Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report
31 December 2014

COMPANY DIRECTORY

Chairman
Michael Fry

Managing Director
Robert Willes

Non-Executive Director
Bill Bloking

Company Secretary
Adrien Wing

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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 2014. 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

Review of Operations

HIGHLIGHTS

South Africa

- Momentum grows towards approval of applications for shale gas exploration rights in South Africa
    - Significant milestone – government proceeds with processing exploration right application
    - Bundu commences stakeholder consultation
    - Minister of Mineral Resources makes recommendations on MPRDA Bill to President Zuma – MPRDA Bill referred back to National Assembly post the reporting period
    - Minister of Mineral Resources plans to consult stakeholders prior to finalising Technical Regulations
    - SA Government reported to be considering sale of "non-core state assets" to fund Eskom bail-out, Eskom likely to seek tariff increase in 2015

- Farm-out discussions continue pending grant of exploration right

Corporate

- Capital raise completed to raise approximately $1.2 million before associated costs.
- Challenger continues to build its corporate profile and relationships in South Africa, and with the Australian Government

South Africa

Momentum continues to build towards the determination of applications for shale gas exploration rights.

In October, Challenger's South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd ("Bundu") was advised by the regulator, Petroleum Agency SA ("PASA") that a decision had been taken to proceed with processing Bundu's application for a shale gas Exploration Right in South Africa's Karoo Basin.

This represents a major breakthrough for Challenger and Bundu, and the other companies pursuing acreage in the Karoo as the processing of applications for shale gas Exploration Rights in South Africa had been on hold since 2011.

It is a clear indication that the South African Government is ready to move ahead with the appraisal of the Karoo shales to see whether they offer a solution to the rapidly worsening energy crisis that continues to hinder the country's economic development.

As part of the procedure for progressing the application, PASA asked that Bundu review and update the Environmental Management Programme ("EMPr") submitted when its application was originally made in 2010 and also to engage in further stakeholder consultation. Bundu engaged Golder Associates, an independent environmental consultancy, to undertake the update of the EMPr, including the stakeholder consultation process. Post the reporting period the EMPr update and the stakeholder consultation process were completed by the 27 February 2015 deadline, and effectively set the regulatory machine in motion. The Minister now has 120 days to consider whether to approve Bundu's EMPr.

The new EMPr describes a revised work programme that includes only seismic studies and drilling, the assessment of potential positive and negative impacts related to these activities and proposed mitigation measures to manage potential negative impacts. This is in line with the moratorium on further applications imposed in February this year. The moratorium excluded from its ambit existing Exploration Right applications, subject to the proviso that no hydraulic fracturing will be permitted until such time as the proposed Technical Regulations for Petroleum Exploration and Exploitation (the "Technical Regulations") have been published under the Mineral and Petroleum Resources Development Act, 28 of 2002 ("MPRDA"). This is a measured approach to shale gas exploration, which we fully endorse.

Post the reporting period, Bundu learned that the South African Department of Environmental Affairs had published notices inviting comment on proposals to incorporate additional land into the Mountain Zebra National Park and to declare portions of land as the Mountain Zebra Camdeboo Protected Environment. Some of these proposed additional portions fall within Bundu's application area. Bundu has accordingly lodged a submission requesting that the Minister for Mineral Resources be consulted in the manner required by the National Environmental Management: Protected Areas Act. The portions falling inside Bundu's application area total approximately 70,800 hectares, representing some 17% of Bundu's application area. If declared, there would be a buffer zone of 5km around each protected area. This buffer zone does not preclude development, but may have the effect of lowering thresholds of activity for permitting purposes (i.e. a lower level of a given activity may trigger the need for a permit). The EMPr is available via a link on the Company's website and contains maps showing the location of existing protected areas, together with those portions of land that are proposed for inclusion in the new Protected Environment. These maps show that the majority of the buffer zone that would result from such a declaration is covered by existing Critical Biodiversity Areas[1] where lower permitting thresholds may already apply. The outcome and timing of the proposal remain uncertain at this time.

The Minister of Mineral Resources, Ngoako Ramatlhodi, has indicated in public presentations at conferences and in media reports that progress is being made on both the Technical Regulations and the proposed amendments to the MPRDA. The government is to consult interested and affected stakeholders before finalising the Technical Regulations. We expect that this will occur in the coming months.

Robert Willes (Managing Director) participated as part of an expert panel on shale gas at the Jo'burg Mining Indaba in October. The keynote address from Minister Ramatlhodi referred to the proposed amendment of the MPRDA, stating that "the amendment of the Minerals Bill is sitting with the President as we speak and resolutions are expected soon".

ANC Secretary General Gwede Mantashe also spoke at the Indaba and commented regarding shale gas that "we can't afford to talk about this for 10 years" and "we need to get on with it".

"Operation Phakisa" (or "Hurry Up") is a Government initiative launched in July and managed by McKinsey over a period of six weeks. The Operation Phakisa process was conceived as a way to "kick start" the ocean economy in South Africa, focused on four key sectors, including oil and gas. The Offshore Petroleum Association of South Africa ("OPASA") participated as a major stakeholder in the offshore oil and gas sector. One of the major issues addressed was the legislative uncertainty created by the Mineral and Petroleum Resources Development Amendment Bill ("MPRDA Bill"). The results were announced in Durban in October. Several of the recommendations coming out of this process relate to the provisions of the MPRDA Bill. As requested by the Government, OPASA and the Onshore Petroleum Association of South Africa ("ONPASA") have made a joint industry submission regarding the proposed amendments to the MPRDA.

[1] *Critical Biodiversity Areas ("CBAs") are not legislated but are planning instruments developed to guide decision-making. The Department of Economic Development and Environment Affairs together with the Department of Water Affairs have collaborated to draw up the Eastern Cape Biodiversity Conservation Plan (ECBCP). The ECBCP addresses the need to identify and map CBAs and priorities for conservation in the Province.*

We understand that the Minister has now made his recommendations to the President regarding the MPRDA Bill, and it has been announced post the reporting period that the MPRDA Bill has been referred back to the National Assembly. Our expectations are that this will be positive for the oil and gas industry.

The economic rationale for the South African Government to pursue the development of a shale gas industry continues to grow, with ongoing electricity outages by state-owned utility Eskom. Post the reporting period, in the 2015 Budget Speech, Finance Minister Nhlanhla Nene is reported as saying that a R23 billion cash injection for Eskom will be funded by the sale of “non-core state assets” and that “to stabilise its financial position, Eskom will apply to the regulator this year for adjustments towards cost reflective tariffs.” With the prospect of the energy crisis persisting for some time, pressure on the economy is likely to increase and public concern to rise.

In the meantime, Challenger and Bundu continue to stay close to the evolving situation in South Africa, and continue to progress discussions with prospective farm-in partners.

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 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 390 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 Oil & Gas Pty Ltd (acquired by Challenger 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.

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 Oil & Gas Pty Ltd is the only small company with interests in the basin alongside Shell and Chevron.

Mercury Stetson

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

Corporate

The Company completed a private placement to raise approximately $1.2 million before associated costs in late November. The placement comprised 20 million new fully paid ordinary shares issued at 6 cents ($0.06) per share. The shares were placed with sophisticated investors, the majority of whom were existing shareholders in the company. This represents a strong vote of confidence in the Company, and has allowed Challenger and Bundu to focus on moving forward with stakeholder consultation and the Exploration Right application process.

Challenger continues to build its corporate profile and relationships in South Africa, and with the Australian Government. Highlights include:

- Attendance at a private dinner with the Australian Minister for Foreign Affairs, Julie Bishop, in Johannesburg, along with key business and community leaders.
- Presentation to the Africa Down Under conference in Perth in September.
- Sponsorship of the "Celebrating Twenty Years of Democracy: Australia's Contribution to the New South Africa" photographic exhibition, a collaboration between the Australian High Commission and the University of Pretoria.
- Media interviews, resulting in coverage in both Australia and South Africa.
- Introducing Challenger to the investor community in South Africa via one-on-one meetings and an investor breakfast briefing.
- Participation in the expert panel discussion on shale gas at the Jo'burg Indaba in October.
- Presentation to the Investec Oil & Gas Conference in Cape Town in November.
- Participation in the Coega Shale Gas Forum and the Shell 'Building Petroleum Capability for SA' workshop in Cape Town. The Shale Gas Forum is a regular series of meetings with representatives of development agencies, working together to address capacity issues and to achieve maximum benefit for the region.

Challenger also presented at Proactive Investors investor luncheons in Melbourne and Sydney in October.

The Annual Report was released to the ASX on 26 September and the Annual General Meeting was held on 19 November 2014. All resolutions were passed by the requisite majority.

Events Subsequent to Balance Date

Since balance date there are no 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 2014.

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 12th day of March 2015

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Challenger Energy Limited for the half-year ended 31 December 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 review; and

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

Perth, Western Australia
12 March 2015

W M Clark
Partner

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Note	Consolidated 31 December 2014 $	Consolidated 31 December 2013 $
Other revenue		42,157	58,150
Expenses:			
Depreciation		(69)	(382)
Consultants		(65,644)	(51,151)
Legal, accounting and compliance		(138,475)	(128,164)
Administration and travel expenses		(126,938)	(111,000)
Director fees and employee benefits		(270,000)	(292,765)
Share based remuneration		(119,162)	(113,164)
Foreign exchange gain/(loss)		(2,947)	(695)
Loss before income tax expense		**(681,078)**	**(639,171)**
Income tax expense		-	-
Net loss for the period		**(681,078)**	**(639,171)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		231,012	(140,639)
Income tax on other comprehensive income		-	-
Other comprehensive income for the period		**231,012**	**(140,639)**
Total comprehensive loss for the period		**(450,066)**	**(779,810)**
Loss attributed to:			
Owners of the parent		(680,454)	(636,644)
Non-controlling interests		(624)	(2,527)
		(681,078)	**(639,171)**
Total comprehensive loss attributable to:			
Owners of the parent		(458,647)	(763,053)
Non-controlling interests		8,581	(16,757)
		(450,066)	**(779,810)**
Basic loss per share (cents per share)	6	(0.20)	(0.20)
Diluted loss per share (cents per share)	6	(0.20)	(0.20)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	Consolidated 31 December 2014 $	30 June 2014 $
Assets			
Current Assets			
Cash and cash equivalents		1,311,908	761,322
Trade and other receivables		39,282	50,349
Other financial assets – term deposit		31,085	30,612
Prepayments		34,095	23,153
Total Current Assets		**1,416,370**	**865,436**
Non-Current Assets			
Trade and other receivables		-	13,442
Property, plant and equipment		-	69
Deferred exploration and evaluation expenditure	2	4,964,046	4,590,087
Total Non-Current Assets		**4,964,046**	**4,603,598**
Total Assets		**6,380,416**	**5,469,034**
Liabilities			
Current Liabilities			
Trade and other payables		272,203	184,424
Total Current Liabilities		**272,203**	**184,424**
Non-Current Liabilities			
Trade and other payables		-	8,961
Total Non-Current Liabilities		**-**	**8,961**
Total Liabilities		**272,203**	**193,385**
Net Assets		**6,108,213**	**5,275,649**
Equity			
Issued capital	3	30,818,158	29,603,357
Reserves		902,118	612,482
Accumulated losses		(25,799,605)	(25,119,151)
Equity attributable to owners of the parent		**5,920,671**	**5,096,688**
Non-controlling interest		187,542	178,961
Total Equity		**6,108,213**	**5,275,649**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Consolidated				
	Issued Capital	Accumulated Losses	Reserves	Non-Controlling Interest	Total
	$	$	$	$	$
Balance at 1 July 2014	29,603,357	(25,119,151)	612,482	178,961	5,275,649
Loss for the period	-	(680,454)	-	(624)	(681,078)
Exchange differences on translation of foreign subsidiaries	-	-	221,807	9,205	231,012
Total comprehensive loss for the period	-	(680,454)	221,807	8,581	(450,066)
Shares Issued	1,234,088	-	-	-	1,234,088
Capital raising costs	(70,620)	-	-	-	(70,620)
Share Based Remuneration	51,333	-	67,829	-	119,162
Balance at 31 December 2014	30,818,158	(25,799,605)	902,118	187,542	6,108,213
Balance at 1 July 2013	28,552,678	(23,877,963)	(40,586)	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)	(62,580)	194,591	5,169,426

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Note	Consolidated	
		31 December 2014 $	31 December 2013 $
Cash flows from operating activities			
Receipts from sales		62,018	55,965
Payments to suppliers and employees		(572,150)	(690,286)
Interest received		6,636	6,785
Net cash (used in) operating activities		(503,496)	(627,536)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure		(86,701)	(43,093)
Deposits refunded		(4,480)	27,335
Payments for term deposits		-	(369)
Payments for investments	8	-	(149,379)
Net cash (used in) investing activities		(91,181)	(165,506)
Cash flows from financing activities			
Proceeds from shares issued		1,212,000	1,000,000
Payment of equity raising costs		(70,620)	(50,000)
Net cash provided by financing activities		1,141,380	950,000
Net increase in cash and cash equivalents held		546,703	156,958
Cash and cash equivalents at 1 July		761,322	281,945
Effects of foreign exchange rate fluctuations		3,883	1,406
Cash and cash equivalents at 31 December		1,311,908	440,309

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2014

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 2014 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 2014 annual financial report for the financial year ended 30 June 2014.

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 2014.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2014

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2014, 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 2014.

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 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 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 $681,078 (2013: $639,171). As at 31 December 2014 the Group's net assets were $6,108,213 and net current assets were $1,144,167.

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 2014

NOTE 2: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	6 months to 31 December 2014 $	Year to 30 June 2014 $
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	4,590,087	4,855,330
Expenditure incurred	149,775	185,886
Foreign exchange translation movement	224,184	(451,129)
Balance at end of reporting period	4,964,046	4,590,087

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

350,643,655 (30 June 2014: 329,482,541) Issued and fully paid ordinary shares	30,818,158	29,603,357

Movements in shares on issue		
Balance at beginning of reporting period	29,603,357	28,552,678
Placement at 6 cents per share	1,212,000	1,000,000
Issued in lieu of consulting costs	22,088	-
Managing Director retention shares (i)	51,333	102,667
Share issue costs	(70,620)	(51,988)
Balance at end of reporting period	30,818,158	29,603,357

	Number of Shares	Number of Shares
Balance at beginning of reporting period	329,482,541	311,482,540
Placement at 6 cents per share	20,200,000	16,666,667
Issued in lieu of consulting costs	294,447	-
Managing Director retention shares (i)	666,667	1,333,334
Balance at end of reporting period	350,643,655	329,482,541

(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 2014

NOTE 4: OPTIONS

Options as at 31 December 2014 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	28 February 2015	$0.35	2,000,000
Unlisted	1 February 2015	$0.35	2,000,000
Unlisted	20 November 2016	$0.15	7,500,000
Listed	30 June 2016	$0.20	65,896,502
Total			77,396,502

NOTE 5: PERFORMANCE RIGHTS

Consolidated

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.

The Company has 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 2014 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 2014

NOTE 6: LOSS PER SHARE

	Consolidated	
	31 December 2014 $	31 December 2013 $
(a) Loss used in the calculation of loss per share	(680,454)	(636,644)
	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:	332,806,515	323,877,468

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 2014				
Segment revenue	-	42,157	-	42,157
Segment result	-	(623,477)	(57,601)	(681,078)
Six months ended 31 December 2013				
Segment revenue	-	58,150	-	58,150
Segment result	-	(638,792)	(379)	(639,171)
(ii) Segment assets				
31 December 2014				
Segment assets	-	1,411,658	4,968,758	6,380,416
30 June 2014				
Segment assets	-	874,466	4,594,568	5,469,034

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2014

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 2014.

NOTE 11: EVENTS SUBSEQUENT TO REPORTING DATE

Since balance date there are no 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 Company 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 2014 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 12th day of March 2015

Accountants | Business and Financial Advisers

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

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Challenger Energy Limited ("the company"), which comprises the condensed consolidated statement of financial position as at 31 December 2014, 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 information, and the directors' declaration.

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 company's financial position as at 31 December 2014 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 company's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

W M Clark
Partner

Perth, Western Australia
12 March 2015