Challenger Energy Limited

ABN 45 123 591 382

Half Year Report
31 December 2011

COMPANY DIRECTORY

Non Executive Chairman
Michael Fry

Managing Director
Paul Bilston

Directors
David Prentice
Michael Much

Chief Operating Officer
David Woodley

Company Secretary
Adrien Wing

Principal Office
Level 6, 30 Collins Street
MELBOURNE VIC 3000
Telephone: (03) 9674 7161
Facsimile: (03) 9674 0400

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

Share Registrar
Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
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Securities Exchange Listing
Australian Securities Exchange
(Home Exchange: Perth, Western Australia)
Code: CEL

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DIRECTORS' REPORT

Your directors submit the financial report of the consolidated entity for the half year ended 31 December 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Michael Fry	Non Executive Chairman
Paul Bilston	Managing Director
David Prentice	
Michael Much	(appointed 19 October 2011)

Review of Operations

Highlights

Mercury Stetson

- Re-entry operation conducted which was partially successful
- Plan to sidetrack and drill new hole to bottom in 2012
- Land and leasing program continues

Triple Crown

- Drilling and testing program on Ellenburger completed in October 2011

South Africa

- The Company awaits approval of its application for an exploration right at Cranemere.

Maricopa

- Wellington Maricopa project produced at an average rate of 18 bopd.

Mercury Stetson

A re-entry operation at Mercury Stetson was conducted during the period. The re-entry was only partially successful and a decision was made to undertake a sidetrack from the existing well bore at ~5,100 feet and drill a new hole to bottom.

The drilling of a new hole through the two reservoir sections will provide the opportunity to obtain a new mud log, collect fresh drill cuttings and run modern logs in the new hole that will provide a much better understanding of the reservoir compared to re-entering the existing well bore which has been open and exposed to unknown drilling fluids for over 30 years.

Challenger Energy has secured the drilling rig for the side-track program.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

The Mercury Stetson Prospect includes the Barnett and Woodford shales - both proven to have shale formations. The prospect which is potentially up to 55,000 acres (86 sq miles) 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. The JV has had an active land leasing program underway through the quarter to extend and add leases within the Area of Mutual Interest (AMI) with an initial target of 35,000 acres across the prospect.

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 approximately 5,400 ft, building angle to enter the target zone horizontally at the top of the Ellenburger approximately 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 which 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".

HYBRID PLAY

As previously advised, Challenger has identified a selected interval for a fracture stimulation as a proof of concept test of the Hybrid Play. The Company has identified an Original Gas In Place (OGIP) within the Hybrid of 7.4 TCF within its existing lease position.

The objective of this test would be to understand the production characteristics of this zone and provide valuable inputs into understanding the potential recoverable resource.

South Africa 90%

During the half 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 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, a massive (up to 5,000 ft thick) lower Permian carbonaceous shale. A US Energy Information Administration report on potential shale gas resources around the world has identified a "Risked Recoverable Resource" of approximately 6.8 BCF per square mile, which based on the size of the application is equivalent to more than 7 TCF of recoverable resource.

DIRECTORS' REPORT (CONTINUED)

Review of Operations (Continued)

In August 2011 the government extended the Moratorium on the award of any new exploration rights in South Africa until February 2012. Based on this current timetable the company expects the award of this application right in the near term.

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

The Maricopa project averaged 21.7 bopd during the quarter.

During the December 2011 half, the average price of oil received from the Kern Oil Refinery was US$107.8/bbl.

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

CORPORATE

On 19th October 2011, the Company appointed Mr Michael Much as a director.

On 7th February 2012, the Company announced that it entered into placement arrangement, whereby Paterson Corporate Ltd were lead managers to place up to 56 million shares at 5 cents per share raising up to $2.8 million before costs. On 15th February 2012, the Company placed 30 million shares at 5 cents per share raising $1.5 million. The Company intends placing approximately 26 million shares at 5 cents ($1.3 million) in the following fortnight pursuant to the placement arrangement.

On 9th March 2012, the Company held a shareholders' meeting, whereby shareholders approved the following resolutions:

1. Approval of prior issue of shares;
2. Approval to issue shares under placement;
3. Approval for a director (Mr Paul Bilston) to participate in the placement.

Events Subsequent to Balance Date

On 7 February 2012, the Company announced the completion of a share placement of approximately $2.8m in two tranches. Tranche 1 consisted of 30 million shares at 5 cents per share (raising $1.5m before costs, completed on 7 February 2012). The Company intends placing approximately 26 million shares under tranche 2 at 5 cents ($1.3 million) pursuant to the placement arrangement and shareholder approval given on 9 March 2012.

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

DIRECTORS' REPORT (CONTINUED)

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this Directors' report for the half-year ended 31 December 2011.

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

Yours faithfully

Paul Bilston
Managing Director
Dated this 14th day of March 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Challenger Energy Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Norman Glad

Perth, Western Australia
14 March 2012

N G NEILL
Partner, HLB Mann Judd

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CONDENSED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Notes	Consolidated 31 December 2011 $	31 December 2010 $
Revenue			
Sales revenue		206,893	174,178
Cost of sales		(120,828)	(115,639)
Gross profit	2	**86,065**	**58,539**
Other revenue		82,917	22,604
Amortisation and depreciation		(1,098)	(6,264)
Consultant fees		(157,893)	(65,697)
Legal and compliance		(116,867)	(191,255)
Administration and travel expenses		(179,817)	(146,333)
Salaries, director fees and employee expenses		(243,034)	(232,101)
Share based remuneration		(403,875)	(98,700)
Exploration costs written off		-	(2,684,148)
Finance costs		(3,190)	(188,984)
Foreign exchange loss	2	(89,329)	(46,469)
Loss before income tax expense	2	**(1,026,121)**	**(3,578,808)**
Income tax expense		-	-
Net loss for the period		**(1,026,121)**	**(3,578,808)**
Other comprehensive income:			
Exchange differences on translation of foreign operations		(465,373)	(252,898)
Income tax on other comprehensive loss		-	-
Other comprehensive loss for the period		**(465,373)**	**(252,898)**
Total comprehensive loss for the period		**(1,491,494)**	**(3,831,706)**
Loss attributed to:			
Owners of the parent		(1,016,504)	(3,494,575)
Non-controlling interests		(9,617)	(84,233)
		(1,026,121)	**(3,578,808)**
Total comprehensive loss attributable to:			
Owners of the parent		(1,416,950)	(3,747,622)
Non-controlling interests		(74,544)	(84,084)
		(1,491,494)	**(3,831,706)**
Basic loss per share (cents per share)	7	(0.48)	(2.91)
Diluted loss per share (cents per share)	7	(0.48)	(2.91)

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

	Notes	Consolidated 31 December 2011 $	30 June 2011 $
Assets			
Current Assets			
Cash and cash equivalents		2,792,342	6,249,978
Trade and other receivables		112,561	168,228
Other assets		11,424	28,862
Total Current Assets		**2,916,327**	**6,447,068**
Non-Current Assets			
Other assets		6,721	-
Property, plant and equipment		14,312	4,158
Deferred exploration and evaluation expenditure	3	16,694,276	11,298,716
Production assets	4	1,316,878	1,294,480
Total Non-Current Assets		**18,032,187**	**12,597,354**
Total Assets		**20,948,514**	**19,044,422**
Liabilities			
Current Liabilities			
Trade and other payables		923,192	218,937
Exploration lease obligations	1	2,048,110	-
Total Current Liabilities		**2,971,302**	**218,937**
Non-Current Liabilities			
Provisions		167,919	18,873
Total Non-Current Liabilities		**167,919**	**18,873**
Total Liabilities		**3,139,221**	**237,810**
Net Assets		**17,809,293**	**18,806,612**
Equity			
Issued capital	5	24,233,475	24,233,475
Reserves	6	481,163	387,434
Accumulated losses		(7,357,229)	(6,340,725)
Equity attributable to owners of the parent		**17,357,409**	**18,280,184**
Non-controlling interest		451,884	526,428
Total Equity		**17,809,293**	**18,806,612**

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Consolidated						
	Issued Capital	Accumulated Losses	Option Reserve	Foreign Currency Reserve	Non-Controlling Interest Contribution Reserve	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2011	24,233,475	(6,340,725)	1,646,146	(604,530)	(654,182)	526,428	18,806,612
Loss for the period	-	(1,016,504)	-	-	-	(9,617)	(1,026,121)
Exchange differences on foreign currency translation	-	-	-	(400,446)	-	(64,927)	(465,373)
Total comprehensive loss for the period	-	(1,016,504)	-	(400,446)	-	(74,544)	(1,491,494)
Options issued during the half year	-	-	494,175	-	-	-	494,175
Balance at 31 December 2011	24,233,475	(7,357,229)	2,140,321	(1,004,976)	(654,182)	451,884	17,809,293
Balance at 1 July 2010	13,388,382	(1,878,212)	387,834	293,195	-	-	12,191,199
Loss for the period	-	(3,494,575)	-	-	-	(84,233)	(3,578,808)
Exchange differences on foreign currency translation	-	-	-	(253,047)	-	149	(252,898)
Total comprehensive loss for the period	-	(3,494,575)	-	(253,047)	-	(84,084)	(3,831,706)
Disposal of minority interest	-	-	-	-	(654,182)	654,182	-
Options issued during the half year	-	-	1,058,618	-	-	-	1,058,618
Transaction costs	-	-	(36,469)	-	-	-	(36,469)
Balance at 31 December 2010	13,388,382	(5,372,787)	1,409,983	40,148	(654,182)	570,098	9,381,642

The accompanying notes form part of these financial statements

CONDENSED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Consolidated	
	31 December 2011 $	31 December 2010 $
Cash flows from operating activities		
Receipts from sales	227,977	145,364
Payments to suppliers and employees	(554,660)	(919,264)
Interest received	103,719	19,254
Net cash (used in) operating activities	(222,964)	(754,646)
Cash flows from investing activities		
Payment for property, plant and equipment	(11,000)	-
Payments for production assets	-	(17,040)
Payments for exploration and evaluation expenditure	(3,185,671)	(3,875,844)
Payment for rental bond	(6,721)	-
Net cash (used in) investing activities	(3,203,392)	(3,892,884)
Cash flows from financing activities		
Proceeds from issue of options	-	922,425
Proceeds from borrowings	-	2,405,000
Payment for equity issue costs	-	(84,883)
Net cash provided by financing activities	-	3,242,542
Net decrease in cash and cash equivalents held	(3,426,356)	(1,404,988)
Cash and cash equivalents at 1 July	6,249,978	1,716,000
Foreign currency translation	(31,280)	(7,043)
Cash and cash equivalents at end 31 December	2,792,342	303,969

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

It is recommended that this financial report be read in conjunction with the financial report for the period ended 30 June 2011 and any public announcements made by Challenger Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2011 annual financial report for the financial period ended 30 June 2011.

Basis of Preparation

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

For the purpose of preparing the half-year report, the half-year has been treated as a discrete reporting period.

Significant Accounting Judgments, Estimates and Assumptions

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

Acquisition, exploration and evaluation costs

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

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

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2011.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards (continued)

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. 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 is necessary to Group accounting policies.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The net loss of the Group for the financial period amounted to $1,026,121 (2010: $3,578,808). Net assets as at 31 December 2011 were $17,809,293.

Despite the working capital deficiency of $54,975, in the opinion of the directors, it has been concluded that the going concern basis is the appropriate basis for preparing the financial statements based on the following key considerations:

- The directors expect that its major shareholders will continue to support fund raising as has been demonstrated in the past via share issues.
- Since balance date, $2.8m before costs has been raised from equity issues to fund operating activities, including drilling on the Mercury Stetson project in 2012 ($1.5m has been received on 7 February 2012 and $1.3m has been approved by shareholders on 9 March 2012 and is expected to be received in March 2012). Upon completion of the drilling of a test well in the Mercury Stetson project, the exploration lease liability of $2,048,110 to a third party will be satisfied and no longer payable.

NOTE 2: LOSS BEFORE INCOME TAX EXPENSE

	Consolidated	
	31 December 2011	31 December 2010
	$	$
The following revenue and expense items are relevant in explaining the financial performance for the half-year:		
(i) Interest revenue	82,917	19,254
(ii) Foreign exchange loss	(89,329)	(46,469)

NOTE 3: DEFFERED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	6 months to 31 December 2011	12 months to 30 June 2011
	$	$
Costs carried forward in respect of areas of interest in the following phases		
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	11,298,716	9,552,394
Expenditure incurred	5,830,443	5,475,421
Impairment expense	-	(2,684,148)
Sale of projects	-	(52,927)
Foreign exchange translation movement	(434,883)	(992,024)
Balance at end of reporting period	16,694,276	11,298,716

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 4: PRODUCTION ASSETS

	Consolidated	
	6 months to 31 December 2011 $	12 months to 30 June 2011 $
Production Assets – at net written down value		
Balance at beginning of reporting period	1,294,480	1,361,158
Expenditure incurred	74,401	31,755
Amortisation	(52,003)	(98,433)
Balance at end of reporting period	1,316,878	1,294,480

NOTE 5: ISSUED CAPITAL

	Consolidated	
	31 December 2011 $	30 June 2011 $
Ordinary shares		
214,021,002 Issued and fully paid ordinary shares	24,233,475	24,233,475

No movements in ordinary shares on issue occurred during the period.

NOTE 6: RESERVES

	Consolidated	
	31 December 2011 $	30 June 2011 $
Options reserve	2,140,321	1,646,146
Foreign exchange reserve	(1,004,976)	(604,530)
Non-controlling contribution reserve	(654,182)	(654,182)
	481,163	387,434

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 6: RESERVES (continued)

	Consolidated	
	6 months to 31 December 2011	12 months to 30 June 2011
	$	$
Movement in options reserves:		
At the beginning of the reporting period	1,646,146	387,834
Non-renounceable rights issue at $0.015	-	922,426
Share-based remuneration payments	494,175	334,950
Other equity settled payments	-	40,907
Issue costs	-	(39,971)
At the end of the reporting period	2,140,321	1,646,146

Options as at 31 December 2011 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	30 June 2012	$0.10	3,500,000
Listed	30 June 2012	$0.20	105,222,171
Unlisted	28 February 2013	$0.25	2,000,000
Unlisted	28 February 2015	$0.35	2,000,000
Unlisted	1 February 2014	$0.25	2,000,000
Unlisted	20 November 2014	$0.15	11,500,000
Unlisted	1 February 2015	$0.35	2,000,000
Unlisted	20 November 2016	$0.15	7,500,000
Total			135,722,171

NOTE 7: LOSS PER SHARE

	Consolidated	
	31 December 2011	31 December 2010
	$	$
(a) Loss used in the calculation of basic loss per share	(1,026,121)	(3,578,808)
	Number of Shares	
(b) Weighted average number of ordinary shares outstanding during the reporting period used in calculation of basic loss per share:	214,021,002	122,990,075

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 8: OPERATING SEGMENTS

Identification of reportable segments

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

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

Types of reportable segments

(i) *Australia*

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

(ii) *United States of America*

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

(iii) *South Africa*

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

Basis of accounting for purposes of reporting by geographical segments

Accounting policies adopted

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

Segment assets

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

Segment liabilities

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

Segment Information

By Geographical Region	USA	Australia	South Africa	Total
	$	$	$	$
(i) Segment performance				
Six months ended 31 December 2011				
Segment revenue	207,335	82,475	-	289,810
Segment result	86,090	(1,108,417)	(3,794)	(1,026,121)
Six months ended 31 December 2010				
Segment revenue	174,178	22,601	3	196,782
Segment result	(1,776,264)	(866,789)	(935,755)	(3,578,808)
(ii) Segment assets				
31 December 2011				
Segment assets	13,998,791	1,699,328	5,250,395	20,948,514
30 June 2011				
Segment assets	6,873,612	6,245,012	5,925,798	19,044,422

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2011

NOTE 9: CONTINGENT LIABILITIES

The directors are not aware of any significant contingent liabilities as at 31 December 2011.

NOTE 10: EVENTS SUBSEQUENT TO REPORTING DATE

On 7 February 2012, the Company announced the completion of a share placement of approximately $2.8m in two tranches. Tranche 1 consisted of 30 million shares at 5 cents per share (raising $1.5m before costs, completed on 7 February 2012). The Company intends placing approximately 26 million shares under tranche 2 at 5 cents ($1.3 million) pursuant to the placement arrangement and shareholder approval given on 9 March 2012.

On 9 March 2012, the Company held a shareholders' meeting, whereby shareholders approved the following resolutions:

1. Approval of prior issue of shares;
2. Approval to issue shares under placement;
3. Approval for a director (Mr Paul Bilston) to participate in the placement.

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

DIRECTORS' DECLARATION

The directors of the consolidated entity declare that:

1. The financial statements and notes thereto, as set out on pages 7 to 16, are in accordance with the Corporations Act 2001 including:
   a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
   b. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2011 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Paul Bilston
Managing Director

Dated this 14th day of March 2012

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Challenger Energy Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Challenger Energy Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2011, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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HLB Mann Judd

Accountants | Business and Financial Advisers

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the consolidated entity for the half-year ended 31 December 2011 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 review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glade

Perth, Western Australia
14 March 2012

N G NEILL
Partner