Fuelling the Future

Challenger Energy Ltd

Annual Report

for the financial year ended 30 June 2014

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CORPORATE DIRECTORY

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Michael Fry

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Robert Willes

NON-EXECUTIVE DIRECTOR
Bill Bloking

COMPANY SECRETARY
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DIRECTORS' REPORT

The Directors submit their financial report of the Group, consisting of Challenger Energy Limited ("the Company") and the entities it controlled during the period, for the financial year ended 30 June 2014:

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.

Robert Willes, BA (Hons) – Managing Director (Appointed 8 April 2013)
Mr Robert Willes has an honours degree in Geography from Durham University in the UK and has completed executive education programs at Harvard Business School in the USA and Cambridge University in the UK. Robert has held many senior roles in BP including the General Manager of the North West Shelf LNG Project and overall accountability for BP's interests in the Browse LNG and Greater Gorgon LNG Projects, and for business development activities in Asia Pacific. More recently, Robert was Chief Executive Officer of Eureka Energy Limited. He is a co-founder and director of Carbon Reduction Ventures Pty Ltd and a director of the Perth Centre for Photography Inc. (until December 2013). He is a Graduate of the Australian Institute of Company Directors and a member of the Association of International Petroleum Negotiators, and was formerly a director of the Australian Petroleum Production and Exploration Association (APPEA). He was appointed a Non-Executive director of Buru Energy Limited in July 2014.

Bill Bloking, B.Sc (Mech Eng, Summa cum Laude) FAICD – Non-Executive Director (Appointed 27 February 2014)
Mr Bill Bloking has more than 40 years of experience in the petroleum sector and has worked in the USA, Europe, South America, Australia and throughout Asia. Until his retirement from the corporate sector in 2007, Bill was President, Australia/Asia Gas for BHP Billiton Petroleum. Prior to joining BHP Billiton, he spent 24 years with ExxonMobil in a variety of technical and senior executive positions. Bill is currently the Managing Director of Gunson Resources Limited. Non-Executive Chairman of Nido Petroleum Limited, and he is a Non-Executive Director of the West Australian Symphony Orchestra. Bill was formerly the Managing Director of Eureka Energy Limited and Non-Executive Chairman of the National Offshore Petroleum Safety Authority Advisory Board, Norwest Energy NL, Cool Energy Limited, and Cullen Wines (Australia) Pty Ltd. He was also a Vice Chairman of the Australia China Business Council, a Governor of the American Chamber of Commerce in Australia, an Adjunct Professor at Murdoch University, and Non-Executive Director of the John Holland Group, Miclyn Express Offshore Limited, the Australian Petroleum Production and Exploration Association, the Victorian Energy Networks Corporation and Lions Eye Institute.

Paul Bilston, BE, PhD – Managing Director (until 8 April 2013), Non-Executive Director (since 8 April 2013) (Resigned 27 February 2014)

Directorships of other listed companies

Directorships of other listed companies in the last 3 years 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 9 October 2012
	Liberty Resources Limited	19 July 2005 to 10 April 2012
Robert Willes	Buru Energy Limited	2 July 2014 to date
Bill Bloking	Gunson Resources Limited	1 August 2013 to date
	KAL Energy Incorporated	Since 2007
	Nido Petroleum Limited	Since 2008
	Transerv Energy Limited	2011 to 2013
	Miclyn Express Offshore Limited	2010 to 2012
	Eureka Energy Limited	2012

DIRECTORS' REPORT (CONT'D)

COMPANY SECRETARY

Adrien Wing, CPA
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, CELO) and is incorporated and domiciled in Australia. Challenger Energy Limited and the entities it controlled during the period 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 organisation whose primary purpose is to secure, find, develop, produce and sell hydrocarbons.

There have been no other significant changes in the nature of those activities during the year.

OPERATING AND FINANCIAL REVIEW

HIGHLIGHTS

South Africa

- **Media coverage raises Challenger/Bundu profile, continues to highlight South African Government desire to progress shale gas exploration**
- **Momentum builds towards processing, approval of shale gas exploration right applications in South Africa**
  - **President Zuma returned to office in May 2014 elections**
  - **Positive statements in Presidential State of the Nation Addresses pre- and post-election**
  - **New Minister for Mineral Resources promotes review of Mineral and Petroleum Resources Development Amendment (MPRDA) Bill passed by Parliament in March – positive developments anticipated**
  - **Publication of the Technical Regulations anticipated following gazettal of draft and consultation in late 2013**
  - **Key policy documents support need to progress exploration**
  - **Eskom continues to suffer constraints and load-shedding**
- **Farm-out discussions continue pending exploration right award.**

Corporate

- **August 2013 capital-raise of $1 million completed via private placement**
- **Acquisition of 5% minority shareholding in Bundu Gas and Oil Exploration Proprietary Limited ("Bundu")**
- **Bill Bloking joins board as non-executive Director**
- **May 2014 $988,448 raised (before costs and expenses) via fully underwritten loyalty options issue**

South Africa

Throughout the year, Challenger and Bundu continued to build and reinforce key relationships, raising the profile with the governments of both South Africa and Australia. As an example, Challenger was invited to be the sole sponsor of the inauguration of the new Australia Business Chamber of Commerce in South Africa at an Australia Day event in Johannesburg on 27 January. The Australian High Commissioner and Austrade hosted the event, with the South African Minister of Mineral Resources, Susan Shabangu, as Guest of Honour and keynote speaker. This significantly raised

Challenger/Bundu's profile in South Africa, with follow-on media interest, including interviews with Robert Willes on CNBC Africa TV and with Creamer Media/Mining Weekly, MiningMX and Financial Mail.

Challenger and Bundu also continued to be involved in industry consultation regarding proposed amendments to key legislation, specifically the draft MPRDA Bill, with submissions made to the government's Mineral Resources Portfolio Committee in 2013. We understand that there is now growing appreciation of the importance of the nascent shale gas industry and its potential beneficial impact to the broader South African economy.

In the meantime, momentum continues to build towards the determination of applications for shale gas exploration.

On 10 October 2013, the South African Mineral Resources Minister announced that Cabinet had approved the gazetting of draft Technical Regulations on Petroleum Exploration and Exploitation. This announcement represented an important milestone in the South African Government's progress towards the award of exploration rights for shale gas exploration. Challenger engaged in industry consultation on the draft regulations via Bundu and the industry association, the Onshore Petroleum Association of South Africa (ONPASA). We look forward to the publication of the Technical Regulations in 2014.

Media coverage in the run-up to the elections in May 2014 highlighted the Government's desire to progress with exploration. The ANC's election manifesto stated:

> *"The pace of oil and gas exploration – including shale gas exploration – by the state and other players in the industry will be intensified as part of the country's effort to ensure national self-sufficiency and energy security while promoting environmental sustainability."*

At his State of the Nation Address in February 2014, President Zuma stated:

> *"The development of petroleum, especially shale gas, will be a game-changer for the Karoo region and the South African economy. Having evaluated the risks and opportunities, the final regulations will be released soon and will be followed by the processing and granting of licences."*

Further positive comments were attributed to the Minister of Finance in his budget speech on 26t February 2014. Also in February, the Minister of Mineral Resources issued a notice (notice 71 of 2014) providing that the moratorium on applications for reconnaissance permits, technical co-operation permits, exploration rights and production rights relating to shale gas in the Karoo region has been extended. However, the existing applications, received and accepted before 1 February 2011, are excluded from the moratorium. Bundu's application was submitted in 2010, placing it among a limited number that will be considered in the near term.

President Zuma was returned to government in the May 2014 election and continued to highlight the importance of exploration efforts progressing. Building on the theme in the ANC election manifesto and his February State of the Nation Address, the President stated in his June State of the Nation Address:

> *"…shale gas is recognised as a game changer for our economy. We will pursue the shale gas option within the framework of our good environmental laws."*

Post-election cabinet changes included the appointment of Ngoako Ramatlhodi as the new Minister for Mineral Resources. The MPRDA Bill was passed by Parliament in March 2014, and is now with the President for assent. Some of the proposed new terms had raised concern with the oil and gas industry, and we understand that Minister Ramatlhodi has asked the President not to sign the current bill until it can be properly reviewed. Potential outcomes of this may include either specific provisions for oil and gas or amendments to the legislation, or accompanying regulation.

Post the reporting period, the Minister is reported as stating in his address on the Budget Vote to the National Assembly on 15th July 2014 that:

> *"We sit at a crossroads in the history of resources development in our country. The potential of the upstream petroleum industry, both shale gas and increasingly offshore deep-water oil and gas, is profound, and if stewarded properly, has the potential to drive the development of our economy for all our people in a manner contrary to the historic injustice afflicted upon our people by the mining industry."*

And:

> *"With regard to the upstream petroleum industry, our policy position is to enable an investor-friendly environment whilst securing vital state interests. Any legislation or agreement, interim or long term, has to conform to this formula. In the event that the MPRDA amendments are referred back to Parliament, I intend to*

drive forward a full democratic process involving all stakeholders to develop this new foundation that underpins the profound potential for the upstream petroleum industry. In the event the Bill is assented to, I reiterate my commitment to a rigorous consultation on regulations.

"Hence, in the coming weeks we will launch a platform to debate draft regulations already developed, which may provide an interim solution to enable the significant investment required to take place while the long-term foundation is being laid. This interim solution has the benefit that it will afford us the opportunity to explore long-term and sustainable solutions that can then be incorporated into the overall process. The interim solution is critical now because it allows us to harness the opportunity to capture the scale of investment in this window of opportunity that is available to South Africa."

This is an encouraging development that should be positive for our industry, and which Challenger fully supports. Whilst the implication is that some time may be required to revisit the proposed amendments, Challenger believes that the potential benefits of clearer and more appropriate terms for the industry are likely to outweigh this. Additional time taken at this stage could well prove worthwhile in the medium- to long-term, setting the foundations for a new industry and saving time and money overall.

The publication of the Technical Regulations is also anticipated. It is not yet clear whether these will await potential changes to the legislation, or whether they may be finalised sooner, possibly allowing the regulator, PASA, to progress the processing and award of exploration rights.

Alongside the legislation, key policy instruments include the National Development Plan (NDP), Gas Utilisation Master Plan (GUMP), Integrated Energy Plan (IEP) and Integrated Resource Plan (IRP). The NDP indicates a need to enable exploration for coal seam and shale gas; incorporate a greater share of gas in South Africa's energy mix; lower carbon emissions; and ensure that 90 per cent of the population have grid access by 2030. The IRP highlights the planned introduction of gas-fired generation into the country's generation mix. This was published in 2011 and is in the process of being updated as a "living plan" to take into account subsequent developments in the energy sector, such as shale gas. The GUMP and IEP are being developed by the Department of Energy. The GUMP has yet to be published, but is intended to provide a framework for investment in gas-supporting infrastructure as well as outlining the role that gas could play in the electricity, transport, domestic, commercial and industrial sectors.

In the meantime, South Africa's national power grid continued to suffer constraints with State energy utility, Eskom, reportedly implementing load-shedding. Load-shedding status is communicated via schedules on Eskom's website, regular Power Alerts and Power Bulletin broadcasts on SABC TV and radio, the media and SMS to customers. Eskom has been increasingly reliant on diesel-fired generation as backup, reportedly doubling its spend on diesel over the prior year to R10.5bn in 2013/14. Post the reporting period, a further substantial bail-out package was announced for Eskom in September 2014, including a further equity injection and proposed tariff increases.

Challenger and Bundu continue to stay close to the evolving situation in South Africa, and the company continues to progress discussions on a potential farm-in with interested parties.

Background

The Karoo Basin, which extends across 600,000 km², is located in central and southern South Africa and contains organic rich shales of Permian age with combined thickness up to 5,000 feet. The focus for shale gas exploration is in the southern portion of the basin where the shales are at sufficient depth and where five wells, all pre-1970, intersected the shales with significant gas shows. One well, the Cranemere CR 1/68 well, flowed more than 8 MMcf/day of natural gas from the Fort Brown shale during testing over a 158 feet interval in 1968. The production was judged to be from fractures and secondary porosity in the shales. As first mover, Bundu selected its application area of approximately 1 million acres to be centred around this well.

The United States Energy Information Administration (EIA) updated its 2011 report on World Shale Gas Resources in June 2013. The EIA estimates that the Lower Permian Ecca Group shales in the Karoo Basin contain 1,559 Tcf of risked shale gas in-place, with 370 Tcf as the risked, technically recoverable shale gas resource.

To demonstrate the scale of the estimated resource, according to the US Department of Energy, 1 Tcf of natural gas is enough to heat 15 million homes for one year, generate 100 billion kilowatt hours of electricity, or fuel 12 million natural-gas-fired vehicles for one year. Significantly, the current EIA estimate excludes the thicker Upper Ecca shales on the basis that they have a lower reported total organic carbon content. These Upper Ecca shales include the Fort Brown shale from which gas flowed at the Cranemere CR 1/68 well.

The Karoo Basin has become the focus of intense interest in the past few years, following the initial application to explore for shale gas in the basin by Bundu (acquired by CEL in April 2010) in February 2009. A number of major international companies, including Shell, Chevron and Falcon Oil & Gas, are pursuing exploration rights.

The low economic growth rates and power crisis continue to provide strong motivation for the country's government to urgently pursue potential shale gas resources as a catalyst to transform the economy, underscored by recent announcements from Eskom of further constraints on large power users to avoid power blackouts.

As previously noted, Chevron Business Development South Africa Limited (Chevron) has announced an Agreement with Falcon Oil and Gas Ltd to jointly co-operate on unconventional gas opportunities in the Karoo Basin, with the result that Challenger, through Bundu, is the only junior company with interests in the basin alongside Shell and Chevron.

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The Company is assessing next steps following completion of plugging and abandonment of the well drilled in the permit during 1Q13.

Corporate

The Company issued an investor presentation and conducted a roadshow in July 2013. This was well received and successful in helping to raise the Company's profile in the investor community.

In August 2013 the Company completed a private placement to raise $1 million before associated costs to boost the Company's working capital as it progresses the permit application process in South Africa. The placement was taken up by a small number of existing shareholders, all of whom are sophisticated investors pursuant to Chapter 7 of the ASX Listing Rules.

A General Meeting was held on 22 August 2013 at which a number of resolutions were considered and passed, including the re-election of Mr Robert Willes as director, the adoption of various employee incentive schemes and the issue of retention shares and performance rights to Mr Willes.

The Annual General Meeting was held on 19 November 2013, at which a number of resolutions were considered and passed, including the adoption of the Remuneration Report and the re-election of Mr Paul Bilston as director.

In September 2013, one of the minority shareholders in Bundu made a proposal to sell his 5% interest. Pursuant to the agreements that govern Bundu, Challenger issued a notice of intent to exercise its pre-emption rights in regard to the proposed sale, and the share sale agreement was duly executed during the reporting period on 15 October 2013. This raised Challenger's interest in Bundu to 95%.

In February 2014, the Company announced the appointment of Bill Bloking as a non-executive Director, replacing Paul Bilston. Paul will continue to provide technical support to Challenger. Bill brings 40 years of experience in oil and gas, and has held senior positions with BHP Billiton Petroleum, Exxon and Esso. Among his current roles are Chairman of Nido Petroleum and Managing Director of Gunson Resources. He was also previously Chairman of Norwest Energy and Managing Director of Eureka Energy, prior to its acquisition by Aurora Oil and Gas.

In March 2014, the Company issued an investor presentation and conducted a roadshow. This was well received and successful in continuing to raise the Company's profile in the investor community and with the media in Australia.

In April 2014, the Company announced a loyalty options issue. The loyalty issue was a fully underwritten, non-renounceable entitlement issue under which eligible shareholders were offered one Option for every five Shares held at an issue price of $0.015 (1.5 cents) per Option, exercisable at $0.20 each and expiring 30 June 2016. The offer was fully underwritten by Novus Capital Limited.

The issue closed on 14 May 2014 and raised $988,448 before costs of the issue. Funds raised under the offer will go towards:

- funding the Company's continuing work in support of its subsidiary's application for the Exploration Right for the Cranemere Shale Gas Project in South Africa;
- developing further business opportunities relating to the project;
- working capital; and
- covering the expenses of the offer.

These funds provided a boost to working capital and represent a strong vote of confidence in Challenger's potential.

DIRECTORS' REPORT (CONT'D)

FINANCIAL RESULT

The operating result for the financial year ended 30 June 2014 for the Group attributable to owners of the parent was an after tax loss of $1,241,188 (2013: loss of $8,151,754). The prior year result included an impairment expense of $6,853,502 on exploration assets no longer considered active and a loss of $630,466 on the disposal of the Maricopa project in the United States.

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.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The Directors are not aware of any matters or circumstances that have arisen since 30 June 2014 which have 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 the Cranemere project in 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 that 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.

DIRECTORS' REPORT (CONT'D)

The Group is currently an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, Executive 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 market capitalisation and production and reserves growth can be used as measurements for assessing executive performance.

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 and they do not receive performance shares or options, however, to align Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

The Company share price volatility is a concern to the Board but is not considered abnormal for a junior oil & gas explorer 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.

KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors

Michael Fry – Non-Executive Chairman
Robert Willes – Managing Director *(appointed 8 April 2013)*
Bill Bloking – Non-Executive Director *(appointed 27 February 2014)*
Paul Bilston – Managing Director *(until 8 April 2013)*, Non-Executive Director *(since 8 April 2013) (resigned 27 February 2014)*
Michael Much – Executive Director *(resigned 8 April 2013)*

(ii) Executives

Adrien Wing – Company Secretary
David Woodley – Chief Operating Officer *(resigned 31 July 2012)*

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) below, no Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company 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' REPORT (CONT'D)

KEY MANAGEMENT PERSONNEL EMOLUMENTS (CONT'D)

The value of remuneration received by Key Management Personnel for the financial year ended 30 June 2014 is as follows:

	Primary		Equity Compensation	Post-employment			Performance Related %
2014	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Performance Rights / Shares $**	**Superannuation Contributions $**	**Termination Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Paul Bilston[1]	80,000	-	-	-	-	80,000	-
Robert Willes[2]	342,873	21,501	204,593	25,892	-	594,859	38.0
Bill Bloking[5]	20,000	-	-	-	-	20,000	-
Executives							
Adrien Wing	60,000	-	11,846	-	-	71,846	16.5
Total 2014	562,873	21,501	216,439	25,892	-	826,705	

	Primary		Equity Compensation	Post-employment			Performance Related %
2013	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Options $**	**Superannuation Contributions $**	**Termination Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Paul Bilston[1]	138,000	-	-	-	75,000	213,000	-
Robert Willes[2]	63,595	-	-	5,724	-	69,319	-
Michael Much[3]	40,693	-	-	-	-	40,693	-
Executives							
Adrien Wing	60,000	-	-	-	-	60,000	-
David Woodley[4]	22,936	-	-	2,064	-	25,000	-
Total 2013	385,224	-	-	7,788	75,000	468,012	

[1] Resigned 27 February 2014. Mr Bilston was entitled to a termination payment of 3 months salary following his retirement as Managing Director on 8 April 2013.

[2] Appointed 8 April 2013.

[3] Resigned 8 April 2013.

[4] Resigned 31 July 2012.

[5] Appointed 27 February 2014.

DIRECTORS' REPORT (CONT'D)

KEY MANAGEMENT PERSONNEL EMOLUMENTS (CONT'D)

(c) Compensation Options

No options were granted to Key Management Personnel of the Group during the year.

During the financial year ended 30 June 2012, the following options were granted:

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).

There were no alterations to the terms and conditions of options granted as remuneration since their grant date.

(d) Share, Option and Performance Rights holdings

The relevant interests held by each Director in shares, options and performance rights of the Company at the date of this report are as follows:

Directors	Number of Shares	Number of Options	Number of Performance Rights
Michael Fry	1,832,965	96,593	-
Robert Willes	1,333,334	266,667	16,000,000
Bill Bloking	-	424,495	-
	3,166,299	787,755	16,000,000

No shares were issued by the Company during or since the financial year ended 30 June 2014 as a result of the exercise of an option or performance rights.

Options and Performance Rights issued as Part of Remuneration

Options and Performance Rights may be issued to Key Management Personnel as part of their remuneration. The Options and Performance Rights are issued to increase goal congruence between executives, Executive Directors and shareholders. Options and Performance Rights are not issued to Non-Executive Directors.

Employment Contracts of Key Management Personnel

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 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 3 April 2013, the Group entered into an executive services agreement with Mr Robert Willes under which Mr Willes receives a salary package of $375,000 per annum inclusive of superannuation for Mr Willes' services as Managing Director of the Group. It is a term of his executive services agreement that he was paid $300,000 per annum inclusive of superannuation, with the remainder of his salary accruing and paid upon the Company successfully completing a capital raising of at least $1m (prior to the full expenses of the offer). A successful capital raising of $1m (prior to the full expenses of the offer) occurred on 7 August 2013. The agreement may be terminated by either party by providing 3 months written notice and, in the case of termination by the Company without reason, upon payment of three months salary. Further provisions apply in respect of any unissued Retention Shares and/or unvested Incentive Shares.

DIRECTORS' REPORT (CONT'D)

As part of his remuneration package, and as approved by shareholders at the EGM held 22 August 2013, Mr Willes will be issued 4,000,000 fully paid ordinary shares ("Retention Shares") in the Company in equal 6 monthly instalments of 666,667 Retention Shares for a period of 36 months. The issue of Retention Shares is conditional on Mr Willes remaining an employee of the Company as at the date the respective Retention Shares are issued.

Under an established Performance Rights Plan, Mr Willes has been issued 16,000,000 Performance Rights in the following tranches and subject to the following vesting conditions:

- Tranche 1 – 4,000,000 Performance Rights (fair value of $69,593 – refer to Note 13 for further details) vest on completion of 12 months continuous employment with the Company and the Company having or achieving a market capitalization of $100m or greater by no later than 7 April 2016.
- Tranche 2 – 4,000,000 Performance Rights (fair value of $1,707 – refer to Note 13 for further details) vest on completion of 24 months continuous employment with the Company and the Company having or achieving a market capitalization of $200m or greater by no later than 7 April 2018.
- Tranche 3 – 4,000,000 Performance Rights (fair value of $308,000 excluding the probability of meeting the performance conditions – refer to Note 13 for further details) vest on completion of 36 months continuous employment with the Company and the Company having or achieving a 3P resource in excess of 1TCF by no later than 7 April 2018.
- Tranche 4 – 4,000,000 Performance Rights (fair value of $308,000 excluding the probability of meeting the performance conditions – refer to Note 13 for further details) vest on completion of 36 months continuous employment with the Company and either the Company by no later than 7 April 2020:
    - announcing that its interests in the Karoo Basin, South Africa can be commercially developed; or
    - receiving an independent reserves certification containing proved reserves; or
    - having or achieving a market capitalization of $500m or greater.

Pursuant to an agreement announced on 27 February 2014, Mr Bill Bloking provides services to the Group as a non-executive Director. The terms of this agreement include remuneration payable of $60,000 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. A termination amount of $75,000 for 3 months salary is included in Mr Bilston's remuneration for the year ended 30 June 2013.

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. These options expired without being exercised.

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.

From 1 July 2012, Mr Much reduced his role from executive Director to a consulting arrangement at commercial rates. Mr Much was appointed as a Director on 19 October 2011 and resigned on 8 April 2013.

DIRECTORS' REPORT (CONT'D)

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)).

During the year, the Company issued 500,000 Performance Rights to the Company Secretary, Mr Adrien Wing. These Performance Rights are subject to the following vesting conditions:

- 50% of the Performance Rights Rights (fair value of $22,500 excluding the probability of meeting the performance conditions – refer to Note 13 for further details) vesting upon a farm-in agreement between the Company and a third party in respect of the Cranemere exploration area becoming unconditional; and
- 50% of the Performance Rights Rights (fair value of $22,500 excluding the probability of meeting the performance conditions – refer to Note 13 for further details) vesting upon the award by the South African Department of Mineral Resources and acceptance by the Company or its affiliate of an exploration right in respect of the Cranemere exploration area.

(e) Shares held by Key Management Personnel

	Balance at 1.7.13	Shares Issued	Balance at Retirement	Bought & (Sold)	Balance at 30.06.14
Directors					
Michael Fry	1,832,965	-	-	-	1,832,965
Robert Willes	-	1,333,334	-	-	1,333,334
Paul Bilston	5,840,549	-	(5,840,549)	-	-
Bill Bloking	-	-	-	-	-
Executives					
Adrien Wing	-	-	-	-	-
	8,152,998	1,333,334	(5,840,549)	-	3,166,299

(f) Options held by Key Management Personnel

	Balance at 1.7.13	Received as Remuneration	Options Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.14	Total Vested	Total Exercisable
Directors								
Michael Fry	-	-	-	96,593	-	96,593	96,593	96,593
Robert Willes	-	-	-	266,667	-	266,667	266,667	266,667
Paul Bilston	17,000,000	-	-	-	(17,000,000)	-	-	-
Bill Bloking	-	-	-	424,495	-	424,495	424,495	424,495
Executives								
Adrien Wing	-	-	-	933,889	-	933,889	933,889	933,889
	17,000,000	-	-	1,721,644	(17,000,000)	1,721,644	1,721,644	1,721,644

(g) Performance Rights held by Key Management Personnel

	Balance at 1.7.13	Received as Remuneration	Rights Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.14	Total Vested	Total Exercisable
Directors								
Michael Fry	-	-	-	-	-	-	-	-
Robert Willes	-	16,000,000	-	-	-	16,000,000	-	-
Paul Bilston	-	-	-	-	-	-	-	-
Bill Bloking	-	-	-	-	-	-	-	-
Executives								
Adrien Wing	-	500,000	-	-	-	500,000	-	-
	-	16,500,000	-	-	-	16,500,000	-	-

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:

	Full Board		Audit & Risk Committee		Remuneration & Nomination Committee	
Director	**Meetings Attended**	**Number Eligible to Attend**	**Meetings Attended**	**Number Eligible to Attend**	**Meetings Attended**	**Number Eligible to Attend**
Michael Fry	17	17	2	2	1	1
Robert Willes	17	17	2	2	1	1
Paul Bilston	12	12	1	1	-	-
Bill Bloking	5	5	1	1	1	1

OPTIONS

At the date of this report, 88,896,502 unlisted options over new ordinary shares in the Company were on issue, 65,896,502 of which were listed (ASX Code: CELO):

Type	Date of Expiry	Exercise Price	Number under Option
"Managing Director"	28 February 2015	$0.35	2,000,000
"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
Listed on ASX	30 June 2016	$0.20	65,896,502

Refer to the Remuneration Report for details on options issued subject to performance criteria. No ordinary shares were issued as a result of the exercise of options during or since the financial year ended 30 June 2014.

PERFORMANCE RIGHTS

Refer to note (d) in the Remuneration Report for details on 16,000,000 Performance Rights issued to Mr Willes under an established Performance Rights Plan approved by shareholders at the EGM on 22 August 2013.

DIRECTORS' REPORT (CONT'D)

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 $27,837 has been paid for cover period from 1 May 2014 to 30 April 2015. 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

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 audit of the financial report.

The lead auditor's independence declaration is set out on page 16 and forms part of the Directors' Report for the year ended 30 June 2014.

NON-AUDIT SERVICES

No non-audit services were provided by the auditors during the year ended 30 June 2014.

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

Robert Willes
Managing Director

26 September 2014

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Challenger Energy Limited for the year ended 30 June 2014, 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.

Perth, Western Australia	**W M Clark**
26 September 2014	**Partner**

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

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.	Yes
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;	Yes
	• 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.	 Yes Yes Yes
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 Group 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.

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 that 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 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 one executive Director and two non-executive Directors. 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. Mr Bill Bloking is currently also a non-executive Director, and considered independent. 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.

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

CORPORATE GOVERNANCE STATEMENT (CONT'D)

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 is working towards developing and adopting 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 and processes to include review of measurable diversity performance objectives for the Board and senior management.

The Diversity Policy will state 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 if applicable) 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 role of the audit committee includes:

- 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

The Company has adopted compliance procedures for ASX Listing Rule disclosure requirements. It has appointed the Company Secretary 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 Group during the year, changes in the state of affairs of the Group 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 Group 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 Securities Exchange. The half-yearly report is made available on the Company's website, and is sent to any shareholder who requests it

CORPORATE GOVERNANCE STATEMENT (CONT'D)

- 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 Group 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 Group'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 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 that 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 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.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
Other income	2	**114,079**	**88,845**
Depreciation expense		**(721)**	**(3,519)**
Consultants' fees		**(86,963)**	**(8,117)**
Legal and compliance		**(258,373)**	**(222,630)**
Administration and travel expenses		**(93,275)**	**(86,494)**
Occupancy expenses		**(113,806)**	**(92,003)**
Salaries, directors' fees and employee benefits	2	**(540,265)**	**(386,307)**
Share based remuneration		**(263,825)**	**-**
Foreign exchange gain/(loss)		**(3,692)**	**4,286**
Impairment of plant and equipment		**-**	**(6,389)**
Impairment of deferred exploration and evaluation expenditure		**-**	**(6,853,502)**
Loss before income tax	3	**(1,246,841)**	**(7,565,830)**
Income tax expense	3	**-**	**-**
Net loss from continuing operations		**(1,246,841)**	**(7,565,830)**
Loss from discontinued operations	25	**-**	**(592,272)**
Net loss for the year		**(1,246,841)**	**(8,158,102)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(448,309)**	**(385,410)**
Income tax on other comprehensive loss		**-**	**-**
Other comprehensive loss for the year		**(448,309)**	**(385,410)**
Total comprehensive loss for the year		**(1,695,150)**	**(8,543,512)**
Loss attributable to:			
Owners of the parent		**(1,241,188)**	**(8,151,754)**
Non-controlling interests		**(5,653)**	**(6,348)**
		(1,246,841)	**(8,158,102)**
Total comprehensive loss attributable to:			
Owners of the parent		**(1,662,763)**	**(8,506,717)**
Non-controlling interests		**(32,387)**	**(36,795)**
		(1,695,150)	**(8,543,512)**
Earnings per share			
Basic loss per share (cents)	17	**(0.38)**	**(2.62)**
Diluted loss per share (cents)	17	**(0.38)**	**(2.62)**
Earnings per share - continuing operations			
Basic loss per share (cents)	17	**(0.38)**	**(2.43)**
Diluted loss per share (cents)	17	**(0.38)**	**(2.43)**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
CURRENT ASSETS			
Cash and cash equivalents	4	**761,322**	**281,945**
Trade and other receivables	5	**50,349**	**56,295**
Other financial assets – term deposit		**30,612**	**30,000**
Prepayments		**23,153**	**25,669**
TOTAL CURRENT ASSETS		**865,436**	**393,909**
NON-CURRENT ASSETS			
Trade and other receivables	5	**13,442**	**13,442**
Plant and equipment	6	**69**	**790**
Deferred exploration and evaluation expenditure	7	**4,590,087**	**4,855,330**
TOTAL NON-CURRENT ASSETS		**4,603,598**	**4,869,562**
TOTAL ASSETS		**5,469,034**	**5,263,471**
CURRENT LIABILITIES			
Trade and other payables	9	**184,424**	**217,070**
TOTAL CURRENT LIABILITIES		**184,424**	**217,070**
NON-CURRENT LIABILITIES			
Trade and other payables	9	**8,961**	**8,961**
TOTAL NON-CURRENT LIABILITIES		**8,961**	**8,961**
TOTAL LIABILITIES		**193,385**	**226,031**
NET ASSETS		**5,275,649**	**5,037,440**
EQUITY			
Issued capital	11	**29,603,357**	**28,552,678**
Reserves	14	**612,482**	**(40,586)**
Accumulated losses		**(25,119,151)**	**(23,877,963)**
Equity attributable to owners of the parent		**5,096,688**	**4,634,129**
Non-controlling interest		**178,961**	**403,311**
TOTAL EQUITY		**5,275,649**	**5,037,440**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

Consolidated 2014	**Reserves**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2013	(40,586)	28,552,678	(23,877,963)	403,311	5,037,440
Loss for the year	-	-	(1,241,188)	(5,653)	(1,246,841)
Exchange differences on foreign currency translation	(421,575)	-	-	(26,734)	(448,309)
Total comprehensive loss for the year	(421,575)	-	(1,241,188)	(32,387)	(1,695,150)
Equity issued	988,448	1,000,000	-	-	1,988,448
Capital raising costs	(117,547)	(51,988)	-	-	(169,535)
Purchase of minority interest	42,584	-	-	(191,963)	(149,379)
Share based remuneration	161,158	102,667	-	-	263,825
Balance at 30 June 2014	612,482	29,603,357	(25,119,151)	178,961	5,275,649

Consolidated 2013	**Reserves**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2012	314,377	28,552,678	(15,726,209)	440,106	13,580,952
Loss for the year	-	-	(8,151,754)	(6,348)	(8,158,102)
Exchange differences on foreign currency translation	(354,963)	-	-	(30,447)	(385,410)
Total comprehensive loss for the year	(354,963)	-	(8,151,754)	(36,795)	(8,543,512)
Balance at 30 June 2013	(40,586)	28,552,678	(23,877,963)	403,311	5,037,440

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Note	Consolidated 2014 $	Consolidated 2013 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		100,846	291,335
Payments to suppliers and employees		(1,194,486)	(913,693)
Interest received		10,307	6,007
Interest paid		(1,238)	-
NET CASH USED IN OPERATING ACTIVITIES	4(b)	(1,084,571)	(616,351)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of Maricopa project		-	536,548
Payments for exploration activities		(156,093)	(333,347)
Purchase of minority interest in controlled entity		(149,379)	-
Payments for deposits		(612)	(30,000)
Proceeds from deposits received		27,335	240,740
NET CASH PROVIDED (USED IN)/BY INVESTING ACTIVITIES		(278,749)	413,941
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		1,826,012	-
Proceeds from borrowings		162,436	-
Transaction costs on issue of shares and options		(144,879)	(30,800)
NET CASH PROVIDED BY/(USED IN) FINANCING ACTIVITIES		1,843,569	(30,800)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		480,249	(233,210)
Cash and cash equivalents at beginning of the year		281,945	515,493
Foreign currency translation		(872)	(338)
CASH AND CASH EQUIVALENTS AT END OF YEAR	4(a)	761,322	281,945

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 Group has operations in South Africa and the United States.

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 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 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).

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.

(b) Adoption of new and revised standards

In the year ended 30 June 2014, the Directors have adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2014. 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 the Group and, therefore, no change is necessary to the Group's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

(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.

All intercompany balances and transactions, income and expenses, and profits and losses from intra-group transactions 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.

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 profit or loss and other 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 profit or loss and other 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

(d) Income Tax (cont'd)

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.

(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 as an asset 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 of interest have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortised of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

(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, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. 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 liabilities 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 consists of cash and cash equivalents as defined above, net of bank overdrafts.

(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 that 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

(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 income and expenses 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 ("EPS")

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, 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 profit or loss attributable to members of the parent, 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 2014

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 profit or loss and other 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 profit or loss and other 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) 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 3 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 2014

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

(q) 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 profit or loss and other 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.

(r) 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 2014

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

(s) 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 Executive 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. 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, measured at the modification date.

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.

(t) 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 profit or loss and other 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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2014

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

(u) 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.

(v) 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 and expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis.

Revisions are recognised 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.

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 13.

(w) 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 $1,246,841 (2013: $8,158,102). Net assets as at 30 June 2014 were $5,275,649 (2013: $5,037,440) and net current assets were $681,012 (2013: $176,839).

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 that 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 2014, the Group had cash and cash equivalents of $761,322 (2013: $281,945); and
- 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 and option issues.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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

(w) 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 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.

(x) Parent Entity Financial Information

The financial information for the parent entity, Challenger Energy Limited, disclosed in note 24 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.

(y) Non-Current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss and other comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated 2014 $	Consolidated 2013 $
2. REVENUES AND EXPENSES		
Other income		
Rental income	**103,772**	**82,009**
Interest received	**10,307**	**6,836**
	114,079	**88,845**
Employee benefit expense includes:		
Salary and wages	**514,373**	**378,519**
Superannuation contributions	**25,892**	**7,788**
	540,265	**386,307**

3. INCOME TAX

The prima facie tax benefit on loss before income tax is reconciled to the income tax expense as follows:		
Net loss before income tax from continuing operations	**(1,246,841)**	**(7,565,830)**
(Loss)/profit before income tax from discontinued operations	**-**	**(592,272)**
Net loss before income tax	**(1,246,841)**	**(8,158,102)**
Prima facie tax benefit on loss before income tax at 30% (2013: 30%)	**(374,052)**	**(2,447,431)**
Add:		
- Revenue losses not recognised	**370,586**	**2,515,119**
- Share based payments	**79,148**	**-**
- Other non-allowable items	**-**	**1,558**
Less:		
- Black hole expenditure deductions	**(75,682)**	**(69,246)**
Income tax expense	**-**	**-**

The following deferred tax balances have not been recognised:

Deferred tax assets (at 30%):		
Carry forward revenue losses	**1,755,899**	**1,293,224**
Capital raising costs	**109,470**	**134,292**
Provisions, accruals and prepayments	**7,770**	**(272)**
	1,873,139	**1,427,244**

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

4. CASH AND CASH EQUIVALENTS

	Consolidated 2014 $	Consolidated 2013 $
(a) Reconciliation of cash:		
Cash balances comprises		
- Cash at bank	**732,115**	**248,965**
- US Dollar accounts	**24,726**	**28,045**
- ZAR account	**4,481**	**4,935**
	761,322	**281,945**

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 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:

	2014	2013
Net loss	**(1,246,841)**	**(8,158,102)**
Non cash items:		
Depreciation and impairment of property, plant and equipment	**721**	**9,908**
Share based payments	**263,825**	**-**
Foreign exchange loss/(gain)	**3,692**	**(4,286)**
Impairment of deferred exploration and evaluation expenditure	**-**	**6,853,502**
Amortisation	**-**	**54,009**
Loss on sale of assets	**-**	**630,466**
Changes in assets and liabilities		
(Increase)/Decrease in receivables and prepayments	**(18,873)**	**33,720**
(Decrease)/Increase in payables and accruals	**(87,095)**	**127,124**
Decrease in provisions	**-**	**(162,692)**
Net cash flows used in from operating activities	**(1,084,571)**	**(616,351)**

(c) Non cash financing and investing activities:
During the year, $162,436 of short-term borrowings was satisfied as part of the options rights issue in Note 14. The remainder of the options rights issue of $826,012 proceeds was received in cash.

5. TRADE & OTHER RECEIVABLES

	Consolidated 2014 $	Consolidated 2013 $
Current		
Other receivables	**50,349**	**56,295**
Non Current		
Deposits paid	**13,442**	**13,442**

Terms and conditions relating to the above financial instruments:
Other receivables are non-interest bearing and generally settled within 60 days.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

	Consolidated 2014 $	Consolidated 2013 $
6. PLANT AND EQUIPMENT		
Computer Equipment		
At cost	**2,292**	**2,292**
Accumulated depreciation	**(2,223)**	**(1,502)**
	69	**790**
Leasehold Improvements		
At cost	**10,000**	**10,000**
Accumulated depreciation	**(10,000)**	**(10,000)**
	-	**-**
	69	**790**
Movement in carrying amounts		
Computer Equipment		
Opening balance	**790**	**3,145**
Additions	**-**	**-**
Disposals	**-**	**(503)**
Depreciation	**(721)**	**(1,852)**
Closing balance	**69**	**790**
Leasehold Improvements		
Opening balance	**-**	**8,055**
Additions	**-**	**-**
Disposals	**-**	**-**
Depreciation and impairment	**-**	**(8,055)**
Closing balance	**-**	**-**
7. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation phases	**4,590,087**	**4,855,330**
Movement in carrying amounts		
Opening balance	**4,855,330**	**12,104,477**
Expenditure incurred during the period	**185,886**	**112,400**
Drilling costs refunded	**-**	**(96,002)**
Rehabilitation costs	**-**	**(34,136)**
Impairment and write-offs (i)	**-**	**(6,853,502)**
Foreign exchange translation movement	**(451,129)**	**(377,907)**
Closing balance	**4,590,087**	**4,855,330**

(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 2014

		Consolidated 2014 $	Consolidated 2013 $
8.	**PRODUCTION ASSETS**		
	Production Phase	**-**	**-**
	Movement in carrying amounts		
	Opening balance	**-**	**1,290,676**
	Amortisation	**-**	**(54,009)**
	Sale of Maricopa project	**-**	**(1,236,667)**
	Closing balance	**-**	**-**
9.	**TRADE & OTHER PAYABLES**		
	Current		
	Trade creditors (a)	**44,015**	**50,827**
	Other creditors and accruals	**140,409**	**166,243**
		184,424	**217,070**

(a) Terms and conditions

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

	Non-Current		
	Rental deposits	**8,961**	**8,961**
10.	**PROVISIONS**		
	Non-current		
	Restoration Costs		
	Balance at beginning of period	**-**	**266,481**
	Additions/(reversal)	**-**	**(34,136)**
	Sale of Maricopa project	**-**	**(69,653)**
	Expenditure	**-**	**(162,692)**
	Balance at end of period	**-**	**-**

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 2014

11. ISSUED CAPITAL

	Consolidated 2014 $	Consolidated 2013 $
Issued and paid up capital		
329,482,541 (2013: 311,482,540) Ordinary shares	**30,474,258**	**28,552,678**

(a) Movements in issued equity

At the beginning of the reporting period	**28,552,678**	**28,552,678**
Equity issued during the period:		
- Placement at $0.06	**1,000,000**	**-**
- Managing Director Retention Shares (i)	**102,667**	**-**
- Equity issue costs	**(51,988)**	**-**
At end of reporting period	**29,603,357**	**28,552,678**

	Number of Shares	Number of Shares
At the beginning of the reporting period	**311,482,540**	**311,482,540**
Shares issued during the period:		
- Placement at $0.06	**16,666,667**	**-**
- Managing Director Retention Shares (i)	**1,333,334**	**-**
At end of reporting period	329,482,541	311,482,540

(i) As part of his remuneration package, and as approved by shareholders at the EGM held 22 August 2013, Mr Willes will be issued 4,000,000 fully paid ordinary shares ("Retention Shares") in the Company in equal 6 monthly instalments of 666,667 Retention Shares for a period of 36 months. The issue of Retention Shares is conditional on Mr Willes remaining an employee of the Company as at the date the respective Retention Shares are issued.

(b) Terms and Conditions

Ordinary shares entitle their holder the right to receive dividends as declared and, in the event of the winding up of the Company, 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.

12. OPTIONS

At the end of the reporting year, there are 88,896,502 options over unissued shares (65,896,502 of which were listed (ASX Code: CELO) as follows:

Type	Date of Expiry	Exercise Price	Number under Option
"Managing Director"	28 February 2015	$0.35	2,000,000
"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
Listed on ASX	30 June 2016	$0.20	65,896,502

Further details of the terms and conditions of the unlisted options are provided in the Remuneration Report. During the financial year ended 30 June 2014, no ordinary shares were issued as a result of the exercise of options.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2014

13. PERFORMANCE RIGHTS

Under an established Performance Rights Plan, Mr Willes has been issued 16,000,000 Performance Rights in the following tranches and subject to the following vesting conditions:

- Tranche 1 – 4,000,000 Performance Rights vest on completion of 12 months continuous employment with the Company and the Company having or achieving a market capitalisation of $100m or greater by no later than 7 April 2016.
- Tranche 2 – 4,000,000 Performance Rights vest on completion of 24 months continuous employment with the Company and the Company having or achieving a market capitalisation of $200m or greater by no later than 7 April 2018.
- Tranche 3 – 4,000,000 Performance Rights vest on completion of 36 months continuous employment with the Company and the Company having or achieving a 3P resource in excess of 1TCF by no later than 7 April 2018.
- Tranche 4 – 4,000,000 Performance Rights vest on completion of 36 months continuous employment with the Company and either the Company by no later than 7 April 2020:
    - announcing that its interests in the Karoo Basin, South Africa can be commercially developed; or
    - receiving an independent reserves certification containing proved reserves; or
    - having or achieving a market capitalisation of $500m or greater.

During the period, the Company issued 2,000,000 Performance Rights to a consultant and 500,000 performance rights to the Company Secretary. These Performance Rights are subject to the following vesting conditions:

- 50% of the Performance Rights vesting upon a farm-in agreement between the Company and a third party in respect of the Cranemere exploration area becoming unconditional; and
- 50% of the Performance Rights vesting upon the award by the South African Department of Mineral Resources and acceptance by the Company or its affiliate of an exploration right in respect of the Cranemere exploration area.

Summary of Performance Rights as at 30 June 2014 over Ordinary Shares:

Type	*Expiry Date*	*Vesting Period*	*Number*	*Probability*	*Fair Value*	*Expensed*
Tranche 1	7 April 2016	1 year	4,000,000	5.7%	69,593	59,488
Tranche 2	7 April 2018	2 years	4,000,000	0.1%	1,707	729
Tranche 3	7 April 2018	3 years	4,000,000	* n/a	308,000	2,844
Tranche 4	7 April 2020	3 years	4,000,000	* n/a	308,000	2,844
Other	20 June 2015	nil	2,500,000	* n/a	225,000	59,232
Total			18,500,000		912,300	125,137

The fair value of the performance rights granted was estimated at the date of the grant using the market value at that date, the probability of the relevant market conditions being met and the length of the expiry period.

* The probability of the relevant non-market conditions being met is ignored for assessing fair value.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

14. RESERVES

	Consolidated 2014 $	Consolidated 2013 $
(a) Share based payments reserve	2,301,479	2,140,321
(b) Foreign currency translation reserve	(1,948,300)	(1,526,725)
(c) Non-controlling contribution reserve	(611,598)	(654,182)
(d) Options reserve	870,901	-
	612,482	(40,586)
(a) Share based payments reserve		
At beginning of reporting period	2,140,321	2,140,321
Share based remuneration payments	161,158	-
Balance at end of reporting period	2,301,479	2,140,321
(b) Foreign currency translation reserve		
At beginning of reporting period	(1,526,725)	(1,171,762)
Foreign currency translation reserve movement	(421,575)	(354,963)
Balance at end of reporting period	(1,948,300)	(1,526,725)
(c) Non-controlling contribution reserve		
At beginning of reporting period	(654,182)	(654,182)
Purchase of minority interest	42,584	-
Balance at end of reporting period	(611,598)	(654,182)
(d) Options reserve		
At beginning of reporting period	-	-
Options rights issue at $0.015	988,448	-
Options issue costs	(117,547)	-
Balance at end of reporting period	870,901	-

i) Share based payments reserve is used to record the value of equity benefits provided to the Directors and consultants as part of their remuneration or services provided.

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 the effect of transactions with non-controlling interests where there is no loss of control by the Group.

iv) Options reserve is used to record the proceeds of issued share options.

15. KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Details of Key Management Personnel

(i) Directors
Robert Willes – Managing Director
Michael Fry – Non-Executive Chairman
Bill Bloking –Non-Executive Director *(appointed 27 February 2014)*
Paul Bilston – Managing Director *(until 8 April 2013),* Non-Executive Director *(resigned 27 February 2014)*

(ii) Executives
Adrien Wing – Company Secretary

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

(b) Compensation of Key Management Personnel

The aggregate compensation paid to Directors and other members of key management personnel is out below:

	Consolidated	**Consolidated**
	2014	**2013**
	$	**$**
Short-term employee benefits	**584,374**	**385,224**
Post-employment benefits	**25,892**	**7,788**
Termination benefits	**-**	**75,000**
Share-based payments	**216,439**	**-**
	826,705	**468,012**

Further details of key management personnel remuneration have been included in the Remuneration Report section of the Directors' Report.

(c) Other Transactions with Key Management Personnel

(i) Performance Rights – during the year ended 30 June 2014, Mr R Willes and Mr A Wing were granted 16,000,000 and 500,000 Performance Rights, respectively. Refer to Note 13. A share-based payment expense of $77,754 has been included in Key Management Personnel Compensation.

(ii) Retention Shares – during the year ended 30 June 2014 the Company agreed to issue Mr R Willes 4,000,000 fully paid ordinary shares in the Company in equal 6 monthly instalments of 666,667 shares. During the year 1,333,334 were issued under the agreement. Refer to Note 11. A share-based payment expense of $138,685 has been included in Key Management Personnel Compensation.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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
South Africa ("SA") is the location of exploration licence interests under application.

The following tables present revenue and result information and certain asset and liability information regarding business segments for the years ended 30 June 2014 and 30 June 2013.

	Discontinued Operations $	USA $	SA $	Australia $	Total $
Year ended 30 June 2014					
Total segment revenue	-	-	-	114,079	114,079
Segment net loss before tax	-	(4,504)	(2,815)	(1,239,522)	(1,246,841)
Amounts included in segment result:					
Depreciation and amortisation	-	-	-	721	721
Year ended 30 June 2013					
Total segment revenue	187,077	-	-	88,845	275,922
Segment net loss before tax	(592,272)	(6,866,706)	(4,723)	(694,401)	(8,158,102)
Amounts included in segment result:					
Depreciation and amortisation	54,009	-	-	3,519	57,528

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

16. SEGMENT INFORMATION (CONT'D)

	Discontinued Operations $	USA $	SA $	Australia $	Total $
30 June 2014					
Segment assets	-	-	4,594,568	874,466	5,469,034
30 June 2013					
Segment assets	-	-	4,860,266	403,205	5,263,471
30 June 2014					
Segment liabilities	-	-	29,792	163,593	193,385
30 June 2013					
Segment liabilities	-	-	-	226,031	226,031

17. LOSS PER SHARE

		Consolidated 2014 $	Consolidated 2013 $
The following reflects the loss and share data used in the calculation of basic and diluted loss per share:			
Loss used in calculation of basic and diluted loss per share from continuing operations		**(1,241,188)**	**(7,559,482)**
Net (loss)/profit from discontinued operations		**-**	**(592,272)**
Loss used in calculation of basic and diluted loss per share		**(1,241,188)**	**(8,151,754)**
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted EPS	(i)	**326,554,687**	**311,482,540**

(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 2014.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

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 the Group	
		2014	2013
Sunset Energy LLC	USA	100%	100%
Bundu Oil & Gas Exploration (Pty) Ltd	South Africa	95%	90%
Sunset Texas LLC	USA	100%	100%
Challenger Texas Energy LLC	USA	100%	100%
Challenger Texas Energy Operating LLC	USA	100%	100%

In September 2013, one of the minority shareholders in Bundu Gas and Oil Exploration (Pty) Ltd ("Bundu"), a subsidiary of the Group, made a proposal to sell their 5% interest. Pursuant to the agreements that govern Bundu, Challenger Energy issued a notice of intent to exercise its pre-emption rights in regard to the proposed purchase and the agreement was duly executed on 15th October 2013 at an acquisition cost of $149,379. This acquisition increased Challenger's interest in Bundu from 90% to 95%.

20. AUDITORS' REMUNERATION

	Consolidated 2014 $	Consolidated 2013 $
Amounts received or due and receivable by:		
- HLB Mann Judd - audit or review of the financial reports of the Company	36,000	31,000

21. FINANCIAL INSTRUMENTS

(a) Financial risk management and risk policies

The Group's principal financial instruments comprise of 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 2014

21. FINANCIAL INSTRUMENTS (CONT'D)

2014

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**50,349**	**-**	**-**	**13,442**	**63,791**
Variable interest rates instruments	**761,322**	**30,612**	**-**	**-**	**791,934**
	811,671	**30,612**	**-**	**13,442**	**855,725**
FINANCIAL LIABILITIES					
Non-interest bearing	**(184,424)**	**-**	**-**	**(8,961)**	**(193,385)**
NET FINANCIAL ASSETS	**627,247**	**30,612**	**-**	**4,481**	**662,340**

2013

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**56,295**	**-**	**-**	**13,442**	**69,737**
Variable interest rates instruments	**281,945**	**30,000**	**-**	**-**	**311,945**
	338,240	**30,000**	**-**	**13,442**	**381,682**
FINANCIAL LIABILITIES					
Non-interest bearing	**(217,070)**	**-**	**-**	**(8,961)**	**(226,031)**
NET FINANCIAL ASSETS	**121,170**	**30,000**	**-**	**4,481**	**155,651**

(i) Interest Rate Sensitivity Analysis

At reporting date, if interest rates had been 50 basis points 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 2014

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 2014 is $63,791 (2013: $69,737). There are no impaired receivables at 30 June 2014.

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 is 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 not exposed to any individual customer.

(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. The Group does not have any bank debt.

(g) Foreign exchange risk management

The Group's exposure to exchange rate fluctuation is minimal.

The carrying amounts of US denominated financial instruments are:

	2014	2013
FINANCIAL INSTRUMENTS	**A $**	**A $**
Cash and cash equivalent	24,726	28,045
Trade debtors and other receivables	-	27,335
Trade creditors and other payables	-	18,571

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 2014, 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 its 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 2014

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 employee 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 Key Management Personnel are included in the Remuneration Report.

24. PARENT ENTITY DISCLOSURES

Financial position	**2014** **$**	**2013** **$**
Assets		
Current assets	**853,842**	**348,753**
Non-current assets	**4,585,400**	**4,910,315**
Total assets	**5,439,242**	**5,259,068**
Liabilities		
Current liabilities	**154,632**	**212,667**
Non-current liabilities	**8,961**	**8,961**
Total liabilities	**163,593**	**221,628**
Net Assets	**5,275,649**	**5,037,440**
Equity		
Issued capital	**29,603,357**	**28,552,678**
Accumulated losses	**(27,500,088)**	**(25,655,559)**
Reserves	**3,172,380**	**2,140,321**
Total equity	**5,275,649**	**5,037,440**

Financial performance

	2014 **$**	**2013** **$**
Loss for the year	**(1,844,529)**	**(8,543,512)**
Other comprehensive income	**-**	**-**
Total comprehensive loss	**(1,844,529)**	**(8,543,512)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

25. DISCONTINUED OPERATIONS

On 31 January 2013, the Company completed the sale of its Maricopa project in the United States. Details in relation to this discontinued operation are disclosed below:

	2014 $	2013 $
Oil sales	-	187,077
Production costs	-	(94,874)
Amortisation	-	(54,009)
Profit before tax	-	38,194
Income tax expense	-	-
Profit after tax	-	38,194
Loss on disposal before income tax	-	(630,466)
Income tax expense	-	-
Loss on disposal after income tax	-	(630,466)
Loss after income tax from discontinued operations	-	(592,272)
Cash flow information		
Net cash outflow from operating activities	-	112,687
Net cash used in investing activities	-	536,548
Net increase in cash and cash equivalents from discontinued operations	-	649,235
Carrying amount upon disposal		
Production assets	-	1,236,667
Restoration provision	-	(69,653)
Net assets	-	1,167,014
Details of the disposal		
Sale consideration	-	580,272
Carrying amount of net assets sold	-	(1,167,014)
Disposal costs	-	(43,724)
Loss on disposal before income tax	-	(630,466)
Income tax expense	-	-
Loss on disposal after income tax	-	(630,466)

26. SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances that has arisen since 30 June 2014 which have 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.

27. COMMITMENTS FOR EXPENDITURE

The Group has entered into an office premises lease in Melbourne, Victoria that is currently sub-let to other tenants. This lease has a 3-year term expiring 31 October 2014. Future minimum rentals payable are as follows:

	Consolidated 2014 $	2013 $
Within one year	26,435	78,286
After one year but not more than five years	-	26,435
More than five years	-	-
	26,435	104,721

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 Group's financial position as at 30 June 2014 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 2014.

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

Mr Robert Willes
Managing Director

26 September 2014

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 2014, the consolidated statement of profit or loss and other 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 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 company'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 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

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 2014 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).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2014. 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 2014 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

WMClark

W M Clark
Partner

Perth, Western Australia
26 September 2014

ADDITIONAL SHAREHOLDERS' 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 8 September 2014:

Shareholder	Number
LQ Super Pty Ltd	40,138,093
Pitt Street Absolute Return Fund	21,160,000

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
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 1,133 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are a total of 23,000,000 unlisted options on issue. Each shareholder is entitled to one vote per share held upon exercise.

There are a total of 65,896,502 listed 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.

4. *Distribution schedule of the number of holders in each class of equity security as at 8 September 2014.*

Distribution	Holders of Ordinary Shares	Holders of Options
1-1,000	38	6
1,001 - 5,000	61	53
5,001 – 10,000	125	45
10,001 - 100,000	502	204
100,001 and over	407	81
TOTALS	1,133	389

5. Marketable Parcel

There are 104 shareholders with less than a marketable parcel.

ADDITIONAL SHAREHOLDERS' INFORMATION (CONT'D)

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 8 September 2014) is as follows:

Ordinary Shares

Name	No. of Ordinary Shares	%
LQ Super Pty Ltd	26,999,631	8.19%
Brown Warren W + M H	16,101,721	4.89%
LQ Super Pty Ltd	11,241,113	3.41%
Mining Inv Ltd	11,000,000	3.34%
Pitt Street Absolute Return Fund	9,895,000	3.00%
Sanperez Ltd	9,794,186	2.97%
Rodwell Peter Kelvin	6,633,333	2.01%
BNP Paribas Noms PL	6,301,000	1.91%
Citicorp Nom Pty Ltd	5,090,959	1.55%
Sawfam PL	5,000,000	1.52%
Jacqueline Kay Pty Ltd	4,169,231	1.27%
Koekoek Lucas James	4,000,000	1.21%
Horwitz Bridget Kim	3,512,256	1.07%
Q Supa Pty Ltd	3,333,333	1.01%
Carey D G & Carey-Domingu	2,900,000	0.88%
Moneybung Pty Ltd	2,800,000	0.85%
Knauer Fam Super PL	2,635,000	0.80%
Cain Gay Vivian	2,603,125	0.79%
Hall Amanda Jean	2,580,000	0.78%
Tamlib Inv PL	2,556,170	0.78%
Total	**139,146,058**	**42.23%**

Options Expiring 30 June 2016

Name	No. of Options	%
LQ Super Pty Ltd	10,597,556	16.08%
Mining Inv Ltd	6,020,456	9.14%
Pitt Street Absolute Return Fund	2,890,220	4.39%
Brown Warren W + M H	2,582,517	3.92%
LQ Super Pty Ltd	2,248,223	3.41%
Sanperez Ltd	1,958,838	2.97%
Knauer Fam Super PL	1,527,000	2.32%
Saber Ltd	1,500,000	2.28%
Powertank PL	1,461,238	2.22%
Rodwell Peter Kelvin	1,326,667	2.01%
BNP Paribas Noms PL	1,215,200	1.84%
Rosenzweig PJ + DA	1,081,237	1.64%
143 PL	1,000,000	1.52%
Sawfam PL	1,000,000	1.52%
City Sec PL	1,000,000	1.52%
Northern Star Nom PL	933,889	1.42%
Mungala Inv PL	933,889	1.42%
Jacqueline Kay Pty Ltd	833,847	1.27%
Horwitz Bridget Kim	702,452	1.07%
Q Supa Pty Ltd	666,667	1.01%
Total	**41,479,896**	**62.97%**

ADDITIONAL SHAREHOLDERS' INFORMATION (CONT'D)

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 8 SEPTEMBER 2014

Cranemere Project (South Africa)

Location	Gross Acreage	Working Interest	Status
Karoo Basin	**1,040,000**	**95%**	**Application**

Final area is subject to granting of the application.

Mercury Stetson (United States)

Location	Gross Acreage	Working Interest	Status
Grayson County	**~26,000**	**15%**	**15% earned to date with the ability to earn up to 50%**