Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report
31 December 2013

COMPANY DIRECTORY

Chairman
Michael Fry

Managing Director
Robert Willes

Non-Executive Director
Bill Bloking

Company Secretary
Adrien Wing

Registered Office
Level 17, 500 Collins Street
MELBOURNE VIC 3000
Telephone: (03) 9614 0600
Facsimile: (03) 9614 0550

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

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

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DIRECTORS' REPORT

Your Directors submit the financial report of the Group for the half-year ended 31 December 2013. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

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

Michael Fry	Chairman
Robert Willes	Managing Director
Bill Bloking	Non-Executive Director (appointed 27 February 2014)
Paul Bilston	Non-Executive Director (resigned 27 February 2014)

Review of Operations

HIGHLIGHTS

South Africa

- **Media coverage continues to highlight the South African Government's desire to progress shale gas exploration.**
- **Technical Regulations on Petroleum Exploration and Exploitation gazetted with industry consultation.**
- **Participation in industry consultation regarding proposed amendments to key legislation.**
- **Farm-out discussions continue pending award of the exploration right.**

Corporate

- **Investor roadshow.**
- **Capital raise of $1 million completed via private placement.**
- **Acquisition of 5% minority shareholding in Bundu Gas and Oil Exploration Proprietary Limited ("Bundu").**
- **Annual General Meeting held 19th November 2013.**
- **Post the reporting period Bill Bloking joined the board as a Non–Executive Director, replacing Paul Bilston.**

<u>South Africa</u>

During the reporting period Bundu continued to support the ongoing assessment of its application for an exploration right located around Cranemere in the Southern Karoo Basin. Challenger and Bundu continue to build and reinforce key relationships in South Africa, raising the profile with the governments of both South Africa and Australia, including positive meetings with both the South African Mineral Resources Minister and Australia's High Commissioner to South Africa, and with Austrade. In this regard, Challenger was invited subsequent to the reporting period 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 27th January 2014. This was hosted by the Australian High Commissioner, with the South African Minster of Mineral Resources, the Honourable Susan Shabangu, as Guest of Honour and keynote speaker, and contributed to raising Challenger and Bundu's profile in South Africa.

On the 10th October the South African Mineral Resources Minister announced that Cabinet had approved the long awaited gazetting of Technical Regulations on Petroleum Exploration and Exploitation. This announcement represents a key milestone in the South African Government's progress towards the award of exploration rights for shale gas exploration. Challenger views this development as very positive and has engaged in industry consultation via Bundu and the industry association, the Onshore Petroleum Association of South Africa (ONPASA). We look forward to the publication of the Technical Regulations.

DIRECTORS' REPORT (CONTINUED)

Challenger and Bundu also continued to be closely involved in industry consultation regarding proposed amendments to key legislation, specifically the draft Mineral and Petroleum Resources Development Amendment (MPRDA) Bill, with submissions made via ONPASA to the government's Mineral Resources Portfolio Committee. Subsequent to the reporting period the Portfolio Committee is reported to have proposed further amendments to the draft Bill that have not been subject to consultation. The industry has expressed its concern via the key industry associations and awaits the outcome of Parliament deliberation. Nevertheless we understand 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.

Media coverage continues to highlight indications that the South African Government is advancing towards the issue of exploration rights, with positive comments attributed to a number of key figures including the Deputy President Kgalema Motlanthe, ANC secretary-general Gwede Mantashe, Trade and Industry Minister Rob Davies, Mineral Resources Minister Susan Shabangu and President Zuma.

The ANC's election manifesto, released post the reporting period, states:

> *"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."*

On 13th February 2014, President Zuma made the following comments in his State of the Nation Address:

> *"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 licenses."*

Media interest in Challenger/Bundu in South Africa has been significant, with a number of articles published post the reporting period and an interview on CNBC Africa in February 2014.

South Africa's national power utility, Eskom, reportedly declared an electricity supply emergency in November, constricting key industrial customers. Further severe constraints were announced post the reporting period in February, and the utility was reportedly forced to resort to load shedding in March.

The industry anticipates that exploration rights may be awarded or substantially progressed ahead of the upcoming general election on 7th May 2014.

Against this backdrop, discussions with parties interested as potential farm-in partners are gaining traction. We will continue to keep shareholders informed as and when there is material progress in this regard.

Background

The Karoo Basin, which extends across 600,000 km^2 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 U.S. 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.

DIRECTORS' REPORT (CONTINUED)

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 Oil & Gas Pty Ltd (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 (the State energy utility) of further constraints on large power users to avoid power blackouts, followed by load shedding in March.

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 its subsidiary Bundu Gas & Oil (Pty) Ltd is the only small company with interests in the basin alongside Shell and Chevron.

Mercury Stetson (earning 50%)

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 investor presentations and conducted roadshows in July 2013 and March 2014. These were well received and successful in helping to raise the Company's profile in the investor community.

In August 2013 the Company announced the raising of $1 million in placement funds from existing shareholders via the placement of 16,666,667 new fully paid ordinary shares at an issue price of 6 cents ($0.06) per share. These funds have provided a boost to working capital and represent a strong vote of confidence in Challenger's potential.

A General Meeting was held on 22nd 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 Robert Willes.

The Annual General Meeting was held on 19th 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 15th October 2013. This raises Challenger's interest in Bundu to 95%.

DIRECTORS' REPORT (CONTINUED)

Subsequent to the reporting period Mr Bill Bloking was appointed to the Challenger board as a Non-Executive Director, replacing Mr Paul Bilston who stood down as a Director due to increasing board commitments with other companies. Bill has 40 years' experience in oil and gas and has held senior positions with BHP Billiton Petroleum, Exxon and Esso. Prior to his appointment he was an adviser to Challenger. Among his current industry roles are Chairman of Nido Petroleum Ltd and Managing Director of mineral sands company Gunson Resources Ltd. He was also previously Chairman of Norwest Energy Ltd and Managing Director of Eureka Energy Ltd prior to its acquisition by Aurora Oil and Gas Ltd. Mr Paul Bilston will continue to provide technical support to Challenger as the Company works towards securing an exploration licence and a farm-in partner for its Cranemere shale gas project in South Africa's Karoo Basin.

Events Subsequent to Balance Date

On 25 February 2014, the Company issued 666,667 fully paid ordinary shares ("Retention Shares") to the Managing Director, Mr Robert Willes. As part of his remuneration package, and as approved by shareholders at the Company EGM held on 22 August 2013, Mr Willes will be issued 4,000,000 Retention Shares in the Company in equal 6 monthly instalments of 666,667 Retention Shares for a period of 36 months.

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

Auditor's Independence Declaration

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the review of the half-year financial report. This Independence Declaration is set out on page 6 and forms part of this Directors' report for the half-year ended 31 December 2013.

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

Robert Willes
Managing Director

Dated this 13th day of March 2014

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the half-year report of Challenger Energy Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Perth, Western Australia
13 March 2014

W M Clark
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated 31 December 2013 $	31 December 2012 $
Revenue			
Sales revenue		-	144,846
Cost of sales		-	(122,550)
Gross profit		**-**	**22,296**
Other revenue		58,150	37,130
Depreciation		(382)	(9,223)
Consultants		(51,151)	(3,360)
Legal and compliance		(128,164)	(114,188)
Administration and travel expenses		(111,000)	(98,976)
Director fees and employee benefits		(292,765)	(118,000)
Share based remuneration		(113,164)	-
Impairment of production assets		-	(582,601)
Exploration costs written off	2	-	(6,817,887)
Foreign exchange gain/(loss)		(695)	1,014
Loss before income tax expense		**(639,171)**	**(7,683,795)**
Income tax expense		-	-
Net loss for the period		**(639,171)**	**(7,683,795)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		(140,639)	(350,243)
Income tax on other comprehensive loss		-	-
Other comprehensive loss for the period		**(140,639)**	**(350,243)**
Total comprehensive loss for the period		**(779,810)**	**(8,034,038)**
Loss attributed to:			
Owners of the parent		(636,644)	(7,679,684)
Non-controlling interests		(2,527)	(4,111)
		(639,171)	**(7,683,795)**
Total comprehensive loss attributable to:			
Owners of the parent		(763,053)	(8,011,005)
Non-controlling interests		(16,757)	(23,033)
		(779,810)	**(8,034,038)**
Basic loss per share (cents per share)	6	(0.20)	(2.47)
Diluted loss per share (cents per share)	6	(0.20)	(2.47)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Note	Consolidated	
		31 December 2013 $	30 June 2013 $
Assets			
Current Assets			
Cash and cash equivalents		440,309	281,945
Trade and other receivables		29,203	56,295
Other financial assets – term deposit		30,369	30,000
Prepayments		21,975	25,669
Total Current Assets		**521,856**	**393,909**
Non-Current Assets			
Trade and other receivables		13,442	13,442
Property, plant and equipment		408	790
Deferred exploration and evaluation expenditure	2	4,757,958	4,855,330
Total Non-Current Assets		**4,771,808**	**4,869,562**
Total Assets		**5,293,664**	**5,263,471**
Liabilities			
Current Liabilities			
Trade and other payables		115,277	217,070
Total Current Liabilities		**115,277**	**217,070**
Non-Current Liabilities			
Trade and other payables		8,961	8,961
Total Non-Current Liabilities		**8,961**	**8,961**
Total Liabilities		**124,238**	**226,031**
Net Assets		**5,169,426**	**5,037,440**
Equity			
Issued capital	3	29,552,022	28,552,678
Reserves		(62,580)	(40,586)
Accumulated losses		(24,514,607)	(23,877,963)
Equity attributable to owners of the parent		**4,974,835**	**4,634,129**
Non-controlling interest		194,591	403,311
Total Equity		**5,169,426**	**5,037,440**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Consolidated						
	Issued Capital	Accumulated Losses	Share Based Payments Reserve	Foreign Currency Translation Reserve	Non-Controlling Interest Contribution Reserve	Non-Controlling Interest	Total
	$	$	$	$	$	$	$
Balance at 1 July 2013	28,552,678	(23,877,963)	2,140,321	(1,526,725)	(654,182)	403,311	5,037,440
Loss for the period	-	(636,644)	-	-	-	(2,527)	(639,171)
Exchange differences on translation of foreign subsidiaries	-	-	-	(126,409)	-	(14,230)	(140,639)
Total comprehensive loss for the period	-	(636,644)	-	(126,409)	-	(16,757)	(779,810)
Shares Issued	1,000,000	-	-	-	-	-	1,000,000
Capital raising costs	(51,989)	-	-	-	-	-	(51,989)
Purchase of minority interest	-	-	-	-	42,584	(191,963)	(149,379)
Share Based Remuneration	51,333	-	61,831	-	-		113,164
Balance at 31 December 2013	29,552,022	(24,514,607)	2,202,152	(1,653,134)	(611,598)	194,591	5,169,426
Balance at 1 July 2012	28,552,678	(15,726,209)	2,140,321	(1,171,762)	(654,182)	440,106	13,580,952
Loss for the period	-	(7,679,684)	-	-	-	(4,111)	(7,683,795)
Exchange differences on translation of foreign subsidiaries	-	-	-	(331,321)	-	(18,922)	(350,243)
Total comprehensive loss for the period	-	(7,679,684)	-	(331,321)	-	(23,033)	(8,034,038)
Balance at 31 December 2012	28,552,678	(23,405,893)	2,140,321	(1,503,083)	(654,182)	417,073	5,546,914

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	Consolidated	
		31 December 2013 $	31 December 2012 $
Cash flows from operating activities			
Receipts from sales		55,965	169,577
Payments to suppliers and employees		(690,286)	(388,007)
Interest received		6,785	1,986
Net cash (used in) operating activities		(627,536)	(216,444)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(43,093)	(226,759)
Deposits refunded		27,335	207,368
Payments for term deposits		(369)	-
Payments for investments	8	(149,379)	-
Net cash (used in) investing activities		(165,506)	(19,391)
Cash flows from financing activities			
Proceeds from shares issued		1,000,000	-
Payment of equity raising costs		(50,000)	(30,800)
Net cash provided by/(used in) financing activities		950,000	(30,800)
Net increase/(decrease) in cash and cash equivalents held		156,958	(266,635)
Cash and cash equivalents at 1 July		281,945	515,493
Effects of foreign exchange rate fluctuations		1,406	(1,504)
Cash and cash equivalents at 31 December		440,309	247,354

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

It is recommended that these financial statements be read in conjunction with the financial report for the year ended 30 June 2013 and any public announcements made by Challenger Energy Limited during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

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

Basis of Preparation

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

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2013 annual financial report for the financial year ended 30 June 2013.

Significant Accounting Judgments and Key Estimates

The preparation of interim financial reports requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial report for the year ended 30 June 2013.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2013, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for annual reporting periods beginning on or after 1 July 2013.

It has been determined by the Directors 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 Group accounting policies.

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2013. 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 Group accounting policies.

Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The net loss of the Group for the financial period amounted to $639,171 (2012: $7,683,795). As at 31 December 2013 the Group's net assets were $5,169,426 and net current assets were $406,579.

In the opinion of the Directors, the going concern basis is the appropriate basis for preparing the financial statements based on the Directors' expectation that the Company will be successful in future fund raising as has been demonstrated in the past via share issues.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 2: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	6 months to 31 December 2013 $	Year to 30 June 2013 $
Costs carried forward in respect of areas of interest in the following phases		
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	4,855,330	12,104,477
Expenditure incurred	44,674	112,400
Impairment expense (i)	-	(6,853,502)
Drilling costs refunded	-	(96,002)
Rehabilitation costs	-	(34,136)
Foreign exchange translation movement	(142,046)	(377,907)
Balance at end of reporting period	4,757,958	4,855,330

(i) An impairment expense for the prior period occurred on the Mercury Stetson project following plugging and abandoning of the well.

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

NOTE 3: ISSUED CAPITAL

Ordinary shares

328,815,874 (30 June 2013: 311,482,540) Issued and fully paid ordinary shares	29,552,022	28,552,678

Movements in shares on issue		
Balance at beginning of reporting period	28,552,678	28,552,678
Placement at 6 cents per share	1,000,000	-
Managing Director retention shares (i)	51,333	-
Share issue costs	(51,989)	-
Balance at end of reporting period	29,552,022	28,552,678

	Number of Shares	Number of Shares
Balance at beginning of reporting period	311,482,540	311,482,540
Placement at 6 cents per share	16,666,667	-
Managing Director retention shares (i)	666,667	-
Balance at end of reporting period	328,815,874	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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 4: OPTIONS

Options as at 31 December 2013 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	28 February 2015	$0.35	2,000,000
Unlisted	1 February 2014	$0.25	2,000,000
Unlisted	20 November 2014	$0.15	11,500,000
Unlisted	1 February 2015	$0.35	2,000,000
Unlisted	20 November 2016	$0.15	7,500,000
Total			25,000,000

There were no new Options issued during the current period.

NOTE 5: 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:

- 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, by no later than 7 April 2020.

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.

Performance Rights as at 31 December 2013 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	20 June 2015	nil	2,500,000
Unlisted	7 April 2016	nil	4,000,000
Unlisted	7 April 2018	nil	8,000,000
Unlisted	7 April 2020	nil	4,000,000
Total			18,500,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 6: LOSS PER SHARE

	Consolidated	
	31 December 2013 $	31 December 2012 $
(a) Loss used in the calculation of loss per share	(636,644)	(7,679,684)
	Number of Shares	
(b) Weighted average number of ordinary shares outstanding during the reporting period used in calculation of basic and diluted loss per share:	323,877,468	311,482,540

NOTE 7: OPERATING SEGMENTS

Identification of reportable segments

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

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

Types of reportable segments

(i) *Australia*

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

(ii) *United States of America*

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

(iii) *South Africa*

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

Segment Information

By Geographical Region	**USA**	**Australia**	**South Africa**	**Total**
	$	**$**	**$**	**$**
(i) Segment performance				
Six months ended 31 December 2013				
Segment revenue	-	58,150	-	58,150
Segment result	-	(638,792)	(379)	(639,171)
Six months ended 31 December 2012				
Segment revenue	144,846	37,130	-	181,976
Segment result	(7,385,638)	(293,632)	(4,525)	(7,683,795)
(ii) Segment assets				
31 December 2013				
Segment assets	-	530,916	4,762,748	5,293,664
30 June 2013				
Segment assets	-	403,205	4,860,266	5,263,471

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

NOTE 8: ACQUISITION OF MINORITY INTEREST

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%.

NOTE 9: FINANCIAL INSTRUMENTS

The Directors consider that the carrying value of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair value.

NOTE 10: CONTINGENT LIABILITIES

The Directors are not aware of any significant contingent liabilities as at 31 December 2013.

NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

On 25 February 2014, the Company issued 666,667 fully paid ordinary shares ("Retention Shares") to the Managing Director, Mr Robert Willes. As part of his remuneration package, and as approved by shareholders at the Company EGM held on 22 August 2013, Mr Willes will be issued 4,000,000 Retention Shares in the Company in equal 6 monthly instalments of 666,667 Retention Shares for a period of 36 months.

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

DIRECTORS' DECLARATION

The directors of the consolidated entity declare that:

1. The financial statements and notes thereto, as set out on pages 7 to 16, are in accordance with the Corporations Act 2001 including:
    a. complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
    b. giving a true and fair view of the Group's financial position as at 31 December 2013 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Robert Willes
Managing Director

Dated this 13th day of March 2014

HLB Mann Judd

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INDEPENDENT AUDITOR'S REVIEW REPORT
To the members of Challenger Energy Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Challenger Energy Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2013, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

HLB Mann Judd
Chartered Accountants

W M Clark
Partner

Perth, Western Australia
13 March 2014