	387,834
Movement in foreign currency translation reserve:		
At the beginning of the reporting period	293,195	316,782
Foreign currency translation reserve	(253,047)	(23,587)
At the end of the reporting period	40,148	293,195

Options as at 31 December 2010 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted – carried forward from 30 June 2010	30 June 2012	$0.10	3,500,000
Listed	30 June 2012	$0.20	80,299,304
Unlisted - share based remuneration	28 February 2013	$0.25	2,000,000
Unlisted - share based remuneration	28 February 2015	$0.35	2,000,000
Unlisted - share based remuneration	1 February 2014	$0.25	2,000,000
Unlisted - share based remuneration	1 February 2014	$0.35	2,000,000
Total			91,799,304

NOTE 8: LOSS PER SHARE

	Consolidated	
	31 December 2010 $	31 December 2009 $
(a) Loss used in the calculation of basic loss per share	(4,232,990)	(512,679)
	Number of Shares	
(b) Weighted average number of ordinary shares outstanding during the reporting period used in calculation of basic loss per share:	122,990,075	46,630,287

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 9: OPERATING SEGMENTS

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors in assessing performance and determining the allocation of resources.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics.

Types of reportable segments

(i) *Australia*

Australia is the location of the central management and control of Challenger Energy Limited, including where company secretarial services, accounting and cash management operations are performed.

(ii) *United States of America*

The United States of America ("USA") is the location of exploration and production activities and licenced interests are held.

(iii) *South Africa*

South Africa is the location of the wholly owned subsidiary, Bundu Oil & Gas Exploration (Pty) Ltd, which operates exploration activities and licence interests are held.

Basis of accounting for purposes of reporting by geographical segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables.

Segment Information

By Geographical Region	USA	Australia	South Africa	Total
	$	$	$	$
(i) Segment performance				
Six months ended 31 December 2010				
Segment revenue	174,178	22,601	4	196,782
Segment result	(1,776,264)	(866,789)	(1,589,937)	(4,232,990)
Six months ended 31 December 2009				
Segment revenue	168,622	2,791	-	171,413
Segment result	45,923	(558,602)	-	(512,679)
(ii) Segment assets				
31 December 2010				
Segment assets	5,591,026	300,770	6,329,791	12,221,587
30 June 2010				
Segment assets	3,970,761	1,711,918	7,054,751	12,737,430

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

NOTE 10: CONTINGENT LIABILITIES

The directors are not aware of any significant contingent liabilities as at 31 December 2010.

NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

On 31 January 2011 at a general meeting of the Company, shareholders approved the following resolutions:

- the prior issue of 4,000,000 options to Mr David Woodley, the Chief Operating Officer of the Company;
- the prior issue of 13,350,000 options in accordance with the terms of loan agreements;
- the placement of up to 12,050,000 options in accordance with the terms of loan agreements;
- the placement of up to 86,369,400 shares in accordance with the terms of loan agreements. The terms of the loans of $2.54m, plus interest at a rate of 10% per annum, allow for the Company to satisfy the loans and interest by issuing shares;
- permission for Mr Michael Fry and Mr Paul Bilston to acquire shares and options on the same basis as other loan holders; and
- the issue of up to 30,000,000 shares to professional and sophisticated investors and clients of Australian Financial Services Licence holders who are not related parties of the Company.

Since balance date, an additional $1,509,000 before costs has been received from loan issues to fund operating activities.

Settlement of $4 million of loans plus accrued interest ($2.4 million as at 31 December 2010, $1.5 million of loans received subsequently and $0.1 million of accrued interest) has occurred since balance date through the issue of 43,697,593 shares and 27,650,000 free attaching options. These options have an exercise price of 20 cents per share and an expiry date of 30 June 2012.

Since balance date there are no other items, transactions or events of a material and unusual nature likely, in the opinion of the Directors, to affect significantly, the results of those operations, or the state of affairs of the Group in future financial years.

DIRECTORS' DECLARATION

The directors of the consolidated entity declare that:

1. The financial statements and notes thereto, as set out on pages 8 to 17:
    a. comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
    b. give a true and fair view of the Consolidated Entity's financial position as at 31 December 2010 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is signed in accordance with a resolution of the Board of Directors made pursuant to s.303(5) of the Corporations Act 2001.

Paul Bilston
Managing Director

Dated this 15th day of March 2011

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Challenger Energy Limited (formerly Sunset Energy Limited)

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Challenger Energy Limited ("the Company") which comprises the condensed statement of financial position as at 31 December 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Challenger Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Challenger Energy Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glass

Perth, Western Australia
15 March 2011

N G NEILL
Partner