Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report
31 December 2015

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)
Codes: CEL, CELO

CONTENTS **PAGE**

DIRECTORS' REPORT

Your Directors submit the financial report of the Group for the half-year ended 31 December 2015. 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

- Positive industry engagement with government on key legislation.
- McKinsey report identifies natural gas as one of the "Big Five" opportunities that can reignite South Africa's progress.
- Energy Minister Tina Joemat-Pettersson highlights importance of gas in South Africa's future energy mix, stating that gas will be a cornerstone of base load power generation.
- ANC National General Council identifies ongoing power crisis as one of the "specific domestic weaknesses" in the economy undermining growth, investment and confidence,
- Minister of Mineral Resources, Mosebenzi Zwane, addresses community gathering in the Karoo, states that "…government, based on the balance of available scientific evidence, took a decision to proceed with the development of shale gas in the Karoo formation of South Africa"
- Minister of Finance, Pravin Gordhan, states in February 2016 Budget speech that "Building on the success of our Renewable Energy initiatives, the Independent Power Producers Programme will be extended to include coal and gas power projects over the period ahead. "
- Continuing pressure from electricity supply constraints, lower commodity prices and lower confidence levels lead to reduced national economic growth forecasts.
- Power tariff to rise by 9.4% for 2016/17 after regulator allows state power utility Eskom a partial claw back of R22.8 billion of costs it applied for (primarily related to diesel consumption and reduced revenue).
- Post the reporting period, South African media reports that the regulator expects to make its recommendations to the Minister of Mineral Resources on the first two shale gas exploration rights applications, including Bundu's, by early May.

Legislative Framework

As previously reported, the petroleum industry (via the industry associations, the Offshore Petroleum Association of South Africa ("OPASA") and the Onshore Petroleum Association of South Africa ("ONPASA") continued to engage with government throughout the year to deliver constructive solutions for the legislative framework (the Mineral and Petroleum Resources Development Act, 28 of 2002 - "MPRDA"). Linked to Operation Phakisa (a government programme aimed at fast-tracking the implementation of solutions on critical development issues, particularly oil and gas), these engagements took into account the frontier nature of South Africa's petroleum industry, along with the imperative to achieve the national development goals as outlined in the National Development Plan and related government policies. The engagements have been constructive and productive, with convergence on key principles and a clear desire on the part of government to move the process forward. The expectation is that the legislative process to reconsider the 2013 MPRDA Amendment Bill will be finalised in the near future.

The South African Shadow Minister of Mineral Resources, James Lorimer, who represents his party on the parliamentary portfolio committee on mineral resources, has referred to this matter in recent South African media reporting. Mr Lorimer comments on his expectations of the outcomes of revision of the MPRDA for South Africa's oil and gas industry, including the nascent shale gas sector.

He is reported as saying that the bill is likely to re-emerge on the parliamentary agenda and that the concerns of the oil and gas industry have been largely addressed in the new version, with agreement on the wording of the paragraphs that will govern state participation. He is quoted as saying:

> *"The 20% free carried interest will go, for example and there will still be a state interest but it will be a more subdued formulation" and*
>
> *"Exploration and production costs will be covered before the state starts taking its 20% share in profits. This is much more regular across the world and more acceptable."*

Role of gas in South Africa's energy mix

In September, the McKinsey Global Institute report "South Africa's Big Five: Bold Priorities for Inclusive Growth" was released, identifying the "five bold opportunities that can reignite South Africa's progress" and which could increase GDP growth by 1.1 percentage points per year, adding one trillion rand ($87 billion) to annual GDP by 2030 and creating 3.4 million new jobs. McKinsey cites natural gas amongst the big five, stating;

> *"South Africa's electricity shortage has constrained growth, and despite new capacity, another shortfall is projected between 2025 and 2030. Natural gas plants - which are fast to build, entail low capital costs, and have a low carbon footprint - can provide an alternative to diversify the power supply. With the necessary regulatory certainty, we estimate that South Africa could install up to 20GW of gas-fired power plants to diversify base-load capacity by 2030. Gas can be provided through imports, local shale gas resources (if proven), or both."*

In late September the inaugural South Africa Gas Options Conference was held in Cape Town, attracting significant interest and widely reported commentary from Energy Minister Tina Joemat-Pettersson with regard to the importance of gas in South Africa's future energy mix.

Minister Joemat-Pettersson reportedly likened South Africa to a "junkie" addicted to coal and diesel, and stressed that gas will be a cornerstone of the country's base load power.

> *"Our coal and diesel dependence has to decrease,"* and *"I need base load electricity, and gas will be a cornerstone of base load,"*

South Africa has already benefitted from a successful renewable energy IPP programme, with approximately 3.9 GW contracted and around 1.8 GW capacity connected to the national grid by 31 March 2015. The Department of Energy ("DOE") is preparing to release the request for proposals for 3.13 GW of gas-fired generation capacity between 2019 and 2025. The minister stated that it was vital for South Africa to change its energy mix, noting that the target for gas-fired power generation from 2019 to 2025 to widen South Africa's electricity base could be increased. A total of 150 companies submitted responses under the DOE's request for information for the design of its gas-to-power programme, which closed on 20 July. The ministry had a "number of very good proposals", she said.

> *"I'm not obsessed with nuclear energy, it is only one source of base load. I am obsessed with gas, by the way. For base load and/or mid-merit energy generation, capacity needed from gas-fired power generation is there and is necessary to contribute towards energy security," and "Our key challenge is how to bring [about] the benefits of natural gas as an energy source as early as possible,"*

The government would play a significant role in developing timely, reliable and affordable electricity, while investment was encouraged in exploration and the development of natural gas resources, the minister said.

> *"The opportunities from the successful development of gas resources are large in scale, but our long-term challenge is to successfully move towards that potential, while also addressing the short-term necessities of our country."*

Minister Joematt-Pettersson said Operation Phakisa would help to speed up the process.

> *"This inaugural conference for gas options is strategically important, because it comes at a time when we are updating our National Development Plan. We are defining the energy mix for South Africa and the Southern African power pool."*

In October the governing African National Congress ("ANC") held its National General Council ("NGC"). Held midway between party conferences, the NGC is convened to discuss and debate the "strategic organisational and political issues facing the movement".

Delegates to the NGC were reported to have agreed that priority should be given to making clear decisions on future base load power investments, so as to avoid economically debilitating supply instability medium- to long-term. The ongoing power crisis was stated to be one of the "specific domestic weaknesses" in the economy, undermining growth, investment and confidence.

The expanded role of IPPs was affirmed, together with the desirability of extending the success of the renewables procurement programme to technologies such as coal and gas.

The ANC also emphasised the role of gas in South Africa's future energy mix, arguing gas, including shale gas, could be a "game changer" for the South African economy.

In his Budget Speech on 24 February 2016, Finance Minister Pravin Gordhan also commented that

> *"Building on the success of our Renewable Energy initiatives, the Independent Power Producers Programme will be extended to include coal and gas power projects over the period ahead. "*

and

> *"About ZAR17.6 billion will be spent on the Integrated National Electrification Programme between 2016/17 and 2018/19 to provide 840 000 households with access to on-grid electricity,.."*

South African Economy

These positive developments take place against a background of continuing economic pressure.

Then Finance Minister Nhlanhla Nene presented his medium-term budget policy statement speech in October, making the point that without economic growth, there is no revenue growth, and without revenue growth, expenditure cannot increase and the nation cannot develop and succeed. The Treasury reduced its growth expectations for 2015 and 2016 with Nene saying that this was the result of electricity supply constraints, falling commodity prices and lower confidence levels.

Finance Minister Pravin Gordhan quoted Nene in his February 2016 Budget Speech, noting the need for greater certainty in respect of policies that affect investment decisions. He listed policy uncertainty, electricity supply constraints and regulatory barriers to investment as being reflected in the low economic growth outlook stating that

> "We are responding to appeals from the business sector for greater certainty in respect of policies that affect investment decisions." and "Regulatory challenges that affect mining investment and employment are being addressed."

The financial pressure on state power utility Eskom has also continued. Following public hearings, the National Energy Regulator of South Africa (NERSA) announced on 1 March 2016 that it has granted Eskom an additional electricity tariff increase to claw back approximately R11.2 billion of the approximately R22.8-billion of costs it had sought to recoup (including diesel expenses and a revenue variance owing to lower than anticipated demand during the period).

NERSA has decided that the average tariff for standard tariff customers will be increased by 9.4% for the 2016/17 financial year. This follows a prior grant to Eskom which was reported to have resulted in an increase of 12.69% in 2015/16. NERSA also instructed Eskom to make a new multiyear price determination (MYPD4) application within three months, based on revised assumptions and forecasts that reflect the recent circumstances.

Exploration Rights Application

In August 2015, President Zuma stated at the presentation of credentials by new Heads of Mission accredited to South Africa that shale gas exploration licenses would soon be issued.

In January 2016, Minister of Mineral Resources Mosebenzi Zwane gave an address at a community Imbizo (or gathering) on shale gas development at Cradock in the Karoo. He stated that

> “The government, based on the balance of available scientific evidence, took a decision to proceed with the development of shale gas in the Karoo formation of South Africa”

and

> “Currently South Africa is a net importer of energy sources such as crude oil, refined petroleum products and natural gas. It is estimated that the Karoo shale gas resources would mean South Africa has the 5th largest reserves, estimated at 485 trillion cubic feet (Tcf). We however take a conservative view of a 30 Tcf economically recoverable resource, which is equivalent to 30 times the size of the Mossgas plants.”
>
> “Ladies and gentlemen, the other potential economic benefits of shale gas include business development within communities, including establishment of black industrialists, employment, specialised skills development and youth development. “
>
> “It is my firm belief that the excitement we have about the discovery of this resource needs to be shared and also enjoyed by communities. In this regard my department has devised a promotional programme through which the public and especially communities that are close to the proposed development are educated and informed about these developments. This will ensure that communities are kept up to date about the exploration method and benefits that can be realised from the exploitation of shale gas and informed about the mechanisms and instruments that seek to augment existing laws for the protection of water resources and for the protection of the environment.”

Challenger also notes recent reports in the South African media indicating that the regulator, Petroleum Agency SA (“PASA”), expects to make its recommendations to the Minister of Mineral Resources on the first two of five shale gas exploration license applications by early May.

The acting chief executive of PASA, Lindiwe Mekwe, is reported to have told Reuters that the two license applications the agency was making recommendations on were those submitted by Falcon Oil and Gas and Bundu Gas and Oil Exploration (Challenger’s South African subsidiary and applicant for the exploration right).

Challenger understands that the final decision on granting exploration rights will be made by the Minister of Mineral Resources once PASA has made its recommendations.

In the meantime, Challenger continues to seek to progress farm-in arrangements and we will continue to keep shareholders updated and informed as and when there is material progress.

Mountain Zebra and Camdeboo Protected Environment

As previously reported, the South African Department of Environmental Affairs ("DEA") published notices in December 2014 inviting comment on proposals to incorporate additional land into the Mountain Zebra National Park and to declare portions of land as the Mountain Zebra and Camdeboo Protected Environment. Some of these proposed additional portions fall within Bundu's application area. Bundu 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 DEA has recently confirmed that it has consulted the Department of Mineral Resources, and that the final regulations to be published in respect of the Mountain Zebra and Camdeboo Protected Environment have been amended by deleting the references to restriction of Mining Activities and Hydraulic Fracturing. The DEA advises that it will now proceed with the declaration of the Mountain Zebra and Camdeboo Protected Environment. The portions falling inside Bundu's application area total approximately 70,800 hectares, representing some 20% of Bundu's revised application area. Bundu understands that development will therefore not be precluded within the Protected Area or the buffer zone of 5km that will surround each protected area, but the declaration may have the effect of lowering thresholds of activity for permitting purposes (ie a lower level of a given activity may trigger the need for a permit). Bundu's updated Environmental Management Programme as submitted to the regulator in February 2015 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 protected areas and buffer zone that would result from such a declaration are covered by existing Critical Biodiversity Areas[1] where lower permitting thresholds may already apply.

Additional land units were incorporated into the Mountain Zebra National Park during 2015. These land units represent approximately 1% of Bundu's application area. Bundu will be precluded from conducting any operations within this area.

Corporate

Whilst working to progress the licence application, management continues to focus on cost reduction, and this is reflected in the reduced expenditure for the fourth quarter and forecast for the coming quarter.

The Annual Report was released to the ASX on 26 August and the Annual General Meeting was held on 10 November 2015. All resolutions were passed by the requisite majority.

As part of building the Company's profile in South Africa, Challenger presented at the Investec Oil & Gas Conference in Cape Town in October for the second year running. This event runs concurrently with the annual Africa Oil Week and is a by-invitation-only opportunity to meet with selected funds and institutions. Challenger's presentation was well received.

The Company also ran an investor roadshow in Melbourne, Sydney, Brisbane and Perth in November.

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 5000 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.

[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.*

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 (acquired by CEL in April 2010) in February 2009. A number of major international companies, including Shell, Chevron and Falcon Oil & Gas, are also pursuing exploration rights in the region.

Furthermore, the low economic growth rates and power crisis in South Africa have strongly motivated the government to pursue potential shale gas resources as a catalyst to transform the economy.

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 – is the only junior company with interests in the basin, alongside Shell and Chevron.

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 8 and forms part of this Directors' report for the half-year ended 31 December 2015.

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 10th day of March 2016

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Challenger Energy Limited for the half-year ended 31 December 2015, 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
10 March 2016

M R W Ohm
Partner

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	Consolidated 31 December 2015 $	Consolidated 31 December 2014 $
Other revenue		32,963	42,157
Expenses:			
Depreciation		-	(69)
Consultants		(84,840)	(65,644)
Legal, accounting and compliance		(111,944)	(138,475)
Administration and travel expenses		(59,050)	(126,938)
Director fees and employee benefits		(248,015)	(270,000)
Share based remuneration		(125,462)	(119,162)
Foreign exchange gain/(loss)		(11,779)	(2,947)
Loss before income tax expense		**(608,127)**	**(681,078)**
Income tax expense		-	-
Net loss for the period		**(608,127)**	**(681,078)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign subsidiaries		(847,628)	231,012
Income tax on other comprehensive income		-	-
Other comprehensive income/(loss) for the period		**(847,628)**	**231,012**
Total comprehensive loss for the period		**(1,455,755)**	**(450,066)**
Loss attributed to:			
Owners of the parent		(593,544)	(680,454)
Non-controlling interests		(14,583)	(624)
		(608,127)	**(681,078)**
Total comprehensive loss attributable to:			
Owners of the parent		(1,413,675)	(458,647)
Non-controlling interests		(42,080)	8,581
		(1,455,755)	**(450,066)**
Basic loss per share (cents per share)	7	(0.17)	(0.20)
Diluted loss per share (cents per share)	7	(0.17)	(0.20)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	Consolidated 31 December 2015 $	30 June 2015 $
Assets			
Current Assets			
Cash and cash equivalents		282,931	714,063
Trade and other receivables		11,882	12,406
Other financial assets		31,862	31,517
Other assets		24,850	32,543
Total Current Assets		**351,525**	**790,529**
Non-Current Assets			
Deferred exploration and evaluation expenditure	2	4,404,905	5,200,898
Total Non-Current Assets		**4,404,905**	**5,200,898**
Total Assets		**4,756,430**	**5,991,427**
Liabilities			
Current Liabilities			
Trade and other payables	3	535,801	492,760
Total Current Liabilities		**535,801**	**492,760**
Total Liabilities		**535,801**	**492,760**
Net Assets		**4,220,629**	**5,498,667**
Equity			
Issued capital	4	30,937,575	30,885,320
Reserves		114,142	808,811
Accumulated losses		(26,969,642)	(26,376,098)
Equity attributable to owners of the parent		**4,082,075**	**5,318,033**
Non-controlling interest		138,554	180,634
Total Equity		**4,220,629**	**5,498,667**

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	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 2015	30,885,320	(26,376,098)	808,811	180,634	5,498,667
Loss for the period	-	(593,544)	-	(14,583)	(608,127)
Exchange differences on translation of foreign subsidiaries	-	-	(820,131)	(27,497)	(847,628)
Total comprehensive loss for the period	-	(593,544)	(820,131)	(42,080)	(1,455,755)
Shares issues	54,062	-	-	-	54,062
Capital raising costs	(1,807)	-	-	-	(1,807)
Share based remuneration	-	-	125,462	-	125,462
Balance at 31 December 2015	30,937,575	(26,969,642)	114,142	138,554	4,220,629

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Consolidated	
	31 December 2015 $	31 December 2014 $
Cash flows from operating activities		
Receipts from sales	-	62,018
Payments to suppliers and employees	(331,606)	(572,150)
Interest received	5,080	6,636
Net cash (used in) operating activities	(326,526)	(503,496)
Cash flows from investing activities		
Payments for deferred exploration and evaluation expenditure	(103,412)	(86,701)
Deposits refunded	-	(4,480)
Net cash (used in) investing activities	(103,412)	(91,181)
Cash flows from financing activities		
Proceeds from shares issued	-	1,212,000
Payment of equity raising costs	(1,807)	(70,620)
Net cash (used in)/provided by financing activities	(1,807)	1,141,380
Net (decrease)/increase in cash and cash equivalents held	(431,745)	546,703
Cash and cash equivalents at 1 July	714,063	761,322
Effects of foreign exchange rate fluctuations	613	3,883
Cash and cash equivalents at 31 December	282,931	1,311,908

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

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 2015 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 2015 annual financial report for the financial year ended 30 June 2015.

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 2015.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2015, 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 2015.

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 2015. 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 $608,127 (2014: $681,078). As at 31 December 2015 the Group's net assets were $4,220,629 and the net current asset deficiency was $184,276.

Included in current liabilities as at 31 December 2015 are amounts owing to Directors and officers/advisers for past services of $476,300. Payment of these amounts was deferred during the reporting period to manage working capital requirements.

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. However should the Group be unable to raise the required funding, there is a material uncertainty that may cast significant doubt on whether the Group will be able to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the interim financial report.

NOTE 2: DEFERRED EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	6 months to 31 December 2015 $	Year to 30 June 2015 $
Exploration and evaluation phase – at cost		
Balance at beginning of reporting period	5,200,898	4,590,087
Expenditure incurred	64,028	377,472
Foreign exchange translation movement	(860,021)	233,339
Balance at end of reporting period	4,404,905	5,200,898

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NOTE 3: TRADE AND OTHER PAYABLES

Included in trade and other payables as at 31 December 2015 are amounts owing to Directors and officers/advisers for past services of $476,300. Payment of these amounts was deferred during the reporting period to manage working capital requirements.

NOTE 4: ISSUED CAPITAL

	Consolidated	
	6 months to 31 December 2015 $	Year to 30 June 2015 $
Ordinary shares		
352,025,933 (30 June 2015: 351,695,363) Issued and fully paid ordinary shares	30,937,575	30,885,320

Movements in shares on issue		
Balance at beginning of reporting period	30,885,320	29,603,357
Placement at 6 cents per share	-	1,212,000
Issued in lieu of consulting costs	18,881	42,394
To be issued in lieu of consulting costs	35,181	-
Managing Director retention shares (i)	-	102,666
Share issue costs	(1,807)	(75,097)
Balance at end of reporting period	30,937,575	30,885,320

		Number of Shares
Balance at beginning of reporting period	351,695,363	329,482,541
Placement at 6 cents per share	-	20,200,000
Issued in lieu of consulting costs	330,570	679,488
Managing Director retention shares (i)	-	1,333,334
Balance at end of reporting period	352,025,933	351,695,363

(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. At the date of signing the financial report a total of 1,333,332 Retention Shares remain to be issued to Mr Willes. An expense of $51,862 for Retention Shares has been recorded for the period ended 31 December 2015 and an increase of the same amount to the share-based payments reserve in the Statement of Changes in Equity. The issue of the final 1,333,332 Retention Shares to Mr Willes will complete the requirements of his remuneration package in respect to the Retention Shares.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2015

NOTE 5: OPTIONS

Options as at 31 December 2015 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	20 November 2016	$0.15	7,500,000
Listed	30 June 2016	$0.20	65,896,502
Total			73,396,502

NOTE 6: 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 or upon a minimum of ZAR100 million raised from third party investors; 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 2015 over Ordinary Shares:

Type	*Expiry Date*	*Exercise Price*	*Number*
Unlisted	30 June 2016	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 2015

NOTE 7: LOSS PER SHARE

	Consolidated	
	31 December 2015 $	31 December 2014 $
(a) Loss used in the calculation of loss per share	(593,544)	(680,454)
	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:	351,984,642	332,806,515

NOTE 8: 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 9: CONTINGENT LIABILITIES

The Directors are not aware of any significant contingent liabilities as at 31 December 2015.

NOTE 10: 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 2015 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 10th day of March 2016

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 statement of financial position as at 31 December 2015, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the Group 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 Group's financial position as at 31 December 2015 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 Group's financial position as at 31 December 2015 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*.

Emphasis of Matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the net loss of the Group for the financial period amounted to $608,127 (2014: $681,078). As at 31 December 2015, the Group's net assets were $4,220,629 and the net current asset deficiency was $184,276. These conditions, along with other matters as set forth in Note 1 indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, whether it will be able to realise its assets and extinguish its liabilities in the normal course of business.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R W Ohm
Partner

Perth, Western Australia
10 March 2016