Challenger Energy Limited

ABN 45 123 591 382

Financial Report

For the Financial Year ended 30 June 2012

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CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN
Michael Fry

MANAGING DIRECTOR
Paul Bilston

EXECUTIVE DIRECTOR
Michael Much

COMPANY SECRETARY
Adrien Wing

REGISTERED OFFICE
Level 17
500 Collins Street
MELBOURNE VIC 3000
Telephone: (03) 9614 0600
Facsimile: (03) 9614 0550

AUDITOR
HLB Mann Judd
Level 4, 130 Stirling Street
PERTH WA 6000

SHARE REGISTRY
Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

SECURITIES EXCHANGE LISTING
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
ASX Code: CEL

WEBSITE
www.challengerenergy.com.au

DIRECTORS' REPORT

The Directors submit their financial report of the consolidated entity, consisting of Challenger Energy Limited ("the Company" or "Challenger") and the entities it controlled during the period, for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and details of the Company's Directors who held office during the year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Michael Fry, B.Com, F. Fin - Non-Executive Chairman
Mr Michael Fry holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of Financial Services Institute of Australasia, and is a past member of the Australian Securities Exchange ("ASX"). Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.

Paul Bilston, BE, PhD - Managing Director
Mr Paul Bilston is a qualified engineer, and has worked across most facets of the oil and gas sector for the last 20 years. Paul has a degree in Mechanical Engineering and a doctorate in Structural Engineering, and has worked in a number of senior technical, commercial and management roles for a range of companies including Worley Parsons, GHD, AGL Energy and the AJ Lucas Group. Paul has a strong blend of technical, commercial and business skills and has had involvement in all aspects of prospect identification, exploration, appraisal and development in the oil and gas industry.

Michael Much, B.Sc – Executive Director (Appointed 19 October 2011)
Mr Michael Much was the past Vice President of Engineering & Completions for Cuadrilla Resources, a European Shale gas focused exploration company. Michael holds a Bachelor of Science in Petroleum Technology from Oklahoma State University and has over 30 years' experience in drilling and production operations as well as well services, the majority of which is in the U.S. He has senior managerial experience in successful global exploration and production projects.

David Prentice, Grad, Dip BA, MBA – Executive Director (Resigned on 26 March 2012)
Mr David Prentice's career includes over 20 years' experience in commercial management and business development within the natural resources sector, working for some of Australia's leading resource companies. This has included high-level commercial and operational roles with a number of listed and unlisted resource companies.

Directorships of other listed companies

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

Name	**Company**	**Period of Directorship**
Michael Fry	Red Fork Energy Limited	20 April 2004 to date
	Norwest Energy NL	8 June 2009 to date
	Killara Resources Limited	14 July 2008 to date
	Liberty Resources Limited	19 July 2005 to 10 April 2012
Paul Bilston	Nil	-
Michael Much	Nil	-

DIRECTORS' REPORT (CONT'D)

COMPANY SECRETARY

Adrien Wing, CPA (Appointed 1 July 2010)
Mr Adrien Wing is a qualified Certified Practicing Accountant. He practised in the audit and corporate divisions of a chartered accounting firm before working with a number of public companies listed on the Australian Securities Exchange as a corporate/accounting consultant and company secretary.

CORPORATE INFORMATION

Corporate Structure
Challenger Energy Limited is a public company listed on the ASX (Code: CEL) and is incorporated and domiciled in Australia. Challenger Energy Limited and its wholly owned subsidiaries are collectively referred to as Challenger Energy, or the Group, as the context requires.

Nature of operations and principal activities
Challenger Energy is an oil and gas exploration and production company whose primary purpose is to secure, find, develop, produce and sell hydrocarbons.

OPERATING AND FINANCIAL REVIEW

Mercury Stetson (earning 50%)

During the year, the Company finalised an agreement to farm-in to earn 50% of the Mercury Stetson Prospect, which includes the Barnett and Woodford shales – both proven shale formations.

The prospect which is potentially up to 55,000 acres (86 sqmiles) has a massive potential gas in place with OGIP estimated at 360 BCF/sqmile. The JV area initially includes 26,000 acres contiguous land position with three pipelines across the prospect. During the initial phase of the farm-in JV, an aggressive land leasing program was underway to extend the term of the existing leases, and add selectively to the lease block.

After unsuccessfully attempting to re-enter the existing well bore that was drilled in 1978 on the property, the company side-tracked out of the existing well bore at a depth of ~ 5,000 ft. The new well was drilled to a depth of 11,947 ft having drilled through Barnett and into ~ 150 ft of the Woodford formation.

The logs were consistent with the logs received from the original well bore, with exceptionally high gamma readings being off scale at over 300 api units. Log analysis indicates that the Barnett Shale interval in the well contains 450 net feet of richly organic, porous and, brittle shale with characteristics equivalent to the productive zones in the Fort Worth Basin to the West, in the Woodford the logs identified what is expected to be 200 ft of highly organic, very porous and brittle shales equivalent to the best productive zones in adjacent basins.

This is a key indicator of high organic material in the shale. The density porosity which is a key indicator of the presence of the productivity of the shale system is generally in the range of 9 – 15% across the interval. The mudlog gas shows of up to 670 units (or 6.7% gas) were also consistent with productive shale.

The Company carried out Fracture stimulations for both the Woodford and Barnett shales.

Fracture stimulation of the Woodford shale, revealed the gas rate was sufficient to light and run a flare, however due to continued influx of water into the well bore increasing the pressure on the formation ultimately killing the well, it was not sustained.

Incorporating the results of the Woodford test, a fracture stimulation was again completed on a larger section of the Barnett formation. The production testing of the Barnett formation in the Mercury Stetson prospect demonstrated presence of gas and the ability to show a continuous production from the formation.

The well that was slugged continued to slug both gas and frac water, and whilst initial average gas rates were quite favourable, the average gas rate eventually dropped to and stabilised between 50 – 100 mscf/d. As a result, the continued return of frac water to the well bore impeded production.

DIRECTORS' REPORT (CONT'D)

OPERATING AND FINANCIAL REVIEW (CONT'D)

Mercury Stetson (earning 50%) (Cont'd)

The difference in depths between the formations in the original well bore and the side track of up to 500 ft across a lateral distance of only 700 ft provides a clear indication of geological complexity in this particular area. It is likely this complexity has impacted on the production rate.

Whilst Challenger does not currently have 3D seismic in the location of the wellbore, it has seen high quality 3D seismic across the prospect area. A few miles to the South West it is much less complex with minimal faulting, so it does not expect the complexity encountered in this well bore to be pervasive across the prospect area. A small 3D survey across the well bore area which would tie into this existing 3D seismic would provide a significant amount of information on the geological structure of the area and may assist in understanding the results to date.

Based on the advice of our local engineer in conjunction with the regulatory body, given the expectation that further activity in the prospect would be located in a less complex area, Challenger has decided to plug and abandon the well. This does not restrict further operations with this well bore which can always be re-entered.

Triple Crown prospect – Edward County, Texas 80% WI

The testing program on the Ellenburger formation of the Triple Crown Project in Texas was completed in October 2011. The testing involved drilling a side track out of the existing well bore and a short horizontal lateral into the zone at top of the Ellenburger.

The sidetrack was drilled from a window milled into the existing casing at ~5,400 ft, building angle to enter the target zone horizontally at the top of the Ellenburger ~200 ft from the existing well bore. The targets for the side track were a zone at approximately 5,800 ft where a significant volume of fluid was lost into the formation during the initial drilling of this well and a section of the reservoir where formation image logs indicated encouraging natural fracture development.

The well successfully drilled the target zones and whilst drilling through these zones several very significant drilling breaks were observed. This provided initial encouragement that significant fractures may have been intersected, however the gas shows did not increase and no commercial gas flow was observed.

A cement plug has been set, which has isolated the Ellenburger leaving the well ready for the fracture stimulation of the "hybrid zone". Following this work, the Company considered testing the Hybrid play above the Ellenburger, with a zone selected to fracture stimulate and test. The objective of this test was to understand the production characteristics of this zone and provide valuable inputs into understanding the potential recoverable resource.

Given the distance of the project to the existing pipeline network, the reduction in gas prices, and the fact that the land lease on the Triple Crown prospect has expired in mid-June, Challenger has elected not to extend the lease agreement and to focus its resources on its other projects.

South Africa (90%)

During the year, Bundu (90% owned by Challenger Energy Limited) continued to support the ongoing assessment of its application for an exploration right located around Cranemere in the Southern Karoo Basin.

The permit is centred around the CR 1/68 well located within the application area flowed high rates of gas of more than 8 MMcf/day of natural gas with a total flow of 1.8 MMcf/d over a 24 hour period 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 and Falcon Oil & Gas. At Cranemere, the Company is targeting the Fort Brown shales, massive (up to 5,000 ft thick) lower Permian carbonaceous shale.

In August 2011, the Government extended the Moratorium on the award of any new exploration rights in South Africa until February 2012. Recommendations on the impacts of fraccing in South Africa contained in a Technical Report provided to the Government have not been advised to the Company at this time.

DIRECTORS' REPORT (CONT'D)

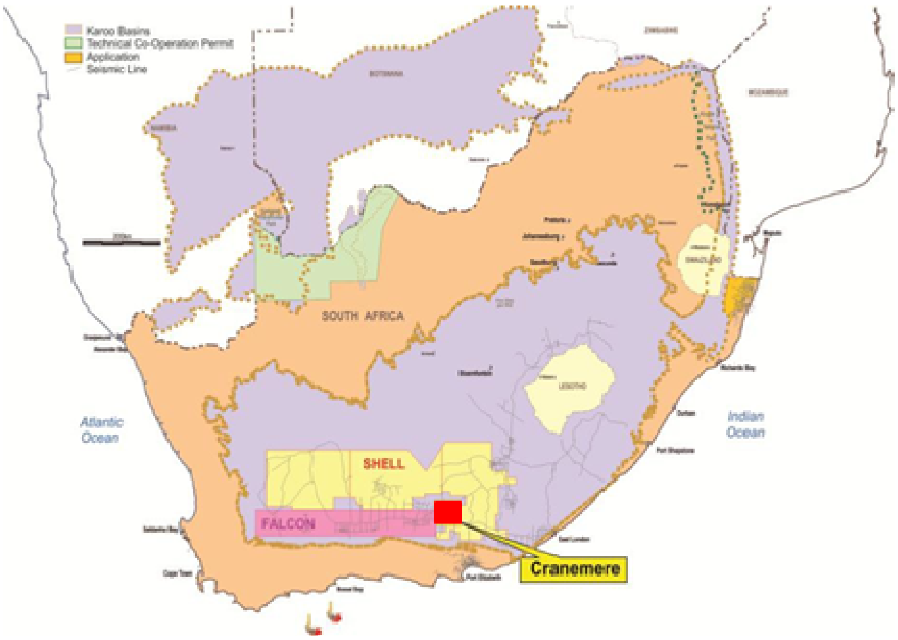
OPERATING AND FINANCIAL REVIEW (CONT'D)

South Africa (90%) (Cont'd)

South Africa's largest independent macro-economic consultancy, Econometrix, has released a study on the potential economic and employment benefits of a successful natural gas development in the southern Karoo basin. The Econometrix report estimates that a relative conservative find of 20 TCF could have an annual economic impact of ZAR80 billion and at 50 TCF the impact on the South African economy could be a high as ZAR200 billion. Hundreds of thousands of sustainable employment opportunities could be created and have a knock-on effect on producers, Government and consumers.

Challenger continues to observe a broadly supportive sentiment in the media and an increased interest in the shale industry in South Africa. The company continues to progress discussions on a potential farm-in with interested parties within this more favourable environment.

Recently, the South African Cabinet announced that it had approved the report submitted by the Minister for Mineral Resources (Susan Shabangu). This report had been prepared by the technical task force convened last year to investigate the potential impacts of the exploration for shale gas in the Karoo Basin. The Cabinet also endorsed the recommendation of the report which was to lift the moratorium on applications for the exploration of shale gas in the Karoo that has been in place since May 2011.



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

The Maricopa project averaged 20 bopd during the year.

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

The average price of oil received recently from the Kern Oil Refinery was US$109/bbl.

CORPORATE

During the year, the company carried out a number of capital raisings to support its activities. The Company issued 57,000,000 ordinary shares at an issue price of 5 cents per share, raising $2.85 million before costs. A further 18,461,538 ordinary shares were issued at an issue price of 6.5 cents, raising $1.2 million before costs, and finally the company issued 22,000,000 ordinary Shares ("Placement Shares") at a price of 2.5 cents per share, to raise $550,000 (before costs) for working capital.

FINANCIAL RESULT

The operating result for the financial year ended 30 June 2012 for the Group was an after tax loss of $9,399,541 (2011: loss of $4,551,668). The result included an impairment expense of $7,838,708 on exploration assets no longer considered active.

DIVIDENDS PAID OR RECOMMENDED

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Challenger Energy continues to be focused on exploration for conventional and unconventional oil and gas.

During the year, the Company raised $4,600,000 in funds before costs to further develop its projects.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The Directors are not aware of any matters or circumstances that have arisen since 30 June 2012 which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The primary objective of Challenger Energy is to develop a successful focused oil & gas exploration and production business.

The Group intends to offer investors further exposure to the oil and gas industry. The Group aims to achieve this goal through a combination of:

* Advancing exploration on current owned exploration permits in both the US and South Africa;
* Reviewing and potentially acquiring other exploration projects; and
* Utilising the Board and management's collective experience and skills to progress any discoveries to commercial production.

ENVIRONMENTAL REGULATIONS

Challenger Energy is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

REMUNERATION REPORT (Audited)

Remuneration Policy

The remuneration policy of Challenger Energy has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of Challenger Energy believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders. The remuneration policy, setting the terms and conditions for the executive directors and other senior staff members, was developed and approved by the Board.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:
In determining competitive remuneration rates, the Board considers local and international trends among comparative companies and the industry generally so that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits, and may be issued options or performance shares from time to time.

The Group is currently an exploration and emerging production entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Group moves from an exploration to a producing entity and key performance indicators such as profit and production and reserves growth can be used as measurements for assessing executive performance.

REMUNERATION REPORT (CONT'D)

All remuneration paid to directors is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Although a value is ascribed and included in total Remuneration, it should be noted that the Directors and Executives have not received this amount and the option may have no actual financial value unless the options achieve their exercise price.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company, however, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

During the financial year the Company's share price traded between a low of $0.022 and a high of $0.15. The price volatility is a concern to the Board but is not considered abnormal for junior oil & gas explorer and emerging producer such as Challenger Energy. In order to keep all investors fully-informed and minimize market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) *Directors*
Michael Fry – Non-Executive Chairman
Paul Bilston – Managing Director
Michael Much – Executive Director *(appointed 19 October 2011)*
David Prentice – Executive Director *(resigned 26 March 2012)*

(ii) *Executives*
David Woodley – Chief Operating Officer *(appointed 1 January 2011) (resigned 31 July 2012)*
Adrien Wing – Company Secretary *(appointed 1 July 2010)*

Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the year, and relative comparative information.

Except as detailed in Notes (b) – (d) to the remuneration report, no director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Group or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

(b) Compensation of Key Management Personnel

Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the executive team. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Key Management Personnel is set out below.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT'D)

The value of remuneration received by key management personnel for the financial year ended 30 June 2012 is as follows:

2012	Primary: Base Salary and Fees $	Primary: Bonus and Non Monetary Benefits $	Equity Compensation: Value of Options $	Post-employment: Superannuation Contributions $	Post-employment: Termination Benefits $	TOTAL $	Performance Related %
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Paul Bilston[1]	275,229	-	403,875	24,771	-	703,875	57.4%
David Prentice[2]	90,000	-	-	8,100	-	98,100	-
Michael Much[3]	159,994	-	90,300	-	-	250,294	36.1%
Executives							
Adrien Wing	50,000	-	-	-	-	50,000	-
David Woodley	275,229	-	-	24,771	-	300,000	-
Total 2012	910,452	-	494,175	57,642	-	1,462,269	

2011	Primary: Base Salary and Fees $	Primary: Bonus and Non Monetary Benefits $	Equity Compensation: Value of Options $	Post-employment: Superannuation Contributions $	Post-employment: Termination Benefits $	TOTAL $	Performance Related %
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Paul Bilston[1]	196,643	-	98,700	20,024	-	315,367	31.3%
David Prentice	129,231	-	-	10,800	-	140,031	-
Executives							
Adrien Wing	49,070	-	-	-	-	49,070	-
David Woodley[4]	148,201	-	236,250	12,385	-	396,836	59.5%
Cecilia Chiu	-	-	-	-	-	-	-
Total 2011	583,145	-	334,950	43,209	-	961,304	

[1] Refer to note (c) for options performance criteria.

[2] Resigned 26 March 2012.

[3] Appointed 19 October 2011. Refer to note (c) for options performance criteria. Prior to his appointment as a Director, Mr Much was engaged as a consultant to the company. During the period from 1 July 2011 to 19 October 2011 he received $46,419 in fees charged at commercial market rates.

[4] Appointed 1 January 2011. Refer to note (c) for options performance criteria.

In accordance with AASB 2, options issued to Directors and Executives during the period and in previous periods have been valued using a Black & Scholes option pricing model, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Although a value is ascribed and included in total Remuneration, it should be noted that the Directors and Executives have not received this amount and the option may have no actual financial value unless the options achieve their exercise price.

DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT'D)

(c) Compensation Options

Options granted, subject to performance criteria as set out below, to directors and executive officers of the Group, are as follows:

During the financial year ended 30 June 2012:

Directors	Granted	Grant Date	Vesting Date	Value at Grant Date	Exercise Price	Expiry Date
Paul Bilston	7,500,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14
Paul Bilston	7,500,000	23 Nov 11	23 Nov 11	$0.03	$0.15	20 Nov 16
Michael Much[1]	2,000,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14
Michael Much[2]	2,000,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14
	19,000,000					

[1] These options are conditional on the Company booking certified 2P reserves of 75PJ (or equivalent).
[2] These options are conditional on the Company booking certified 2P reserves of 150PJ (or equivalent).

During the financial year ended 30 June 2011:

Directors	Granted	Grant Date	Vesting Date	Value at Grant Date	Exercise Price	Expiry Date
Paul Bilston[1]	2,000,000	18 Aug 10	18 Aug 10	$0.02	$0.25	28 Feb 13
Paul Bilston[2]	2,000,000	18 Aug 10	18 Aug 10	$0.03	$0.35	28 Feb 15
David Woodley	500,000	1 Oct 10	1 Jan 11	$0.06	$0.25	1 Feb 14
David Woodley[3]	1,500,000	1 Oct 10	1 Jan 11	$0.06	$0.25	1 Feb 14
David Woodley[4]	2,000,000	1 Oct 10	1 Jan 11	$0.06	$0.35	1 Feb 15
	8,000,000					

[1] These options are conditional on the fully diluted market capitalisation of the Company exceeding $35m for 2 consecutive months.
[2] These options are conditional on the fully diluted market capitalisation of the Company exceeding $45m for 2 consecutive months.
[3] These options are conditional on the Company booking certified 2P reserves of 75PJ (or equivalent).
[4] These options are conditional on the Company booking certified 2P reserves of 150PJ (or equivalent).

(d) Share and Option holdings
The relevant interests of each director in share capital at the date of this report are as follows:

Directors	Number of Shares	Number of Options
Michael Fry	1,832,965	-
Paul Bilston	5,840,549	19,000,000
Michael Much	-	4,000,000
	7,673,514	23,000,000

Options issued as Part of Remuneration

Options are issued to directors and executives as part of their remuneration. The options are issued to increase goal congruence between executives, directors and shareholders.

Employment Contracts of Directors and Senior Executives

Service Agreements

Pursuant to an agreement executed on 20 August 2008, Mr Michael Fry provides services to the Group as a Non-Executive Chairman. The broad terms of this agreement include remuneration payable on and from the Listing date of $60,000 per annum. The agreement may be terminated by either party by providing 3 months written notice and upon payment of any outstanding fees for services rendered.

On 22 February 2010, the Group entered into an executive services agreement with Mr Paul Bilston under which Mr Bilston will receive a salary package of $200,000 per annum inclusive of superannuation for Mr Bilston's services as Managing Director of the Group. It is a term of his executive services agreement that in the event the fully diluted market capitalization of the Company exceeds $25,000,000 for two consecutive months, Mr Bilston's salary will be increased to $300,000. This condition was satisfied and effective 1 May 2011 his salary package increased to $300,000 per annum. On 1 July 2012, Mr Bilston ceased as a full time Director and provided services on a part time contract basis at a commercial daily rate. This decision was made in order to reduce costs during a time of reduced project activity for the Company.

As part of his remuneration package, and as approved by shareholders at the EGM held 18 August 2010, Mr Bilston was issued 2,000,000 Director A options, exercisable at $0.25 each on or before 28 February 2013, provided that the fully diluted market capitalisation of the Company has exceeded $35 million for 2 consecutive months, and 2,000,000 Director B options, exercisable at $0.35 each on or before 28 February 2015, provided that the fully diluted market capitalization of the Company has exceeded $45 million for 2 consecutive months.

As part of his remuneration package, and as approved by shareholders at the AGM held 23 November 2011, Mr Bilston was issued 7,500,000 Director options, exercisable at $0.15 each on or before 20 November 2014 and 7,500,000 Director options, exercisable at $0.15 each on or before 20 November 2016.

On 1 January 2011, the Group entered into an executive services agreement with Mr David Woodley under which Mr Woodley received a salary package of $300,000 per annum inclusive of superannuation for Mr Woodley's services as Chief Operating Officer of the Group. Mr Woodley resigned on 31 July 2012.

As part of his remuneration package, Mr Woodley was issued 500,000 Employee A options exercisable at $0.25 each on or before 1 February 2014, 1,500,000 Employee B options exercisable at $0.25 each on or before 1 February 2014 (vesting based on the Company booking certified 2P reserves of 75 PJ (or equivalent)) and 2,000,000 Employee C options exercisable at $0.35 each on or before 1 February 2015 (vesting based on the Company booking certified 2P reserves of 150 PJ (or equivalent)).

On 1 October 2011, the Group entered into an executive services agreement with Mr. Michael Much under which Mr Much will receive a salary package of US$220,000 per annum plus US$19,800 for motor vehicle, computer and phone expenses for Mr Much's services to the Group.

As part of his remuneration package, Mr Much was issued 2,000,000 Director A options exercisable at $0.15 each on or before 20 November 2014 (vesting based on the Company booking certified 2P reserves of 75 PJ (or equivalent)) and 2,000,000 Director B options exercisable at $0.15 each on or before 20 November 2014 (vesting based on the Company booking certified 2P reserves of 150 PJ (or equivalent)).

On 1 July 2009, the Group entered into an executive services agreement with Mr David Prentice under which Mr Prentice will receive a salary package of $120,000 per annum exclusive of superannuation for Mr Prentice's services as an Executive Director of the Group. Mr Prentice resigned on 26 March 2012.

END OF REMUNERATION REPORT

MEETINGS OF DIRECTORS

The number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director are:

	Directors Meetings Including Circular Resolutions	
Director	**Meetings Attended**	**Number Eligible to Attend**
Michael Fry	7	7
Paul Bilston	7	7
David Prentice	7	7
Michael Much	3	3

OPTIONS

At the date of this report the following unlisted options over new ordinary shares in the Company were on issue:

Type	Date of Expiry	Exercise Price	Number under Option
"Managing Director"	28 February 2013	$0.25	2,000,000
"Managing Director"	28 February 2015	$0.35	2,000,000
"Employee A"	1 February 2014	$0.25	500,000
"Employee B"	1 February 2014	$0.25	1,500,000
"Employee C"	1 February 2015	$0.35	2,000,000
"Managing Director"	20 November 2014	$0.15	7,500,000
"Managing Director"	20 November 2016	$0.15	7,500,000
"Director A"	20 November 2014	$0.15	2,000,000
"Director B"	20 November 2014	$0.15	2,000,000

Refer to note (c) in the Remuneration Report for details on options issued during the current financial year subject to performance criteria. No ordinary shares were issued as a result of the exercise of options during or since the end of the financial year ended 30 June 2012.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Group shall be indemnified out of the property of the Group against any liability incurred by them in their capacity as an officer, auditor or agent of the Group or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

The Group currently has a directors' and officers' liability insurance in place. A premium of $29,870 has been paid for cover period from 1 May 2012 to 30 April 2013. Under the terms of the policy, the Group is covered for a limit of up to $10 million in aggregate against loss by reason of a wrongful act by the directors and officers during the period of insurance. No excess fee is payable for loss from such claims.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2012 is set out on page 13 and forms part of the directors' report.

NON AUDIT SERVICES

No non-audit services were provided by the auditors during the year ended 30 June 2012.

This report is made in accordance with a resolution of the directors.

Paul Bilston

Paul Bilston
Managing Director

21 September 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Challenger Energy Limited for the year ended 30 June 2012, 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 audit; and

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

This declaration is in respect of Challenger Energy Limited.

Perth, Western Australia
21 September 2012

N G NEILL
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au
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CORPORATE GOVERNANCE STATEMENT

Challenger Energy Ltd ("Company") has adopted systems of control and accountability as the basis for the administration of corporate governance. These policies and procedures are summarised below.

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are achieved, how risk is monitored and assessed and how performance is optimised.

The Board and management are committed to corporate governance and, to the extent that they are applicable to the Company, have adopted the Eight Essential Corporate Governance Principles as set out in the Corporate Governance Principles and Recommendation (2nd Edition) as published by the ASX Corporate Governance Council.

Whilst the Board has demonstrated, and continues to demonstrate, its commitment to best practice in corporate governance, it emphasises that good corporate governance is only one factor contributing to the success of the Company's operations.

Additional information about the Company's corporate governance practices is set out on the Company's website at www.challengerenergy.com.au.

The table below summarises the Company’s compliance with the Corporate Governance Council’s Recommendations:

Principle	ASX Corporate Governance Council Recommendations	Comply
1	**Lay solid foundations for management and oversight**	
1.1	Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes
1.2	Disclose the process for evaluating the performance of senior executives.	Yes
1.3	Provide the information indicated in the Guide to reporting on principle 1.	Yes
2	**Structure the Board to add value**	
2.1	A majority of the board should be independent Directors.	No
2.2	The chair should be an independent director.	Yes
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes
2.4	The board should establish a nomination committee.	Yes
2.5	Disclose the process for evaluating the performance of the board, its committees and individual Directors.	Yes
2.6	Provide the information indicated in the Guide to reporting on principle 2.	Yes
3	**Promote ethical and responsible decision-making**	
3.1	Establish a code of conduct and disclose the code or a summary as to:	Yes
	• the practices necessary to maintain confidence in the Company’s integrity;	
	• the practices necessary to take into account the Company’s legal obligations and the reasonable expectations of its stakeholders; and	
	• the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	
3.2	Establish a policy concerning diversity and disclose the policy or a summary of that policy which includes requirements for the board to establish measurable objectives for achieving gender diversity and for the board to assess annually the objectives and progress in achieving them.	No
3.3	Disclose annually the measurable objectives set for achieving gender diversity and progress towards achieving them.	Yes
3.4	Disclose annually the proportion of woman employees in the whole organization, women in senior executive positions and women on the board.	Yes
3.5	Provide the information indicated in the Guide to reporting on principle 3.	Yes
4	**Safeguard integrity in financial reporting**	
4.1	The board should establish an audit committee.	Yes
4.2	The audit committee should be structured so that it:	
	• consists only of non-executive Directors;	No
	• consists of a majority of independent Directors;	No
	• is chaired by an independent chair, who is not chair of the board; and	Yes
	• has at least three members.	Yes
4.3	The audit committee should have a formal charter	Yes
4.4	Provide the information indicated in the Guide to reporting on principle 4.	Yes

CORPORATE GOVERNANCE STATEMENT (CONT'D)		
5	**Make timely and balanced disclosure**	
5.1	Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes
5.2	Provide the information indicated in the Guide to reporting on principle 5.	Yes
6	**Respect the rights of shareholders**	
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.	Yes
6.2	Provide the information indicated in the Guide to reporting on principle 6.	Yes
7	**Recognise and manage risk**	
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes
7.2	The board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Yes
7.3	The board should disclose whether it had received assurance from the chief executive officer and the chief financial officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes
7.4	Provide the information indicated in the Guide to reporting on principle 7.	Yes
8	**Remunerate fairly and responsibly**	
8.1	The board should establish a remuneration committee.	Yes
8.2	The remuneration committee should be structured so that : - it consists of a majority of independent directors; - it is chaired by an independent director; - has at least three members.	 No Yes No
8.3	Clearly distinguish the structure on non-executive Directors' remuneration from that of executive Directors and senior executives.	Yes
8.4	Provide the information indicated in the Guide to reporting on principle 8.	Yes

Council Principle 1: Lay solid foundations for management and oversight

1.1 Role of the Board

The Board's primary role is the protection and enhancement of medium to long term shareholder value. To fulfill this role, the Board is responsible for the overall Corporate Governance of the consolidated entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

1.2 Responsibility of the Board

The Board is collectively responsible for promoting the success of the Company by:

- Supervising the Company's framework of control and accountability systems to enable risk to be assessed and managed;
- Ensuring the Company is properly managed;
- Approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- Approval of the annual budget;
- Monitoring the financial performance of the Company;
- Approving and monitoring financial and other reporting;
- Overall corporate governance of the Company, including conducting regular reviews of the balance of responsibilities within the Company to ensure division of functions remain appropriate to the needs of the Company;
- Liaising with the Company's external auditors as appropriate; and
- Monitoring, and ensuring compliance with, all of the Company's legal obligations, in particular those obligations relating to the environment, native title, cultural heritage and occupational health and safety.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

The Board must convene regular meetings with such frequency as is sufficient to appropriately discharge its responsibilities. Between regular meetings it will also ensure that important matters are addressed by way of circular resolutions. The Board may, from time to time, delegate some of the responsibilities listed above to its senior management team.

1.3 Materiality threshold

The Board has agreed on both quantitative and qualitative guidelines for assessing the materiality of matters. Qualitative indications of materiality would include if:

- They impact on the reputation of the Company;
- They involve a breach of legislation;
- They are outside the ordinary course of business;
- They could affect the Company's rights to its assets; or
- If accumulated they would trigger the quantitative tests.

1.4 The Chairman

The chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's function and for the briefing of all directors in relation to issues arising at Board meetings. The chairman is also responsible for chairing shareholder meetings, and arranging Board performance evaluation.

1.5 The Managing Director

The managing director is responsible for running the affairs of the Company under delegated authority from the Board and to implement the policies and strategy set by the Board. In carrying out his/her responsibilities the managing director must report to the Board in a timely manner and ensure all reports to the Board present a true and fair view of the Company's financial condition and operational results.

1.6 Role and responsibility of management

The role of management is to support the managing director and implement the running of the general operations and financial business of the Company, in accordance with the delegated authority of the Board. Management is responsible for reporting all matters which fall within the Materiality Threshold at first instance to the managing director or if the matter concerns the managing director then directly to the chairman or the lead independent director, as appropriate.

1.7 Relationship of Board with management

Management of the day-to-day business of the Company is to be conducted by or under the supervision of the Board, and by those other officers and employees to whom the management function is properly delegated by the Board.

The Board will adopt appropriate structures and procedures to ensure that the Board functions independently of management. Appropriate procedures may involve the Board meeting on a regular basis without management present, or may involve expressly assigning the responsibility for administering the Board's relationship to management to a Committee of the Board.

Information is formally presented to the Board at Board meetings by way of Board reports and review of performance to date. When directors are providing information about opportunities for the Company, this should always be through the Board.

Council Principle 2: Structure the board to add value

The Company presently has two executive directors and one non-executive director. The Chairman (Mr Michael Fry) is a non-executive and independent director in terms of the ASX Corporate Governance Council's definition of an independent director. The Board considers that its structure has been and continues to be appropriate in the context of the Company's current projects and operations. The Company considers that each director possesses skills and experience suitable for building the Company. Furthermore, the Board considers that in the current phase of the Company's growth, the Company's shareholders are better served by directors who have a vested interest in the Company. The Board intends to reconsider its composition as the Company's operations evolve, and appoint independent directors as appropriate.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

The full board of directors performs the role of the nomination committee.

Council Principle 3: Promote ethical and responsible decision-making

The Company complies with this recommendation other than with regard to the adoption of a diversity policy. The Company has adopted a code of conduct incorporating all corporate executives. It requires all business affairs to be conducted legally, ethically and with integrity. The code provides for reporting of breach of the code by others. The code of conduct has been made available on the Company's website.

The Company has adopted a Diversity Policy that considers the benefits of diversity, ways to promote a culture of diversity, factors to be taken into account in the selection process of candidates for Board and senior management positions in the Company, education programs to develop skills and experience in preparation for Board and senior management positions, processes to include review measurable diversity performance objectives for the Board, CEO and senior management.

The Diversity Policy states that the Company will report, where appropriate, in each annual report, the measurable objectives for achieving gender diversity set by the Board. The following table provides a break-up of the gender diversity in the organisation:

	Number	**%**
Number of women employees in the Group	0	0
Number of women in senior executive positions	0	0
Number of women on the Board	0	0

Council Principle 4: Safeguard integrity in financial reporting

The Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards.

The Company has established an audit committee and the committee fulfills its role by:

- Monitoring the integrity of the financial statements of the Company, and reviewing significant financial reporting judgments;
- Reviewing the Company's internal financial control system and risk management systems;
- Reviewing the appointment of the external auditor and approving the remuneration and terms of engagement; and
- Monitoring and reviewing the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.

Council Principle 5: Make timely and balanced disclosure

Compliance procedures for ASX Listing Rule disclosure requirements have been adopted by the Company. It has appointed an officer of the Company to be responsible for compliance.

Council Principle 6: Respect the rights of shareholders

Information will be communicated to shareholders as follows:

- The annual report is distributed to all shareholders. The Board ensures that the annual report includes relevant information about the operations of the consolidated entity during the year, changes in the state of affairs of the consolidated entity and details of future developments, in addition to the other disclosures required by the Corporations Act. The annual report is made available on the Company's website, and is provided in hard copy format to any shareholder who requests it.

- The half-yearly report contains summarised financial information and a review of the operations of the consolidated entity during the year. The half-year audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act and is lodged with the Australian

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Securities Exchange. The half-yearly report is made available on the Company's website, and is sent to any shareholder who requests it.

- The quarterly report contains summarised cash flow financial information and details about the Company's activities during the quarter. The quarterly report is made available on the Company's website, and is sent to any shareholder who requests it.
- Proposed major changes in the consolidated entity which may impact on share ownership rights are submitted to a general meeting of shareholders.
- The Company's website is well promoted to shareholders and shareholders may register to receive updates, either by email or in hard copy.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategy and goals. Important issues are presented to the shareholders as resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of directors, the granting of options and shares to directors and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

The Company also ensures that the audit partner attends the Annual General Meeting.

Company's website

The Company maintains a website at www.challengerenergy.com.au
On its website, the Company makes the following information available on a regular and up to date basis:

- Company announcements;
- latest information briefings;
- notices of meetings and explanatory materials; and
- quarterly, half yearly and annual reports.

The website is being continuously updated with any information the directors and management may feel is material.

Council Principle 7: Recognise and manage risk

The Company has developed an initial framework for risk management and internal compliance and control systems which covers organisational, financial and operational aspects of the Company's affairs. The framework is the subject of ongoing review and yet to be finalised. It appoints the Managing Director and Company Secretary as being responsible for ensuring that the systems are maintained and complied with.

Council Principle 8: Remunerate fairly and responsibly

The Board has established a remuneration committee. The remuneration committee is responsible for administering the remuneration policy adopted by the Company and the remuneration arrangements for non executive Directors, executive Directors and executives of the Company.

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
Revenue			
Sales revenue	2	**377,005**	**360,305**
Cost of sales	2	**(254,605)**	**(250,570)**
Gross profit		**122,400**	**109,735**
Other revenue	2	**132,396**	**69,136**
Depreciation expense		**(4,209)**	**(7,043)**
Consultants' fees		**(173,387)**	**(132,320)**
Legal and compliance		**(237,190)**	**(373,748)**
Administration and travel expenses		**(269,683)**	**(202,366)**
Occupancy expenses		**(77,778)**	**(28,155)**
Salaries, directors' fees and employee benefits	2	**(964,885)**	**(907,722)**
Finance costs		**(299)**	**(331,807)**
Foreign exchange gain/(loss)		**(88,198)**	**(56,733)**
Exploration write-off expense		**(7,838,708)**	**(2,684,148)**
Loss on disposal of assets		**-**	**(6,497)**
Loss before income tax	3	**(9,399,541)**	**(4,551,668)**
Income tax expense	3	**-**	**-**
Net loss for the year		**(9,399,541)**	**(4,551,668)**
Other comprehensive income:			
Exchange differences on translation of foreign operations		**(639,497)**	**(936,324)**
Income tax on other comprehensive loss		**-**	**-**
Other comprehensive loss for the year		**(639,497)**	**(936,324)**
Total comprehensive loss for the year		**(10,039,038)**	**(5,487,992)**
Basic loss per share (cents)	17	**(3.89)**	**(3.13)**
Diluted loss per share (cents)	17	**(3.89)**	**(3.13)**
Loss attributable to:			
Owners of the parent		**(9,385,484)**	**(4,462,513)**
Non-controlling interests		**(14,057)**	**(89,155)**
		(9,399,541)	**(4,551,668)**
Total comprehensive loss attributable to:			
Owners of the parent		**(9,952,716)**	**(5,360,238)**
Non-controlling interests		**(86,322)**	**(127,754)**
		(10,039,038)	**(5,487,992)**

The accompanying notes form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
As at 30 June 2012

	Note	Consolidated 2012 $	Consolidated 2011 $
CURRENT ASSETS			
Cash and cash equivalents	5	**515,493**	**6,249,978**
Trade and other receivables	6	**88,567**	**168,228**
Prepayments		**27,117**	**28,862**
TOTAL CURRENT ASSETS		**631,177**	**6,447,068**
NON-CURRENT ASSETS			
Trade and other receivables	6	**161,063**	**-**
Plant and equipment	7	**11,200**	**4,158**
Deferred exploration and evaluation expenditure	8	**12,104,477**	**11,298,716**
Production assets	9	**1,290,676**	**1,294,480**
TOTAL NON-CURRENT ASSETS		**13,567,416**	**12,597,354**
TOTAL ASSETS		**14,198,593**	**19,044,422**
CURRENT LIABILITIES			
Trade and other payables	10	**342,199**	**189,890**
Provisions	11	**-**	**29,047**
TOTAL CURRENT LIABILITIES		**342,199**	**218,937**
NON-CURRENT LIABILITIES			
Trade and other payables	10	**8,961**	-
Provisions	11	**266,481**	**18,873**
TOTAL NON-CURRENT LIABILITIES		**275,442**	**18,873**
TOTAL LIABILITIES		**617,641**	**237,810**
NET ASSETS		**13,580,952**	**18,806,612**
EQUITY			
Issued capital	12	**28,552,678**	**24,233,475**
Reserves	14	**314,377**	**387,434**
Accumulated losses		**(15,726,209)**	**(6,340,725)**
Equity attributable to owners of the parent		**13,140,846**	**18,280,184**
Non-controlling interest		**440,106**	**526,428**
TOTAL EQUITY		**13,580,952**	**18,806,612**

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2012

Consolidated 2011	**Options Reserve**	**Foreign Currency Translation Reserve**	**Non-controlling Contribution Reserve**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2010	387,834	293,195	-	13,388,382	(1,878,212)	-	12,191,199
Loss for the period	-	-	-	-	(4,462,513)	(89,155)	(4,551,668)
Exchange differences on foreign currency translation	-	(897,725)	-	-	-	(38,599)	(936,324)
Total comprehensive loss for the period	-	(897,725)	-	-	(4,462,513)	(127,754)	(5,487,992)
Disposal of minority interest	-	-	(654,182)	-	-	654,182	-
Share placement during the year	-	-	-	7,100,000	-	-	7,100,000
Settlement of loans	-	-	-	4,148,883	-	-	4,148,883
Share based payments	375,857	-	-	-	-	-	375,857
Options issued during the year	922,426	-	-	-	-	-	922,426
Transaction costs	(39,971)	-	-	(403,790)	-	-	(443,761)
Balance at 30 June 2011	1,646,146	(604,530)	(654,182)	24,233,475	(6,340,725)	526,428	18,806,612

Consolidated 2012	**Options Reserves**	**Foreign Currency Translation Reserve**	**Non-Controlling Contribution Reserve**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**	**$**	**$**
At 1 July 2011	1,646,146	(604,530)	(654,182)	24,233,475	(6,340,725)	526,428	18,806,612
Loss for the period	-	-	-	-	(9,385,484)	(14,057)	(9,399,541)
Exchange differences on foreign currency translation	-	(567,232)	-	-	-	(72,265)	(639,497)
Total comprehensive loss for the period	-	(567,232)	-	-	(9,385,484)	(86,322)	(10,039,038)
Shares issued during the year	-	-	-	4,600,000	-	-	4,600,000
Options issued during the year	494,175	-	-	-	-	-	494,175
Transaction costs	-	-	-	(280,797)	-	-	(280,797)
Balance at 30 June 2012	2,140,321	(1,171,762)	(654,182)	28,552,678	(15,726,209)	440,106	13,580,952

The accompanying notes form part of these financial statements.

STATEMENT OF CASH FLOWS
For the year ended 30 June 2012

		Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**476,672**	**278,731**
Payments to suppliers and employees		**(1,459,246)**	**(1,691,293)**
Interest received		**118,563**	**48,265**
Finance costs		**(299)**	**(96,603)**
NET CASH USED IN OPERATING ACTIVITIES	5(b)	**(864,310)**	**(1,460,900)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of project		**-**	**46,430**
Payments for exploration activities		**(9,356,936)**	**(5,475,115)**
Payments for production activities		**(50,656)**	**(16,412)**
Proceeds from exploration costs refunded		**378,254**	**-**
Payments for deposits		**(161,063)**	**-**
Proceeds from deposits received		**8,961**	**-**
Payments for property, plant and equipment		**(11,251)**	**(2,850)**
NET CASH USED IN INVESTING ACTIVITIES		**(9,192,691)**	**(5,447,947)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		**4,600,000**	**8,022,426**
Proceeds from borrowings		**-**	**3,913,679**
Transaction costs on issue of shares		**(280,797)**	**(488,760)**
NET CASH PROVIDED BY FINANCING ACTIVITIES		**4,319,203**	**11,447,345**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(5,737,798)**	**4,538,498**
Cash and cash equivalents at beginning of the year		**6,249,978**	**1,716,000**
Foreign currency translation		**3,313**	**(4,520)**
CASH AND CASH EQUIVALENTS AT END OF YEAR	5(a)	**515,493**	**6,249,978**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Challenger Energy Limited is a for-profit listed public company limited by shares that is incorporated and domiciled in Australia.

The financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial report is presented in Australian dollars.

The financial report was authorised for issue on the date of the signing of the directors' declaration.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(b) Adoption of new and revised standards

Adoption in accounting policies on initial application of Accounting Standards

In the year ended 30 June 2012, the Group has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for current reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2012. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group's accounting policies.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the accounting policies adopted by the Group in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

(c) Basis of Consolidation

The consolidated financial statements comprise of the separate financial statements of Challenger Energy Limited ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group"). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statement of the subsidiaries is prepared for the same reporting period as the Parent, using consistent accounting policies.

Unrealised gains and losses and inter-entity balances resulting from transactions with the controlled entity are eliminated in full on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Business combinations have been accounted for using the acquisition method of accounting. Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of comprehensive income of the parent entity, and do not impact the cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the Consolidated Statement of Comprehensive Income and within equity in the Consolidated Statement of Financial Position. Losses are attributed to the non-controlling interest even if it results in a deficit balance.

(d) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, as at the end of the reporting period.

Deferred income tax is provided on all temporary differences as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

• when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

• when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

• when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, as at the end of the reporting period.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Exploration, Evaluation, Development and Production Expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or
(ii) exploration and evaluation activities in the area have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area are continuing.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development. Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Exploration and evaluation expenditure is reclassified to development expenditure once the technical feasibility and commercial viability of extracting the related mineral resource is demonstrable. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life according to the rate of depletion of the economically recoverable reserves. Changes in factors such as estimates of proved and probable reserves that affect the calculations are dealt with on a prospective basis.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit or loss in the year in which the decision to abandon the area is made.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

(f) Provision for Restoration and Rehabilitation

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, and it is probable that an outflow of economic benefits will be required to settle the obligation. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the reporting period, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(g) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liability for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Amounts are unsecured and are usually paid within 30 to 45 days of recognition.

(h) Cash and Cash Equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purpose of the statement of cash flows, cash includes on hand and other funds held at call net of bank overdrafts.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

(j) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Group are United States Dollars (USD), South African Rand (ZAR) and Australian Dollars (AUD) respectively. The presentation currency is Australian Dollars (AUD).

As at reporting date the assets and liabilities of the subsidiaries are translated into the presentation currency of Challenger Energy at the rate of exchange ruling at the end of the reporting period and their statements of income are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(k) Earnings Per Share

Basic earnings per share is calculated as net earnings attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for an bonus element.

Diluted EPS is calculated as net earnings attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that would have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(m) Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(n) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(o) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(p) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest

Interest revenue is recognised when control of the right to receive the interest payment.

(ii) Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

(ii) Rental Income

Rental income from sub-leases is accounted for on a straight-line basis over the lease term.

(q) Interests In Joint Venture

The Group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the Group's financial statements.

(r) Property, Plant & Equipment

Property, Plant & Equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight line basis on all property, plant and equipment over 5 years. The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Property, Plant & Equipment (cont'd)

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(s) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Share-based Payment Transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to directors and senior executives. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black & Scholes option pricing model, further details of which are given in Note 24. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Challenger Energy Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(v) Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(w) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The application of accounting policies requires the Group's management to make estimates and assumptions that affect the carrying values of assets and liabilities that are not readily apparent from other sources. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions. Actual results could differ from those estimates.

The more significant areas requiring the use of management estimates and assumptions relate to impairment calculations, production assets and restoration provisions.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revisions are recognized in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Carrying Value of Exploration Assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

Restoration and Rehabilitation Provision

The Group assesses its restoration and rehabilitation provision in accordance with the accounting policy in Note 1(f). Significant judgement is required in determining the provision as there are many transactions and other factors that will affect the ultimate liability payable. Factors that will affect this liability include future disturbances caused by further exploration and development, changes in technology, changes in regulations, price increases and changes in discount rates. When these factors change or become known in the future, such differences will impact the restoration and rehabilitation provision in the period in which they change or become known.

Share-based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value at grant date using the Black & Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The assumptions used are detailed in Note 24.

(x) 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 loss of the Group for the financial year amounted to $9,399,541 (2011: $4,551,668). Net assets as at 30 June 2012 were $13,580,952 (2011: $18,806,612).

Whilst the directors are confident the Group will be able to meet the operational costs and its financial obligations in a timely manner over the next 12 months, they are also aware that to continue to advance the exploration projects, significant capital expenditure will be required. The financial report has been prepared on a going concern basis which assumes the realisation of assets and extinguishment of liabilities in the normal course of business at the amounts stated in the financial report, for the following reasons:

- At 30 June 2012, the consolidated entity had cash and cash equivalents of $515,493.
- The Board is of the opinion that the Company will be able to access equity capital markets for working capital, as has been demonstrated in the past via share issues.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(x) Going Concern (Cont'd)

On the basis that sufficient cash inflows are expected to be raised through future capital raising to fund the further expansion of the exploration and development programs for at least 12 months after the date of this report, the Directors consider that the Group remains a going concern and these financial statements have been prepared on this basis. Although the Directors believe that they will be successful in these measures, there remains a material uncertainty that may cast significant doubt on the Company and its controlled entities' ability to continue as a going concern and therefore their ability to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

(y) Parent Entity Financial Information

The financial information for the parent entity, Challenger Energy Limited, disclosed in note 25 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the parent entity's financial statements.

	Consolidated 2012 $	Consolidated 2011 $
2. REVENUES AND EXPENSES		
Oil and gas sales	**377,005**	**360,305**
Rental income	**34,705**	**-**
Interest received	**97,691**	**69,136**
	132,396	**69,136**
(a) Cost of sales		
Production costs	**150,145**	**152,137**
Amortisation expense	**104,460**	**98,433**
	254,605	**250,570**
(b) Employee benefit expense		
Salary and wages	**561,010**	**572,772**
Equity-settled payments	**403,875**	**334,950**
	964,885	**907,722**

3. INCOME TAX

The prima facie tax benefit on loss before income tax is reconciled to the income tax as follows:		
Net loss before income tax	**(9,399,541)**	**(4,551,668)**
Prima facie tax benefit on loss before income tax at 30% (2011: 30%)	**(2,819,862)**	**(1,365,500)**
Add:		
- Revenue losses not recognised	**2,726,124**	**1,256,605**
- Share based payments	**121,163**	**100,485**
- Other non-allowable items	**61,442**	**81,476**
Less:		
- Black hole expenditure deductions	**(88,867)**	**(73,066)**
Income tax expense	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

4. DEFERRED TAX

The following deferred tax balances have not been recognised:

	Consolidated 2012 $	Consolidated 2011 $
Deferred Tax Assets (at 30%):		
Carry forward revenue losses	**942,599**	**803,405**
Capital raising costs	**203,538**	**164,505**
Provisions, accruals and prepayments	**(635)**	**5,456**
	1,145,502	**973,366**

The tax benefits of the above Deferred Tax Assets will only be obtained if:

(a) the company derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;

(b) the company continues to comply with the conditions for deductibility imposed by law; and

(c) no changes in income tax legislation adversely affect the company in utilising the benefits.

5. CASH AND CASH EQUIVALENTS

(a) Reconciliation of cash:

Cash balances comprises		
- Cash at bank	**395,527**	**2,025,921**
- Short term deposits	**-**	**4,009,495**
- US Dollar accounts	**114,664**	**208,406**
- ZAR account	**5,302**	**6,156**
	515,493	**6,249,978**

Cash at bank earns interest at floating rates based on a daily bank deposit rates.

(b) Reconciliation of net loss after tax to the net cash flows from operations:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Net loss	**(9,399,541)**	**(4,551,668)**
Non cash items:		
Depreciation	**4,209**	**7,043**
Share based payments	**403,875**	**334,950**
Foreign (gain)/loss	**88,198**	**56,733**
Exploration written off	**7,838,708**	**2,684,148**
Amortisation	**104,460**	**98,433**
Loss on sale of assets	**-**	**6,497**
Changes in assets and liabilities		
(Increase)/decrease in receivables and prepayments	**115,284**	**(97,562)**
Increase/(decrease) in payables and accruals	**9,544**	**1,581**
Increase/(decrease) in provisions	**(29,047)**	**(1,055)**
Net cash flows (used in) / from operating activities	**(864,310)**	**(1,460,900)**

(c) Non cash financing and investing activities:
During the 2011 financial year, loans of $4,148,883 were settled by way of shares issued.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

6. TRADE & OTHER RECEIVABLES

	Consolidated 2012 $	Consolidated 2011 $
Current		
Oil sales receivable	**39,711**	**104,673**
Other receivables	**48,856**	**63,555**
	88,567	**168,228**
Non Current		
Deposits paid	**161,063**	**-**

Terms and conditions relating to the above financial instruments:
a) Oil sales receivable is non-interest bearing and is generally settled within 60 days;
b) Other receivables are non-interest bearing

7. PLANT AND EQUIPMENT

Computer Equipment		
At cost	**7,002**	**5,751**
Accumulated depreciation	**(3,857)**	**(1,593)**
	3,145	**4,158**
Leasehold Improvements		
At cost	**10,000**	**-**
Accumulated depreciation	**(1,945)**	**-**
	8,055	**-**
	11,200	**4,158**
Movement in carrying amounts		
Computer Equipment		
Opening balance	**4,158**	**2,570**
Additions	**1,251**	**2,850**
Depreciation	**(2,264)**	**(1,262)**
Closing balance	**3,145**	**4,158**
Leasehold Improvements		
Opening balance	**-**	**8,350**
Additions	**10,000**	**-**
Disposals	**-**	**(2,569)**
Depreciation	**(1,945)**	**(5,781)**
Closing balance	**8,055**	**-**

8. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

Exploration and evaluation phases	**12,104,477**	**11,298,716**
Movement in carrying amounts		
Opening balance	**11,298,716**	**9,552,394**
Expenditure incurred during the period	**9,030,948**	**5,475,421**
Rehabilitation costs	**196,828**	**-**
Impairment and write-offs (i)	**(7,838,708)**	**(2,684,148)**
Sale of projects	**-**	**(52,927)**
Foreign exchange translation movement	**(583,307)**	**(992,024)**
Closing balance	**12,104,477**	**11,298,716**

(i) Exploration assets no longer active, therefore costs written off.

The ultimate recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $
9. PRODUCTION ASSETS		
Production Phase	**1,290,676**	**1,294,480**
Movement in carrying amounts		
Opening balance	**1,294,480**	**1,361,158**
Additions	**50,656**	**31,755**
Rehabilitation costs	**50,000**	**-**
Amortisation	**(104,460)**	**(98,433)**
Closing balance	**1,290,676**	**1,294,480**
10. TRADE & OTHER PAYABLES		
Current		
Trade creditors (a)	**145,194**	**115,829**
Other creditors and accruals	**197,005**	**74,061**
	342,199	**189,890**

(a) Terms and conditions

Trade creditors are non-interest bearing and are normally settled on 60 day terms.

Non-Current		
Rental deposits	**8,961**	**-**
11. PROVISIONS		
Current		
Employee benefits	**-**	**29,047**
Non-current		
Restoration Costs		
Balance at beginning of period	**18,873**	**22,362**
Additions	**246,828**	**-**
Foreign exchange translation	**780**	**(3,489)**
Balance at end of period	**266,481**	**18,873**

The provision for restoration costs relates to the estimated cost of rehabilitation work to be carried out in relation to the removal of facilities, closure of sites and restoring affected areas. The provision represents the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at each reporting date.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

12. ISSUED CAPITAL

	Consolidated 2012 $	Consolidated 2011 $
Issued and paid up capital		
311,482,540 (2011: 214,021,002) Ordinary shares	**28,552,678**	**24,233,475**

(a) Movements in shares on issue

At the beginning of the reporting period	**24,233,475**	**13,388,382**
Shares issued during the period:		
- Placement at $0.05	**2,850,000**	**-**
- Placement at $0.065	**1,200,000**	**-**
- Placement at $0.025	**550,000**	**-**
- Settlement of loans	**-**	**4,148,883**
- Placement at $0.15	**-**	**7,100,000**
- Share issue costs	**(280,797)**	**(403,790)**
At end of reporting period	**28,552,678**	**24,233,475**

	Number of Shares	Number of Shares
At the beginning of the reporting period	**214,021,002**	**116,338,369**
Shares issued during the period:		
- Placement at $0.05	**57,000,000**	**-**
- Placement at $0.065	**18,461,538**	**-**
- Placement at $0.025	**22,000,000**	**-**
- Remaining shares, pursuant to prior year placement at $0.085	**-**	**6,651,706**
- Settlement of loans at $0.085	**-**	**35,795,998**
- Settlement of loans at $0.14	**-**	**7,901,595**
- Placement at $0.15	**-**	**47,333,334**
At end of reporting period	**311,482,540**	**214,021,002**

(b) Terms and Conditions

Ordinary shares
Ordinary shares have the right to receive dividends as declared and, in the event of the winding up of the Group, to participate in the proceeds from the sale of surplus assets in proportion to the number of and amounts paid on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a Company meeting.

13. OPTIONS

At the end of the reporting year, there are 27,000,000 options over unissued shares as follows:

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted Options	28 February 2013	$0.25	2,000,000
Unlisted Options	1 February 2014	$0.25	2,000,000
Unlisted Options	1 February 2015	$0.35	2,000,000
Unlisted Options	28 February 2015	$0.35	2,000,000
Unlisted Options	20 November 2014	$0.15	11,500,000
Unlisted Options	20 November 2016	$0.15	7,500,000

Further details of the terms and conditions of these options are provided in the Remuneration Report.

During the financial year ended 30 June 2012, no ordinary shares were issued as a result of the exercise of options.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

	Consolidated 2012 $	Consolidated 2011 $
14. RESERVES		
(a) Options reserve	**2,140,321**	**1,646,146**
(b) Foreign currency translation reserve	**(1,171,762)**	**(604,530)**
(c) Non-controlling contribution reserve	**(654,182)**	**(654,182)**
	314,377	**387,434**
(a) Options reserve		
At beginning of reporting period	**1,646,146**	**387,834**
Non-renounceable rights issue at $0.015	**-**	**922,426**
Share based remuneration payments	**494,175**	**334,950**
Equity settled payments	**-**	**40,907**
Less capital raising costs	**-**	**(39,971)**
Balance at end of reporting period	**2,140,321**	**1,646,146**
(b) Foreign currency translation reserve		
At beginning of reporting period	**(604,530)**	**293,195**
Foreign currency translation reserve movement	**(567,232)**	**(897,725)**
Balance at end of reporting period	**(1,171,762)**	**(604,530)**
(c) Non-controlling contribution reserve		
At beginning of reporting period	**(654,182)**	**-**
Disposal of minority interest	**-**	**(654,182)**
Balance at end of reporting period	**(654,182)**	**(654,182)**

i) Options reserve is used to record the value of equity benefits provided to the directors and consultants as part of their remuneration or services provided. Refer to Note 24 for further details of these plans.

ii) Foreign currency translation reserve records exchange differences arising on translation of the financial statements of foreign subsidiaries recorded in their functional currency (United States of America Dollars and South African Rand) into presentation currency at balance date.

iii) Non-controlling contribution reserve records losses arising from the disposal of minority interest attributable to owners of the parent.

15. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors

Paul Bilston – Managing Director
Michael Fry – Non-Executive Director
Michael Much –Executive Director *(Appointed 19 October 2011)*
David Prentice– Executive Director *(Resigned 26 March 2012)*

(ii) Executives

Adrien Wing – Company Secretary *(Appointed 1 July 2010)*
David Woodley – Chief Operating Officer
Cecilia Chiu – Company Secretary *(Resigned 1 July 2010)*

Directors' remuneration and other terms of employment are reviewed annually by the non-executive directors having regard to performance against goals set at the start of the period, relative comparative information and independent expert advice.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

15. DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS (CONT'D)

(b) Compensation of Key Management Personnel

The aggregate compensation made to directors and other members of key management personnel is out below:

	Consolidated 2012 $	Consolidated 2011 $
Short-term employee benefits	**910,452**	**583,145**
Post-employment benefits	**57,642**	**43,209**
Share-based payments	**494,175**	**334,950**
	1,462,269	**961,304**

(c) Shares held by Key Management Personnel

Year ended 30 June 2012

	Balance at 1.7.11	Shares Issued	Balance at Retirement	Bought & (Sold)	Balance at 30.06.12
Directors					
Michael Fry	1,832,965	-	-	-	1,832,965
David Prentice[1]	2,250	-	(2,250)	-	-
Paul Bilston	4,483,975	-	-	1,356,574	5,840,549
Michael Much[2]	-	-	-	-	-
Executives					
Adrien Wing[3]	400,000	-	-	(400,000)	-
David Woodley[4]	479,484	-	-	-	479,484
	7,198,674	-	(2,250)	956,574	8,152,998

Year ended 30 June 2011

	Balance at 1.7.10	Shares Upon Loan Conversion	Balance at Retirement	Bought & (Sold)	Balance at 30.06.11
Directors					
Michael Fry	1,050,000	482,965	-	300,000	1,832,965
David Prentice[1]	2,250	-	-	-	2,250
Paul Bilston	3,880,268	-	-	603,707	4,483,975
Executives					
Adrien Wing[3]	-	-	-	(610,000)	400,000
David Woodley[4]	-	-	-	479,484	479,484
Cecilia Chiu[5]	-	-	-	-	-
	4,932,518	482,965	-	773,191	7,198,674

1 Resigned 26 March 2012
2 Appointed 19 October 2011
3 Appointed 1 July 2010 (1,010,000 shares held). 889,524 shares were bought and 1,499,524 sold during the 2011 year.
4 Appointed 1 January 2011
5 Resigned 1 July 2010

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

Options Held By Key Management Personnel

Year ended 30 June 2012

	Balance at 1.7.11	Received as Remuneration	Options Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.12	Total Vested	Total Exercisable
Directors								
Michael Much[2]	-	4,000,000	-	-	-	4,000,000	4,000,000	-
Michael Fry	2,075,000	-	(2,075,000)	-	-	-	-	-
David Prentice[1]	2,001,125	-	-	-	(2,001,125)	-	-	-
Paul Bilston	6,440,134	15,000,000	(2,440,134)	-	-	19,000,000	19,000,000	15,000,000
Executives								
Adrien Wing	-	-	-	-	-	-	-	-
David Woodley	6,050,000	-	(2,050,000)	-	-	4,000,000	4,000,000	500,000
	16,566,259	19,000,000	(6,565,134)	-	(2,001,125)	27,000,000	27,000,000	15,500,000

Year ended 30 June 2011

	Balance at 1.7.10	Received as Remuneration	Options Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.11	Total Vested	Total Exercisable
Directors								
Michael Fry	1,500,000	-	(500,000)	1,075,000	-	2,075,000	2,075,000	2,075,000
David Prentice	5,500,000	-	(3,500,000)	1,125	-	2,001,125	2,001,125	2,001,125
Paul Bilston	-	4,000,000	-	2,440,134	-	6,440,134	6,440,134	2,440,134
Executives								
Adrien Wing[3]	-	-	-	-	-	-	-	-
David Woodley[4]	-	4,000,000	-	2,050,000	-	6,050,000	6,050,000	2,550,000
Cecilia Chiu[5]	-	-	-	-	-	-	-	-
	7,000,000	8,000,000	(4,000,000)	5,566,259	-	16,566,259	16,566,259	9,066,259

[1] Resigned 26 March 2012
[2] Appointed 19 October 2011
[3] Appointed 1 July 2010. 1,480,000 options were bought and sold during the 2011 financial year.
[4] Appointed 1 January 2011
[5] Resigned 1 July 2010

Terms and conditions of options received as compensation by key management personnel are as described in the Remuneration Report in the Directors' Report.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

16. SEGMENT INFORMATION

The Group has the following segments:

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

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.

South Africa
The South African ("SA") is the location of exploration activities and licence interests are held.

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended 30 June 2012 and 30 June 2011.

	USA	SA	Australia	Total
	$	$	$	$
Twelve months ended 30.06.2012				
Total segment revenue	377,929	-	131,472	509,401
Segment net profit/(loss) before tax	(7,839,785)	(37,030)	(1,522,726)	(9,399,541)
Amounts included in segment result:				
Depreciation and amortisation	104,460	-	4,209	108,669
Twelve months ended 30.06.2011				
Total segment revenue	360,305	-	69,136	429,441
Segment net profit/(loss) before tax	(1,762,395)	(979,350)	(1,809,923)	(4,551,668)
Amounts included in segment result:				
Depreciation and amortisation	98,433	-	7,043	105,476

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

16. SEGMENT INFORMATION (CONT'D)

	USA $	SA $	Australia $	Total $
30.06.2012				
Segment assets	8,529,923	5,192,389	476,281	14,198,593
30.06.2011				
Segment assets	6,873,612	5,925,798	6,245,012	19,044,422
30.06.2012				
Segment liabilities	385,648	-	231,993	617,641
30.06.2011				
Segment liabilities	65,880	14,240	157,690	237,810

17. LOSS PER SHARE

		Consolidated 2012 $	Consolidated 2011 $
The following reflects the income and share data used in the calculation of basic and diluted loss per share:			
Earnings used in calculation of basic and diluted earnings per share		**(9,399,541)**	**(4,551,668)**
Weighted average number of ordinary shares on issue used in the calculation of basic EPS	(i)	**241,419,068**	**145,324,039**

(i) Share options are not considered dilutive, as their impact would decrease the net loss per share.

18. DIVIDENDS

No dividends have been declared or paid during the financial year ended 30 June 2012.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2012

19. RELATED PARTY DISCLOSURE

Interest in subsidiaries

The consolidated financial statements include the financial statements of Challenger Energy Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	Percentage of equity interest held by Consolidated Entity 2012	2011
Sunset Energy LLC	USA	100%	100%
Bundu Oil & Gas Exploration (Pty) Ltd	South Africa	90%	90%
Sunset Texas LLC	USA	100%	100%
Challenger Texas Energy LLC[1]	USA	100%	-
Challenger Texas Energy Operating LLC[1]	USA	100%	-

[1] Formed effective 18 August 2011.

20. AUDITORS' REMUNERATION

	Consolidated 2012 $	Consolidated 2011 $
Amounts received or due and receivable by :		
- HLB Mann Judd - audit or review of the financial reports of the Company	31,900	35,985
	31,900	35,985

21. FINANCIAL INSTRUMENTS

(a) Financial risk management and risk policies

The Group's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to hold finance for the entity's operations. The entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the entity's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

(c) Interest rate risk

The Group is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The Group does not have short or long term debt, and therefore this risk is minimal.

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts might not reconcile to the Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL INSTRUMENTS (CONT'D)

2012

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**249,630**	**-**	**-**	**-**	**249,630**
Variable interest rates instruments	**515,493**	**-**	**-**	**-**	**515,493**
	765,123	**-**	**-**	**-**	**765,123**
FINANCIAL LIABILITIES					
Non-interest bearing	**(351,160)**	**-**	**-**	**-**	**(351,160)**
NET FINANCIAL ASSETS	**413,963**	**-**	**-**	**-**	**413,963**

2011

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**168,228**	**-**	**-**	**-**	**168,228**
Variable interest rates instruments	**2,240,483**	**-**	**-**	**-**	**2,240,483**
Fixed interest rates instruments	**4,009,495**	**-**	**-**	**-**	**4,009,495**
	6,418,206	**-**	**-**	**-**	**6,418,206**
FINANCIAL LIABILITIES					
Non-interest bearing	**(189,890)**	**-**	**-**	**-**	**(189,890)**
NET FINANCIAL ASSETS	**6,228,316**	**-**	**-**	**-**	**6,228,316**

(i) Interest Rate Sensitivity Analysis

At reporting date, if interest rates had been 5% higher or lower than the prevailing rates realised, with all other variable held constant, there would have been an immaterial change in post tax loss for the year. The impact on equity would have been the same.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

21. FINANCIAL INSTRUMENTS (CONT'D)

(d) Net fair values of financial assets and liabilities

All financial assets and liabilities have been recognised at the balance date at their net fair values.
The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.
Receivables and payables: The carrying amount approximates fair value.

(e) Credit risk exposures

The Group's maximum exposure to credit risk at each balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowance for doubtful debts, of those assets as indicated in the Statement of Financial Position. The maximum credit risk exposure on receivables of the Group at 30 June 2012 is $249,630 (2011: $168,228). There are no impaired receivables at 30 June 2012.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually. The Group measures credit risk on a fair value basis.

Concentration of Credit Risk

The Group is exposed to an individual customer being its joint venture operator, Solimar Energy Limited.

(f) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. At 30 June 2012, the Group does not have any bank debt.

(g) Foreign exchange risk management

The Group undertakes its exploration and production transactions denominated in US and South African currencies. However, the Group's exposure to exchange rate fluctuation is minimal as it also generates oil and gas revenue in US currency. The policy is to maintain adequate cash flow in the Group's US currency account.

The carrying amount of US denominated financial instruments are:

	2012	2011
FINANCIAL INSTRUMENTS	**A $**	**A $**
Cash and cash equivalent	114,663	208,406
Trade debtors and other receivables	73,589	104,673
Trade creditors and other payables	119,167	47,007

The monetary exposure to the South African rand is immaterial.

The Group is exposed to US Dollar (USD) and South African Rand (ZAR) currency fluctuations. At 30 June 2012, there would have been an immaterial change in the post-tax operating loss for the year as a result of a 10% change in the Australian Dollar (AUD) to the USD and ZAR. The impact to equity would be the same.

(i) Capital Risk Management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being oil and gas exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

22. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets.

23. EMPLOYEE BENEFITS

Employee Incentive Option Plan

The Group's Employee Incentive Scheme provides for the Board to elect to offer Options to an employee having regard to the potential contribution of the employee to the Group and other matters the Board considers relevant.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the Scheme, is the price determined by the Board and advised to the employee when Options are offered to the employee.

All options expire on the earlier of their termination date or 30 days following termination of the employee's employment. Options vest on granting; however exercise can be conditional upon the Group achieving certain performance hurdles as determined by the Board of directors.

There are no voting or dividend rights attaching to the options. There are no voting rights attaching to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of shares and options issued to Directors and Executives are included in the Remuneration Report.

24. SHARE BASED PAYMENT PLANS

Options are issued to directors and executives as part of their remuneration under the Group's Employee Incentive Option Plan as described in Note 23. The options are not issued based on performance criteria, but are issued to all directors of Challenger Energy Limited to increase goal congruence between executives, directors and shareholders.

The following table illustrates the number and weighted average exercise prices (WAEP) of and movements in share options issued during the year:

	2012		2011	
	Number of Options	**Weighted Average Exercise Price $**	**Number of Options**	**Weighted Average Exercise Price $**
Outstanding at beginning of the year	11,500,000	0.24	8,500,000	0.16
Granted during the year	19,000,000	0.15	8,000,000	0.30
Expired during the year	(3,500,000)	0.10	(5,000,000)	0.20
Outstanding at the end of the year	27,000,000		11,500,000	
Exercisable at the end of the year	15,500,000		4,000,000	

(i) The options outstanding at 30 June 2012 had a weighted average exercise price of $0.19 (2011: $0.24).
(ii) Options outstanding at 30 June 2012 had a weighted average remaining life of 2.81 years (2011: 2.30 years).
(iii) The weighted average fair value of options granted during the year was $0.03 (2011: $0.30).
(iv) Included under employee benefits expense in the statement of comprehensive income that relates to equity-settled share-based payment transaction is $403,875 (2011: $334,950).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

24. SHARE BASED PAYMENT PLANS (CONT'D)

The fair value of the equity-settled share options granted under both the option plan is estimated as at the date of grant using Black Scholes model taking into account the terms and conditions upon which the options were granted.

The following table lists the inputs to the model used:

	2012 Director Options		**2011 Director Options**		**2011 Employee Options**	
Expected volatility (%)	100%	100%	104%	104%	108%	108%
Risk-free interest rate (%)	3.15%	3.41%	4.45%	4.63%	4.90%	4.93%
Expected life of option (years)	2.4	4.4	2.5	4.5	3.0	4.0
Exercise price	$0.15	$0.15	$0.25	$0.35	$0.25	$0.35
Grant date share price	$0.07	$0.07	$0.07	$0.07	$0.14	$0.14
Marketing discount (%)	25%	25%	25%	25%	25%	25%

25. PARENT ENTITY DISCLOSURES

Financial position	**2012 $**	**2011 $**
Assets		
Current assets	**485,581**	**6,240,855**
Non-current assets	**13,397,018**	**12,789,327**
Total assets	**13,882,599**	**19,030,182**
Liabilities		
Current liabilities	**223,032**	**175,650**
Non-current liabilities	**78,615**	**47,920**
Total liabilities	**301,647**	**223,570**
Net Assets	**13,580,952**	**18,806,612**
Equity		
Issued capital	**28,552,678**	**24,233,475**
Accumulated Losses	**(17,112,047)**	**(7,073,009)**
Reserves	**2,140,321**	**1,646,146**
Total equity	**13,580,952**	**18,806,612**

Financial performance

	2012 $	**2011 $**
Losses for the year	**(10,039,038)**	**(4,867,069)**
Other comprehensive income	**-**	**-**
Total comprehensive loss	**(10,039,038)**	**(4,867,069)**

26. SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances that has arisen since 30 June 2012 which has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

27. COMMITMENTS FOR EXPENDITURE

The Group is committed to a 50% share of well expenditure with its joint venture partner, Solimar Energy Limited. Other than below, the directors are not aware of any other commitments for expenditure.

The Group has entered into an office premises lease in Melbourne, Victoria. This lease has a 3 year term expiring 31 October 2014 with an option for a further term of 3 years.
Future minimum rentals payable under the lease as at 30 June are as follows:

	Consolidated	
	2012	**2011**
	$	**$**
Within one year	75,275	7,641
After one year but not more than five years	104,721	-
More than five years	-	-
	179,996	7,641

DIRECTORS' DECLARATION

1. The directors of the Company declare that:

    a. the financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:

        i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year then ended; and

        ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;

    b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

    c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

This declaration is signed in accordance with a resolution of the Board of Directors.

.

Mr Paul Bilston
Managing Director

21 September 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Challenger Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Challenger Energy Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements,* that the consolidated financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Challenger Energy Limited for the financial year ended 30 June 2012 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial report and remuneration report.

Auditor's opinion

In our opinion:

(a) the financial report of Challenger Energy Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(x) in the financial report, which indicates that the company will need to seek additional funding in the coming year in order to meet its operating expenditure and planned exploration expenditure for the next twelve months from the date of signing these financial statements. Any inability to raise further funding through a capital raising will create a material uncertainty that may cast significant doubt on the company's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion the Remuneration Report of Challenger Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

Chartered Accountants

Norman Glad

Perth, Western Australia
21 September 2012

N G NEILL
Partner

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Group has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting year is contained within the Directors' Report.

B. SHAREHOLDING

1. Substantial Shareholders

The names of the substantial shareholders listed on the Group's register as at 30 August 2012:

Shareholder	Number
Pitt Street Absolute Return Fund	21,160,000
LQ Super Pty Ltd	27,999,631

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
28 February 2013 option - $0.25	2,000,000	1
1 February 2014 option - $0.25	2,000,000	1
1 February 2015 option - $0.35	2,000,000	1
28 February 2015 option - $0.35	2,000,000	1
20 November 2014 options - $0.15	11,500,000	2
20 November 2016 options - $0.15	7,500,000	1

3. Number of holders in each class of equity securities and the voting rights attached

There are 856 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are a total of 27,000,000 unlisted options on issue. Each shareholder is entitled to one vote per share held upon exercise.

On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

ADDITIONAL SHAREHOLDER INFORMATION (Cont'd.)

4. ***Distribution schedule of the number of holders in each class of equity security as at 30 August 2012.***

Distribution	Holders of Ordinary Shares
1-1,000	31
1,001 - 5,000	61
5,001 – 10,000	92
10,001 - 100,000	377
100,001 and over	295
TOTALS	856

5. ***Marketable Parcel***

There are 121 shareholders with less than a marketable parcel.

6. ***Twenty largest holders of each class of quoted equity security***

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 30 August 2012) is as follows:

Ordinary Shares

Name	No. Of Ordinary Shares	%
LQ Super Pty Ltd	27,999,631	8.99%
Citicorp Nom Pty Ltd	15,274,509	4.90%
Mining Inv Ltd	15,133,393	4.86%
Pitt Street Absolute Return Fund	14,000,000	4.49%
LQ Super Pty Ltd	12,138,462	3.90%
Sanperez Ltd	9,994,186	3.21%
Brispot Nom Pty Ltd	7,791,699	2.50%
Powertank Pty Ltd	7,562,256	2.43%
Farm 1342 Pty Ltd	7,208,173	2.31%
Rodwell Peter Kelvin	6,933,333	2.23%
Bilston Paul & Susan <Family A/C>	5,003,707	1.61%
Koekoek Felicity Claire	5,000,000	1.61%
Moneybung Pty Ltd	4,308,284	1.38%
Jacqueline Kay Pty Ltd	4,169,231	1.34%
Sawfam Pty Ltd	4,000,000	1.28%
JP Morgan Nom Aust Ltd	3,732,670	1.20%
Tamlib Inv Pty Ltd	3,606,170	1.16%
Melaid Hldg Inc	2,846,923	0.91%
Knauer Farm Super Pty Ltd	2,635,000	0.85%
Rowley Robert Martin	2,397,743	0.77%
04257Total	**161,735,370**	**51.93%**

ADDITIONAL SHAREHOLDER INFORMATION (CONT.)

C. OTHER DETAILS

1. Company Secretary

The name of the company secretary is Adrien Wing.

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Level 17, 500 Collins Street
Melbourne VIC 3000

Telephone: +(61) 3 9614 0600
Facsimile: +(61) 3 9614 0550

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Security Transfers Registrar
770 Canning Highway
Applecross Western Australia 6153
Telephone: +(61) 8 9315 2333
Facsimile: +(61) 8 9315 2233

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the ASX.

5. Restricted Securities

The Company has no restricted securities on issue.

6. Review of Operations

A review of operations is contained in the Directors' Report.

7. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

SCHEDULE OF OIL AND GAS LEASES AS AT 30 AUGUST 2012

Maricopa Project (United States)

Location	*Gross Acreage*	*Working Interest*	*Status*
Section 8, 11N, R23W	**120**	**50%**	**Committed**

Cranemere Project (South Africa)

Location	*Gross Acreage*	*Working Interest*	*Status*
Karoo Basin	**1,040,000**	**90%**	**Application**

Final area is subject to granting of the application.

Mercury Stetson (United States)

Location	*Gross Acreage*	*Working Interest*	*Status*
Grayson County	**~26,000**	**50%**	**Farming In**