

# Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report  
31 December 2016

## **COMPANY DIRECTORY**

### **Chairman**

Michael Fry

### **Managing Director**

Robert Willes

### **Non-Executive Director**

Bill Bloking

### **Company Secretary**

Adrien Wing

### **Registered Office**

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### **Auditors**

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PERTH WA 6000

### **Share Registrar**

Security Transfer Registrars Pty Ltd

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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 2016. 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

- Recommended changes to the Mineral and Petroleum Resources Development Act ("MPRDA") Amendment Bill presented to the Upper House (National Council of Provinces) Select Committee by the Department of Mineral Resources ("DMR") in early November. Public consultations expected to be complete by end March/April 2017.
- Preliminary Information Memorandum on the LNG Independent Power Producer Procurement Programme published in early October. Energy Minister states the programme "is designed to provide imported LNG as a base to trigger exploration as well as upstream development and the reindustrialization of the economy."
- Department of Energy ("DOE") gazettes draft Integrated Energy Plan (IEP) and draft Integrated Resource Plan (IRP) Assumptions and Base Case for public comment in late November.
- Strategic Environmental Assessment ("SEA") for Shale Gas Development completes second phase with publication in November of the final scientific assessment report.
- Given past delays and remaining uncertainties around the timing of exploration rights awards, the Company continues to focus on internal cost control and is also evaluating other projects that could add a further dimension to the Company's portfolio.

### *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")) has engaged with government to deliver constructive solutions for the legislative framework (the Mineral and Petroleum Resources Development Act, 28 of 2002 - "MPRDA").

The MPRDA Amendment Bill has been referred to Parliament. Having completed its passage through the National Assembly (the lower house of Parliament), the Bill has been referred to the National Council of Provinces ("NCOP") (the upper house of Parliament).

Recommended changes to the Bill were presented to the Upper House (National Council of Provinces) Select Committee by the Department of Mineral Resources ("DMR") in early November.

The DMR proposed that the state's 20% free carried interest be changed to a 20% carried interest with a cost recovery mechanism during the production phase. The holder of an exploration right, which has applied for a production right, is entitled to apply for a downward adjustment of the 20% state carried interest. The Minister of Mineral Resources may grant this downward adjustment following consultation with the Minister of Finance, on a case by case basis, to ensure that projects remain financially viable. It is envisaged that project certainty will be created by agreeing and appending the production right terms and conditions to the exploration right (the terms of production will be settled at exploration stage), subject to renegotiation between the parties at the renewal of the 30-year production right.

Currently black economic empowerment (“BEE”) participation under the MPRDA is governed by the Mining Charter but this does not specifically provide for upstream oil and gas operations, and the industry has not been involved in the consultation on this matter. The DMR proposed that the Minister of Mineral Resources be given the power to develop a Petroleum Charter for the upstream oil and gas industry, and that a lower 10% shareholding be reserved for BEE participation. The DMR explained that, after extensive consultation, and given the high cost and associated risk of oil and gas exploration, together with the state’s 20% carried interest, this level of BEE participation is considered more appropriate to the industry.

In accordance with the terms of the President’s referral of the Bill back to Parliament, further public hearings are required to correct defects in the initial public participation process. This should be the final step in addressing the President’s reservations.

At the time of writing, the majority of provinces have held their own briefing sessions with the DMR, following which public consultations will be held. Public consultations commenced in Kwa-Zulu Natal and the majority of provinces have now set dates or held their public consultations. We expect that all of the public consultations will be completed by the end of March/April. Any proposed amendments that may result from this will then follow due process. Challenger’s website contains links to recent media interviews and articles that provide further context.

Challenger anticipates further progress with regard to the granting of exploration rights once the MPRDA Amendment Bill has passed through Parliament.

### **Role of gas in South Africa’s energy mix**

In early October a Preliminary Information Memorandum (PIM) on the Liquefied Natural Gas Independent Power Producer Procurement Programme (LNG IPPPP) was launched by South Africa’s Department of Energy (DoE) at the South Africa: Gas Options conference in Cape Town.

The PIM describes the scope of the LNG IPPPP for prospective and interested bidders and highlights the opportunities the programme presents to the bidders and to the South African economy. One of the primary objectives of the programme is to develop a gas economy in South Africa, including gas exploration and production from indigenous resources. Nqgura (Coega) (Eastern Cape Province) and Richards Bay (KwaZulu-Natal Province) have been identified as the two feasible sites to develop LNG projects for the first phase. Challenger anticipates that the programme will kick start investment in gas and power infrastructure that may benefit the future production of domestic gas, noting that Coega is proximate to Bundu’s exploration rights application area.

Energy Minister Tina Joemat-Pettersson states in the PIM that;

*“The LNG-to-Power IPP procurement programme is designed to provide imported LNG as a base to trigger exploration as well as upstream development and the re- industrialization of the economy. It is expected to build significant anchor gas demand in the South African economy, while indigenous and/or more regional gas supply is being developed, and over time supplement imported LNG,”*

International Finance Corporation (IFC) principal investment officer Marcel Bruhwiler is quoted as saying that;

*“We think gas-to-power makes a great deal of sense. Together with renewables, this has proved to work in many other markets,”*

He said the IFC would provide expertise and financing and was confident about the success of the project flowing from the government’s renewable-energy programme.

*“We see the PIM opening further opportunities for private investment in the energy sector. The use of natural gas is an important step in South Africa’s energy economy. Together with abundant renewables, gas is a powerful combination and affordable for long-term power supply.”*

The Coega Development Corporation, which oversees the Coega Industrial Development Zone, anticipates the investment value associated with the zone’s selection as one of two locations for the first phase of the LNG IPPPP to total R25-billion.

As well as LNG importation, storage and handling infrastructure, the Department of Energy reportedly envisages the building of private gas-fired power generation capacity of 1000 MW in addition to the existing 342 MW Dedisa peaking power plant, which recently entered commercial operation and which is also designed for conversion from diesel to gas.

In late November, the DoE gazetted the draft Integrated Energy Plan (IEP) and the draft Integrated Resource Plan (IRP) Assumptions and Base Case for public comment. The closing date for public comments was initially set at 15 February 2017, but the DOE has extended the period for public comment until 31 March 2017. The IRP for 2010-30 was promulgated in 2011 as a “living plan”, and since that time there have been a number of developments in the energy sector in South and Southern Africa as well as changes in the electricity demand outlook. The IEP is described as “a national plan which describes the recommended future energy roadmap for South Africa”, with the objective of guiding policy development, setting the framework for regulations and informing the selection of technologies to meet future energy demand. It covers the entire energy sector whereas the IRP is described as “the country plan which sets out the electricity supply and demand balance and requirements (including the technologies) from 2020 to 2050”. Following the public consultation process, the IRP will be finalised and tabled to Cabinet for approval. The request for qualifications (RFQ) for the LNG IPPPP previously scheduled for November has been delayed to ensure alignment between the procurement programme and the IRP.

In November, the government-commissioned two-year Strategic Environmental Assessment (“SEA”) for Shale Gas Development completed its second phase with the publication of the final version of “Shale Gas Development in the Central Karoo: A Scientific Assessment of the Opportunities and Risks”. A link to these extensive reports is provided on Challenger’s website. The third and final phase will translate the scientific assessment into an operational decision-making framework. This is expected to conclude around March 2017 and is intended to provide the framework that will guide site and activity specific assessment processes, and provide government with the necessary tools to enable responsible decision-making into the future regarding shale gas development. This includes guidance on legislation, regulations, environmental impact assessment processes and monitoring.

### **Corporate**

Whilst working to progress the licence application, management continues to focus on cost reduction and on evaluating potential new projects to add to the Company’s portfolio.

The Annual Report was released to the ASX on 21 September 2016 and the Annual General Meeting was held on 24 November 2016. All resolutions were passed by the requisite majority.

### **Background**

The Karoo Basin, which extends across 600,000 km<sup>2</sup>, 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 CR1/68 well, flowed at a rate of 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 centred on this well.

The US 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 unpartnered 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 6 and forms part of this Directors' report for the half-year ended 31 December 2016.

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 14<sup>th</sup> day of March 2017



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 2016, 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.

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

Perth, Western Australia  
14 March 2017

M R W Ohm  
Partner

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Consolidated	
	31 December 2016 \$	31 December 2015 \$
Other revenue	3,585	32,963
Expenses:		
Consultants	(25,428)	(84,840)
Legal, accounting and compliance	(109,512)	(111,944)
Administration and travel expenses	(30,682)	(59,050)
Director fees and employee benefits	(172,500)	(248,015)
Evaluation costs on potential new projects	(82,500)	-
Share based remuneration	(12,019)	(125,462)
Foreign exchange gain/(loss)	7	(11,779)
<b>Loss before income tax expense</b>	<b>(429,049)</b>	<b>(608,127)</b>
Income tax expense	-	-
<b>Net loss for the period</b>	<b>(429,049)</b>	<b>(608,127)</b>
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign subsidiaries	626,415	(847,628)
Income tax on other comprehensive income	-	-
<b>Other comprehensive income/(loss) for the period</b>	<b>626,415</b>	<b>(847,628)</b>
<b>Total comprehensive income/(loss) for the period</b>	<b>197,366</b>	<b>(1,455,755)</b>
<b>Loss attributed to:</b>		
Owners of the parent	(439,241)	(593,544)
Non-controlling interests	10,192	(14,583)
	<b>(429,049)</b>	<b>(608,127)</b>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the parent	168,040	(1,413,675)
Non-controlling interests	29,326	(42,080)
	<b>197,366</b>	<b>(1,455,755)</b>
Basic loss per share (cents per share)	7	(0.11)
Diluted loss per share (cents per share)	7	(0.11)

*The accompanying notes form part of these financial statements.*

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2016**

	Note	Consolidated	
		31 December 2016 \$	30 June 2016 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		560,464	850,913
Trade and other receivables		12,318	23,581
Other financial assets		32,479	32,200
Other assets		20,512	21,138
<b>Total Current Assets</b>		<b>625,773</b>	<b>927,832</b>
<b>Non-Current Assets</b>			
Deferred exploration and evaluation expenditure	2	5,061,752	4,457,303
<b>Total Non-Current Assets</b>		<b>5,061,752</b>	<b>4,457,303</b>
<b>Total Assets</b>		<b>5,687,525</b>	<b>5,385,135</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	3	655,949	650,041
<b>Total Current Liabilities</b>		<b>655,949</b>	<b>650,041</b>
<b>Total Liabilities</b>		<b>655,949</b>	<b>650,041</b>
<b>Net Assets</b>		<b>5,031,576</b>	<b>4,735,094</b>
<b>Equity</b>			
Issued capital	4	32,031,378	31,944,281
Reserves		690,329	71,029
Accumulated losses		(27,859,820)	(27,420,579)
<b>Equity attributable to owners of the parent</b>		<b>4,861,887</b>	<b>4,594,731</b>
Non-controlling interest		169,689	140,363
<b>Total Equity</b>		<b>5,031,576</b>	<b>4,735,094</b>

*The accompanying notes form part of these financial statements.*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Issued Capital	Accumulated Losses	Consolidated Reserves	Non-Controlling Interest	Total
	\$	\$	\$	\$	\$
<b>Balance at 1 July 2016</b>	31,944,281	(27,420,579)	71,029	140,363	4,735,094
Loss for the period	-	(439,241)	-	10,192	(429,049)
Exchange differences on translation of foreign subsidiaries	-	-	607,281	19,134	626,415
<b>Total comprehensive income for the period</b>	-	(439,241)	607,281	29,326	197,366
Shares issued	87,097	-	-	-	87,097
Share based remuneration	-	-	12,019	-	12,019
<b>Balance at 31 December 2016</b>	<b>32,031,378</b>	<b>(27,859,820)</b>	<b>690,329</b>	<b>169,689</b>	<b>5,031,576</b>
<b>Balance at 1 July 2015</b>	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)
<b>Total comprehensive loss for the period</b>	-	(593,544)	(820,131)	(42,080)	(1,455,755)
Shares issued	54,062	-	-	-	54,062
Capital raising costs	(1,807)	-	-	-	(1,807)
Share based remuneration	-	-	125,462	-	125,462
<b>Balance at 31 December 2015</b>	<b>30,937,575</b>	<b>(26,969,642)</b>	<b>114,142</b>	<b>138,554</b>	<b>4,220,629</b>

*The accompanying notes form part of these financial statements.*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
<b>Cash flows from operating activities</b>		
Payments to suppliers and employees	(295,704)	(331,606)
Interest received	3,180	5,080
Net cash (used in) operating activities	<u>(292,524)</u>	<u>(326,526)</u>
<b>Cash flows from investing activities</b>		
Payments for deferred exploration and evaluation expenditure	-	(103,412)
Net cash (used in) investing activities	<u>-</u>	<u>(103,412)</u>
<b>Cash flows from financing activities</b>		
Payment of equity raising costs	-	(1,807)
Net cash (used in) financing activities	<u>-</u>	<u>(1,807)</u>
Net (decrease)/increase in cash and cash equivalents held	(292,524)	(431,745)
Cash and cash equivalents at 1 July	850,913	714,063
Effects of foreign exchange rate fluctuations	2,075	613
<b>Cash and cash equivalents at 31 December</b>	<u><u>560,464</u></u>	<u><u>282,931</u></u>

*The accompanying notes form part of these financial statements.*

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

### **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 2016 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 2016 annual financial report for the financial year ended 30 June 2016.

#### **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 2016.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Adoption of new and revised Accounting Standards

In the half-year ended 31 December 2016, 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 2016.

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 2016. 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 \$429,049 (2015: \$608,127). As at 31 December 2016 the Group's net assets were \$5,031,576 and the net current asset deficiency was \$30,176.

Included in current liabilities as at 31 December 2016 are amounts owing to Directors and officers/advisers for past services of \$598,125. 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 2016 \$	Year to 30 June 2016 \$
<b>Exploration and evaluation phase – at cost</b>		
Balance at beginning of reporting period	4,457,303	5,200,898
Expenditure incurred	17,734	95,784
Foreign exchange translation movement	586,715	(839,379)
Balance at end of reporting period	<u>5,061,752</u>	<u>4,457,303</u>

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 2016

### NOTE 3: TRADE AND OTHER PAYABLES

Included in trade and other payables as at 31 December 2016 are amounts owing to Directors and officers/advisers for past services of \$598,125 (30 June 2016: \$495,000). 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 2016 \$	Year to 30 June 2016 \$
<i>Ordinary shares</i>		
389,466,818 (30 June 2016: 384,793,851) Issued and fully paid ordinary shares	32,031,378	31,944,281
<b>Movements in shares on issue</b>		
Balance at beginning of reporting period	31,944,281	30,885,320
Placement at 3 cents per share	-	900,000
Issued in lieu of consulting and compliance costs	87,097	115,806
To be issued in lieu of consulting costs	-	52,500
Share issue costs	-	(9,345)
Balance at end of reporting period	32,031,378	31,944,281
<b>Number of Shares</b>		
Balance at beginning of reporting period	384,793,851	351,695,363
Placement at 3 cents per share	-	30,000,000
Issued in lieu of consulting and compliance costs	4,672,967	3,098,488
Balance at end of reporting period	389,466,818	384,793,851

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 was 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 2016

### NOTE 5: OPTIONS

Options as at 31 December 2016 over Ordinary Shares:

<i>Type</i>	<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Number</i>
Unlisted	30 June 2020	\$0.05	34,750,000
Total			<u>34,750,000</u>

### 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. These Performance Rights have expired.

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 2016 over Ordinary Shares:

<i>Type</i>	<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Number</i>
Unlisted	16 March 2018	nil	2,500,000
Unlisted	7 April 2018	nil	8,000,000
Unlisted	7 April 2020	nil	4,000,000
Total			<u>14,500,000</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016

### NOTE 7: LOSS PER SHARE

	Consolidated	
	31 December 2016	31 December 2015
	\$	\$
(a) Loss used in the calculation of loss per share	(439,241)	(593,544)
	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:	388,222,387	351,984,642

### 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 2016.

### 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 15, 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 2016 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 14<sup>th</sup> day of March 2017



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 2016, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the 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, for 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 gives a true and fair view and 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 2016 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 2016 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 to the half-year financial report, which indicates that the net loss of the Group for the financial period amounted to \$429,049. As at 31 December 2016, the Group's net assets were \$5,031,576 and the net current asset deficiency was \$30,176. 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**

**Perth, Western Australia**  
**14 March 2017**

A handwritten signature in blue ink, appearing to read 'M R W Ohm'.

**M R W Ohm**  
**Partner**