

Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report
31 December 2017

COMPANY DIRECTORY

Chairman

Michael Fry

Managing Director

Robert Willes

Non-Executive Director

Bill Bloking

Company Secretary

Adrien Wing

Registered Office

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Securities Exchange Listing

Australian Securities Exchange

(Home Exchange: Perth, Western Australia)

Code: CEL

CONTENTS	PAGE
Directors' Report	2
Auditor's Independence Declaration	7
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Condensed Consolidated Statement of Financial Position	9
Condensed Consolidated Statement of Changes in Equity	10
Condensed Consolidated Statement of Cash Flows	11
Notes to the Condensed Consolidated Financial Statements	12
Directors' Declaration	20
Independent Auditor's Review Report	21

DIRECTORS' REPORT

Your Directors submit the financial report of the Group for the half-year ended 31 December 2017. 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

- Vice President Cyril Ramaphosa elected as President of the ANC, and subsequently elected as President of South Africa, representing a major change in power.
- Additional public hearings on recommended changes to the Mineral and Petroleum Resources Development Act ("MPRDA") Amendment Bill concluded on 28 June 2017.
- Parliamentary Select Committee receives proposed amendments to the MPRDA Bill (negotiating mandates) from 8 out of 9 provinces in November 2017.
- President Ramaphosa, during his first state of the nation address in February 2018, refers to "...an indication by Parliament that the Bill will reasonably be finalised during the first quarter of 2018."
- Gwede Mantashe, the Secretary General of the ANC appointed as the Minister of Mineral resources.
- Key milestone achieved as Government commissioned two-year Strategic Environmental Assessment concludes final phase.
- Eastern Cape High Court grants order setting aside the Regulations for Petroleum Exploration and Production.
- 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.

Changing Political Landscape

In mid-October 2017, then President Jacob Zuma announced a further Cabinet re-shuffle including the appointment of a new Minister of Energy. The Minister for Mineral Resources, however, remained unchanged.

In December 2017, Vice President Cyril Ramaphosa was elected as the President of South Africa's governing political party, the African National Congress ("ANC"). Subsequent to the reporting period, in February 2018, he was elected President of South Africa in a parliamentary vote following the resignation of Jacob Zuma. This represents a major change in power with key changes in cabinet announced on 26 February 2018, most notably:

1. The Minister of Finance (formerly Malusi Gigaba, now Nhlanhla Nene);
2. The Minister of Mineral Resources (formerly Mosebenzi Zwani, now Gwede Mantashe, Secretary General of the ANC); and
3. The Minister of Energy (formerly David Mahlobo, now Jeff Radebe).

The appointment of Minister Mantashe was welcomed by the South African Chamber of Mines. The spokesperson of the Chamber of Mines, Charmane Russell, said:

"He is known to be a man of integrity and dignity. He brings with him a very sound and fundamental knowledge of the industry, which he will lead and enable."

Subsequent to the reporting period, in his first state of the nation address in February 2018, President Ramaphosa stated that;

“We need to see mining as a sunrise industry.”

“With the revival in commodity prices, we are determined to work with mining companies, unions and communities to grow the sector, attract new investment, create jobs and set the industry on a new path of transformation and sustainability.”

“This year, we will intensify engagements with all stakeholders on the Mining Charter to ensure that it is truly an effective instrument to sustainably transform the face of mining in South Africa.”

“By working together, in a genuine partnership, underscored by trust and a shared vision, I am certain we will be able to resolve the current impasse and agree on a Charter that both accelerates transformation and grows this vital sector of our economy.”

“Processing of the MPRDA Amendment Bill through both houses of Parliament is at an advanced stage, with an indication by Parliament that the Bill will reasonably be finalised during the first quarter of 2018.”

“The Bill, once enacted into law, will entrench existing regulatory certainty, provide for security of tenure and advance the socio-economic interests of all South Africans.”

Legislative Framework

As previously reported, the MPRDA¹ Amendment Bill (the “Bill”) was referred back to Parliament by President Jacob Zuma. Having completed its passage through the National Assembly (the lower house of Parliament), the Bill was referred to the National House of Traditional Leaders and the National Council of Provinces (“NCOP”) (the upper house of Parliament).

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

The NCOP Select Committee on Land and Mineral and Resources (the “Select Committee”) held public hearings on the Bill in each province of South Africa from 25 January to 20 April 2017. In addition to the public hearings in each of the provinces the Select Committee called for written and oral submissions directly and these oral representations were hosted in Parliament from 13 to 28 June 2017.

The Select Committee is mandated to vote on any amendments to the MPRDA Amendment Bill before the final draft is sent to the National Assembly for parliamentary approval. As part of this process, each provincial legislature was requested to propose amendments to the MPRDA Bill in accordance with comments received in the provincial public hearings (“Negotiating Mandates”). In November 2017 the Select Committee received negotiating mandates from 8 of the 9 provinces (the Western Cape being delayed in their response). The Select Committee must now vote on each amendment proposed in each negotiating mandate in order to arrive at the final draft MPRDA Amendment Bill to be sent to the National Assembly.

On 19 July 2017, the Minister of Mineral Resources, Mosebenzi Zwane, gazetted a notice inviting stakeholders to submit representations on a proposed restriction under the MPRDA on the granting of any new application for a prospecting or mining right, the processing of any application for renewal of a prospecting or mining right, and the receiving of any applications for the transfer of a right. The notice was clear that the moratorium would ‘not be applicable to applications received and accepted before the date of publication of this notice’. Consequently it is not expected that this will affect Bundu’s application.

Following a court challenge by the South African Chamber of Mines, the Department of Mineral Resources agreed to withdraw the proposed moratorium. This agreement was made an order of court on 4 August 2017.

¹ Mineral and Petroleum Resources Development Act, 28 of 2002 - “MPRDA”

As previously reported, on Wednesday 18 October 2017, in *John Douglas Stern v the Minister of Mineral Resources, (2015) EC*, the Eastern Cape High Court in Grahamstown granted an order setting aside the decision of the Minister of Mineral Resources to make the Regulations for Petroleum Exploration and Production, 2015 (the “Technical Regulations”). Subject to any appeal on behalf of the Minister, the Technical Regulations, which cover technical details relating to exploration and production of petroleum through hydraulic fracturing, may now have to be redrafted.

The Regulations were rejected primarily due to the inclusion of provisions which cover environmental issues (which the Department of Mineral Resources is allegedly no longer authorised to regulate). These provisions would need to be provided for in regulations published by the Department of Environmental Affairs, in accordance with the provisions of the National Environmental Act (“NEMA”).

While the court made no substantive ruling relating to hydraulic fracturing as a practice in South Africa, the ruling may delay the granting of licenses to explore for petroleum products through hydraulic fracturing until new regulations can be passed following the mandatory public participation process.

Strategic Environmental Assessment

The South African government-commissioned two-year Strategic Environmental Assessment (“SEA”) for Shale Gas Development has now completed its third and final phase with the publication of the “Decision Support Tools Report”. A link to the SEA website containing this and the Phase 2 Scientific Assessment Report is provided on Challenger’s website.

The Decision Support Tools are intended to translate the scientific assessment into an operational decision-making framework to 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 exploration and development.

The report is an extensive and detailed document, and reaches a number of conclusions such as;

“There will be an element of ‘learning-by-doing’ during exploration, which if sufficiently planned and managed, should not result in disproportionately high risks to the Central Karoo environments and people.”

and

“Including more natural gas in South Africa’s energy mix would make the energy system more resilient, efficient, cheaper and reliable. Natural gas, regardless of its source, has a desirable set of qualities that coal and oil do not possess. Natural gas can be used in almost all subsectors (power generation, heat, transport, chemicals manufacturing); is easily transported once professionally operated gas infrastructure is in place; is supported by a growing international market; is a more homogenous fuel than coal (thus more flexible and easier to handle); is less CO₂ intensive when burnt than coal (if leakage during production and transport is minimised); can be more efficiently used for power generation (more kWh per GJ); has high operational flexibility; and has an end-use cost structure that is capital- light and fuel-intensive, making it economically flexible.”

“Because of its high operational flexibility, shale gas could enable the integration of more renewables into the energy mix and reduce the portfolio costs of power generation. The use of relatively low-cost shale gas would enable the creation of a network of gas-fired power stations located in the Central Karoo. These power stations have attributes complementary to solar photovoltaic (PV) and wind generation plants which are inherently variable. Thus a portfolio containing all three is cheaper to build and operate than any one alone, for now and into the foreseeable future. As such, shale gas finds would not change the selected planning scenario for the electricity sector, which already calls for more natural gas and renewables, but would likely make this mix cheaper and cleaner.”

and

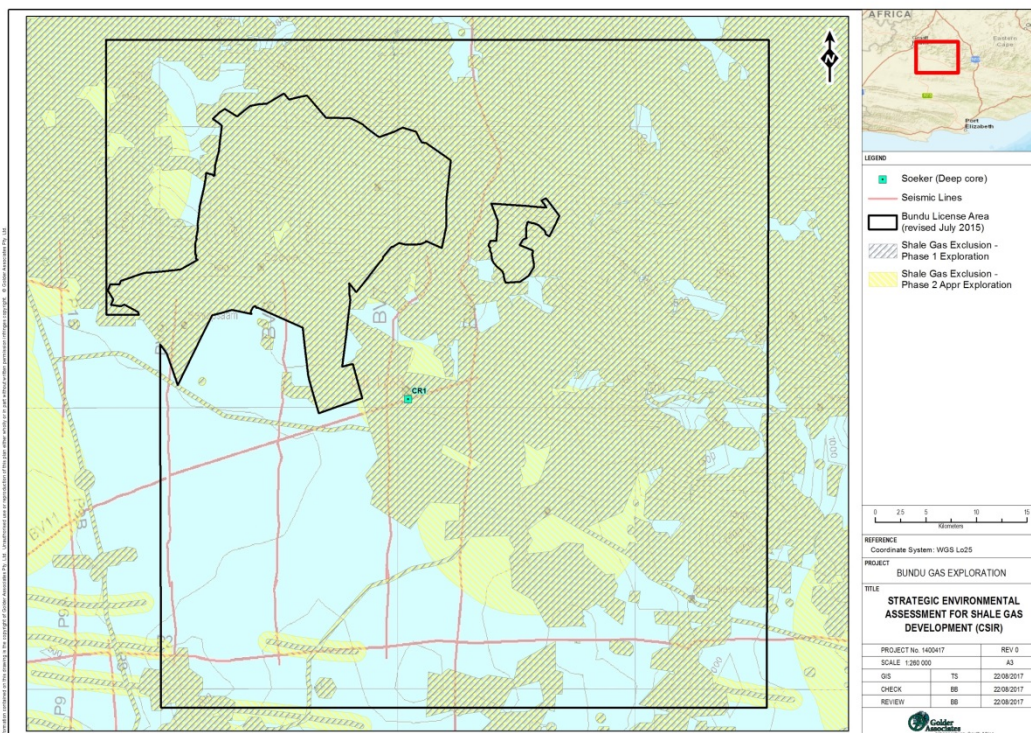
“This effectively means that > 99 % of the surface area of the Central Karoo will not be directly affected by shale gas exploration and production, even at the Big Gas scenario, meaning that it will be entirely possible to use avoidance as the primary mitigation mechanism in reducing the risks posed by shale gas exploration Phase I (“Exploration”) and Phase II (“Appraisal”). There is more than sufficient evidence, that from a perspective of geographical footprint, that shale gas exploration can reach reasonably large proportions without impinging on other land-uses in Central Karoo provided that appropriate avoidance and site-specific mitigation is employed.”

“With this in mind, the prescription of exclusion areas for shale gas exploration is an effective approach to risk mitigation and the determination of limits of acceptable change. Exclusions areas can be delimited at two scales: at a coarse scale – where regional species, trends, features and populations which occur should be protected (the focus of a strategic-level study); and at fine scale – where sensitive features can be ‘groundtruthed’ and mapped onsite at fine-scale (the focus of an EIA-level investigation).”

The Decision Support Tools Report contains proposed strategic management actions to mitigate the identified risk factors and a number of maps proposing exclusion areas for shale gas exploration and appraisal across the combined shale gas application areas in the Karoo. These maps are at a large scale but appear to propose extensive exclusion areas across Challenger subsidiary, Bundu’s, application area, including protected areas that Bundu has already removed from its application area.

The map below shows the proposed exclusion areas within Bundu’s application area. The application area totals 356,908 hectares (881,939 acres). The SEA proposed exclusion area during exploration is 221,043 hectares (546,209 acres), increasing to 239,624 hectares (592,124 acres) during appraisal.

Bundu and Challenger note that this is a recommendation only – it has not been adopted by government and has no legal standing. We also note that the south west part of the block is likely to be the primary initial area of focus given the historic seismic and drilling. In the event of exploration success, and dependent on factors such as resource density, and well spacing, a relatively small area can potentially host a viable development. Additionally, the terms of an exploration right award typically include a requirement to relinquish a proportion of acreage at renewal.



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. A significant number of potential projects have been assessed, and the Company continues to actively pursue a number of opportunities.

The Annual Report was released to the ASX on 31 August 2017 and the Annual General Meeting was held on 23 November 2017. All resolutions were passed by the requisite majority.

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 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. Major international companies Shell 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. The recent downgrade of South Africa's foreign currency sovereign credit rating to junk status by S&P Global Ratings and Fitch Ratings is expected to add to the pressure on the economy.

Events Subsequent to Balance Date

Since balance date there have been changes to the South African political landscape with the election of Cyril Ramaphosa and a number of consequent cabinet changes. In addition, the Company has called on and has received a further \$100,000 in unsecured loans under the unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd.

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 7 and forms part of this Directors' report for the half-year ended 31 December 2017.

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 14th day of March 2018



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 2017, 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 Ohm'.

Perth, Western Australia
14 March 2018

M R Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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HLB Mann Judd (WA Partnership) is a member of  HLB International, a world-wide organisation of accounting firms and business advisers

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

		Consolidated	
	Note	31 December 2017 \$	31 December Restated * 2016 \$
Other revenue		1,198	3,585
Consultants		(9,691)	(25,428)
Legal, accounting and compliance		(117,053)	(109,512)
Administration and travel expenses		(20,918)	(30,682)
Director fees and employee benefits		(124,692)	(172,500)
Evaluation costs on potential new projects		(122,808)	(82,500)
Exploration expenditure expensed as incurred		-	(18,302)
Share based remuneration		32,738	(12,019)
Foreign exchange gain/(loss)		-	7
Loss before income tax expense		(361,226)	(447,351)
Income tax expense		-	-
Net loss for the period		(361,226)	(447,351)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		705	40,269
Income tax on other comprehensive income		-	-
Other comprehensive loss for the period		705	40,269
Total comprehensive loss for the period		(360,521)	(407,082)
Loss attributed to:			
Owners of the parent		(364,510)	(456,629)
Non-controlling interests		3,284	9,278
		(361,226)	(447,351)
Total comprehensive loss attributable to:			
Owners of the parent		(361,168)	(402,894)
Non-controlling interests		647	(4,188)
		(360,521)	(407,082)
Basic loss per share (cents per share)	8	(0.09)	(0.12)
Diluted loss per share (cents per share)	8	(0.09)	(0.12)

The accompanying notes form part of these financial statements.

** Refer to Note 2 for details about restatements for the voluntary change in accounting policy.*

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	Consolidated	
		31 December	30 June
		2017	2017
		\$	\$
Assets			
Current Assets			
Cash and cash equivalents		147,557	331,144
Trade and other receivables		8,491	6,685
Other financial assets		33,241	32,895
Prepayments		17,131	12,286
Total Current Assets		206,420	383,010
Total Assets		206,420	383,010
Liabilities			
Current Liabilities			
Trade and other payables	3	927,446	810,777
Borrowings - unsecured	4	100,000	-
Total Current Liabilities		1,027,446	810,777
Total Liabilities		1,027,446	810,777
Net Assets / (Deficiency)		(821,026)	(427,767)
Equity			
Issued capital	5	32,017,355	32,017,355
Reserves		2,600,760	2,630,156
Accumulated losses		(35,355,582)	(34,991,072)
Equity attributable to owners of the parent		(737,467)	(343,561)
Non-controlling interest		(83,559)	(84,206)
Total Equity / (Deficiency)		(821,026)	(427,767)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2017

	Consolidated				Total
	Issued Capital	Accumulated Losses	Reserves	Non- Controlling Interest	
	\$	\$	\$	\$	\$
Balance at 1 July 2017	32,017,355	(34,991,072)	2,630,156	(84,206)	(427,767)
Loss for the period	-	(364,510)	-	3,284	(361,226)
Exchange differences on translation of foreign subsidiaries	-	-	3,342	(2,637)	705
Total comprehensive income for the period	-	(364,510)	3,342	647	(360,521)
Share based remuneration	-	-	(32,738)	-	(32,738)
Balance at 31 December 2017	32,017,355	(35,355,582)	2,600,760	(83,559)	(821,026)
Balance at 1 July 2016 (restated *)	31,944,281	(34,131,367)	2,547,378	(82,501)	277,791
Loss for the period	-	(456,629)	-	9,278	(447,351)
Exchange differences on translation of foreign subsidiaries	-	-	53,735	(13,466)	40,269
Total comprehensive loss for the period	-	(456,629)	53,735	(4,188)	(407,082)
Shares issued	87,097	-	-	-	87,097
Share based remuneration	-	-	12,019	-	12,019
Balance at 31 December 2016	32,031,378	(34,587,996)	2,613,132	(86,689)	(30,175)

The accompanying notes form part of these financial statements.

** Refer to Note 2 for details about restatements for the voluntary change in accounting policy.*

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Consolidated	
	31 December 2017	31 December 2016
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(284,664)	(295,704)
Interest received	606	3,180
Net cash (used in) operating activities	(284,058)	(292,524)
Cash flows from financing activities		
Proceeds from unsecured loans	100,000	-
Net cash provided by financing activities	100,000	-
Net (decrease) in cash and cash equivalents held	(184,058)	(292,524)
Cash and cash equivalents at 1 July	331,144	850,913
Effects of foreign exchange rate fluctuations	471	2,075
Cash and cash equivalents at 31 December	147,557	560,464

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

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'. The Company is a for-profit entity domiciled in Australia.

It is recommended that these financial statements be read in conjunction with the financial report for the year ended 30 June 2017 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.

The interim financial statements were authorised for issue on 14th March 2018.

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 annual financial report for the year ended 30 June 2017.

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 2017.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards

Standards and Interpretations applicable to 31 December 2017

In the period ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Group accounting policies.

Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all Standards and Interpretations in issue not yet adopted for the period ended 31 December 2017. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Company 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 \$361,226 (2016: \$447,351). As at 31 December 2017 the Group's net asset deficiency was \$821,026 and the net current asset deficiency was also \$821,026.

Included in current liabilities as at 31 December 2017 are amounts owing to Directors and officers/advisers for past services of \$845,625. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. VOLUNTARY CHANGE IN ACCOUNTING POLICY

(a) Exploration and Evaluation Accounting Policy

The financial report has been prepared on the basis of a retrospectively applied voluntary change in accounting policy related to exploration and evaluation expenditure adopted for the year ended 30 June 2017.

The new accounting policy is to expense exploration and evaluation expenditure to the profit or loss as incurred except in the following circumstance in which case the expenditure may be capitalised:

- The existence of a mineral deposit has been established however additional expenditure is required to determine the technical feasibility and commercial viability of extraction and it is anticipated that future economic benefits are more likely than not to be generated as a result of the expenditure.

The previous accounting policy was to capitalise exploration and evaluation expenditure incurred and carry forward as an asset when costs were expected to be recouped through the successful development of the area of interest (or alternatively by its sale), or where activities in the area had not yet reached a stage which permitted a reasonable assessment of the existence or otherwise of economically recoverable reserves and active operations were continuing.

The directors believe that this change in policy will result in more relevant and reliable information in the financial report. Recognition criteria of exploration and evaluation assets are inherently uncertain and expensing as incurred results in a more transparent statement of financial position and statement of profit or loss and other comprehensive income. Furthermore, the newly adopted accounting policy is consistent with those of many other exploration and mining companies.

(b) Impact on Financial Statements

As a result of the change in the accounting policy for exploration and evaluation expenditure, prior year financial statements were restated. The amounts disclosed for the 2016 reporting period comparatives are after the change in accounting policy for exploration and expenditure.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. VOLUNTARY CHANGE IN ACCOUNTING POLICY (CONT'D)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Previously Stated 2016 \$	Loss Increase/ (Decrease) \$	Restated * 2016 \$
Other income	3,585	-	3,585
Exploration expensed as incurred	-	(18,302)	(18,302)
Consultants' fees	(25,428)	-	(25,428)
Legal and compliance	(109,512)	-	(109,512)
Administration and travel	(30,682)	-	(30,682)
Directors' fees and salaries	(172,500)	-	(172,500)
Evaluation costs on potential projects	(82,500)	-	(82,500)
Share based remuneration	(12,019)	-	(12,019)
Foreign exchange loss	7	-	7
Loss before income tax	(429,049)	(18,302)	(447,351)
Income tax expense	-	-	-
Net loss for the year	(429,049)	(18,302)	(447,351)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	626,415	(586,146)	40,269
Other comprehensive loss for the year	626,415	(586,146)	40,269
Total comprehensive loss for the year	197,366	(604,448)	(407,082)
Earnings per share:			
Basic loss per share (cents)	(0.11)		(0.12)
Diluted loss per share (cents)	(0.11)		(0.12)

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

2. VOLUNTARY CHANGE IN ACCOUNTING POLICY (CONT'D)

Statement of Financial Position 30 June 2016

	Previously Stated 2016 \$	Loss Increase/ (Decrease) \$	Restated * 2016 \$
Deferred exploration and evaluation	4,457,303	(4,457,303)	-
Total Assets	5,385,135	(4,457,303)	927,832
Net Assets	4,735,094	(4,457,303)	277,791
Equity			
Issued Capital	31,944,281	-	31,944,281
Reserves	71,029	2,476,349	2,547,378
Accumulated losses	(27,420,579)	(6,710,788)	(34,131,367)
Equity attributable to owners of the parent	4,594,731	(4,234,439)	360,292
Non-controlling interest	140,363	(222,864)	(82,501)
Total Equity	4,735,094	(4,457,303)	277,791

Exploration and evaluation expenditure that is expensed is included as part of cash flows from operating activities whereas exploration and evaluation expenditure that is capitalised is included as part of cash flows from investing activities. This has resulted in \$nil additional cash outflows from operating activities for the half year ended 31 December 2016.

NOTE 3: TRADE AND OTHER PAYABLES

Included in trade and other payables as at 31 December 2017 are amounts owing to Directors for past services of \$845,625 (30 June 2017: \$721,875). Payment of these amounts was deferred during the reporting period to manage working capital requirements.

NOTE 4: BORROWINGS

The Company has entered into an unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd for up to \$200,000. The Company has called on and has received \$100,000 in unsecured loans during the period. The Company has called on and has received a further \$100,000 in unsecured loans subsequent to balance date as disclosed in Note 9. The called upon unsecured loans incur a 5% p.a. interest rate.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 5: ISSUED CAPITAL

	Consolidated	
	6 months to 31 December 2017 \$	Year to 30 June 2017 \$
<i>Ordinary shares</i>		
389,466,818 (30 June 2017: 389,466,818) Issued and fully paid ordinary shares	32,017,355	32,017,355
Movements in shares on issue		
Balance at beginning of reporting period	32,017,355	31,944,281
Issued in lieu of consulting and compliance costs	-	73,074
Balance at end of reporting period	32,017,355	32,017,355
	Number of Shares	
Balance at beginning of reporting period	389,466,818	384,793,851
Issued in lieu of consulting and compliance costs	-	4,672,967
Balance at end of reporting period	389,466,818	389,466,818

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017

NOTE 6: OPTIONS

Options as at 31 December 2017 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 7: 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 2017 over Ordinary Shares:

<i>Type</i>	<i>Expiry Date</i>	<i>Exercise Price</i>	<i>Number</i>
Unlisted	17 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 2017

NOTE 8: LOSS PER SHARE

	Consolidated	
	31 December 2017	31 December Restated 2016
	\$	\$
(a) Loss used in the calculation of loss per share	(364,510)	(456,629)
	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:	389,466,818	388,222,387

NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

Since balance date there have been changes to the South African political landscape with the election of Cyril Ramaphosa and a number of consequent cabinet changes. In addition, the Company has called on and has received a further \$100,000 in unsecured loans under the unsecured loan facility disclosed in Note 4 provided by Pitt Street Absolute Return Fund Pty Ltd.

NOTE 10: SEGMENT INFORMATION

The Group is organised into one segment, being exploration operations. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ("CODM")) in assessing performance and in determining the allocation of resources.

The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

NOTE 11: FINANCIAL INSTRUMENTS

The methods and valuation techniques used for the purpose of measuring fair values are unchanged compared to the previous reporting periods.

The carrying amounts of financial instruments are considered to be a reasonable approximation of their fair value.

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes thereto, as set out on pages 8 to 19, 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 2017 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 14th day of March 2018



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

Conclusion

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 2017, the condensed consolidated statement of profit or loss and other 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 consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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*.

Material uncertainty related to going concern

We draw attention to Note 1 in the half-year financial report, which indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

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

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whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
14 March 2018

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

M R Ohm
Partner