

Challenger Energy Limited

ABN 45 123 591 382

Half-Year Report 31 December 2018

COMPANY DIRECTORY

Chairman

Michael Fry

Managing Director

Robert Willes

Non-Executive Director

Clinton Carey

Company Secretary

Robert Lees

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Auditors

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Share Registrar

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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	17
Independent Auditor's Review Report	18

DIRECTORS' REPORT

Your Directors submit the financial report of the Group for the half-year ended 31 December 2018. 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
Clinton Carey	Non-Executive Director

Review of Operations

HIGHLIGHTS

South Africa

- Minister of Mineral Resources withdraws the MPRDA Amendment Bill from parliament. The Department of Mineral Resources begins drafting a new bill specific to the petroleum sector, and which can be fast tracked without being impacted by the historic issues which have affected the MPRDA Amendment Bill.
- Ministerial notice published inviting the public to submit comments on pending shale gas applications.

Acquisition of rights to two South American gold/copper projects located in Argentina and Ecuador

- On 7 August 2018 ASX advised that the Company's securities would be suspended from quotation, following receipt of an announcement regarding a transaction that could result in a change of its activities.
- On 22 February 2019 Challenger announced binding conditional agreement to acquire 75% of the Hualilan Project (Argentina) and 100% of El Guayabo Project (Ecuador) via acquisition of AEP Corporation Pty Ltd (AEP) for consideration comprising 180,000,000¹ ordinary shares, 78,444,444¹ options 4 cents expiring 30 June 2022, 60,000,000¹ Class A Performance Shares and 60,000,000¹ Class B Performance Shares.
- AEP can earn 75% of the Hualilan Project in Argentina and 100% of El Guayabo Project in Ecuador via staged farmin agreements.
- Hualilan Project is a high-grade gold / silver project with extensive historical drilling and a 43-101 compliant foreign resource estimate.
- El Guayabo is a breccia and porphyry gold / copper project with sufficient historical information to identify multiple targets including;
 - Breccia hosted mineralization - only 2 of 10 breccia bodies systematically drill tested;
 - Extensive late stage vein system - never drill tested; and
 - Underlying porphyry system target - never drill tested.
- Short term project execution strategy that will see a drilling program at Hualilan designed to establish confidence in the foreign resource estimate and to explore areas along strike and the completion of geophysical survey work on El Guayabo to determine the likely size and depth of the porphyry target.
- The Company will continue to pursue its application for shale gas exploration rights in South Africa.
- Proposed capital raising of \$5.0m as part of proposed re-compliance with Chapters 1 and 2 of the ASX Listing Rules.
- The Company will appoint new experienced directors: Kris Knauer as Managing Director, Fletcher Quinn as Non- Executive Chairman and Scott Funston as Finance Director and CFO.
- As of 31 December 2018 AEP has raised \$2.25 million and has advanced the Company A\$200,000 and agreed to provide up to a further A\$300,000 facility to the Company to facilitate re-compliance.

- The Company will seek to consolidate its shares on a one for five basis as part of re-compliance.
- The Company will issue a prospectus to raise \$5,000,000 at \$0.03¹ per share.
- The transaction is subject to conditions, including Company shareholder approval, due diligence and the Company's re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

Update on progress in South Africa

The Company continues to pursue its application for shale gas exploration rights in South Africa. As previously indicated, there appears to be newfound political momentum, with an important decision made to abandon the long delayed MPRDA Amendment Bill² and fast track a new piece of legislation specific to the petroleum industry. Challenger is advised that on 20 September 2018 the Minister of Mineral Resources, Gwede Mantashe, withdrew the MPRDA Amendment Bill from parliament with the full support of Cabinet after a decision was taken to separate the legislation applicable to the petroleum sector from that applicable to the mining sector. The Department of Mineral Resources has begun drafting a new bill which can be fast tracked without being impacted by the historic issues which have affected the MPRDA Amendment Bill. Challenger looks forward to the swift promulgation of the new bill.

In addition, on 11 July 2018 the Minister of Mineral Resources published a notice in the provincial government gazette in terms of sections 3(2)(b) and 4(3) of the Promotion of Administration Justice Act no 3 of 2000. He invited persons that may be materially and adversely affected, by an administrative decision regarding the exploration right applications submitted by Bundu Gas and Oil (Pty) Ltd, Falcon Oil and Gas Limited and Shell Exploration South Africa BV, to make representations before 11 August 2018. This is a further indication of positive momentum.

During November, South African media reported that Mineral Resources Minister Gwede Mantashe had announced that he would amend the moratorium currently in place for the oil and gas sector to allow for the processing of applications. Mantashe is reported as saying;

"We can't delay exploration. We know the sector has been worried. We want to accelerate investment and boost investor confidence in the economy. The amendment will ensure that applications currently in our system are processed and granted."

Corporate

In June 2018 the Company announced that it intended to undertake a rights issue to raise approximately \$973,000 before costs, with confirmation of support from major shareholders to take up their respective entitlements and shortfall for a total of approximately \$500,000. The Company subsequently advised that the previously planned rights issue had been placed on hold as the Company works to advance other opportunities that could add a further dimension to the Company's portfolio, and on 3 August 2018 the Company requested a trading halt of its securities from ASX pursuant to ASX Listing Rule 17.1, pending an announcement of a material acquisition. On 7 August ASX advised that the Company's securities would be suspended from quotation, following receipt of an announcement regarding a transaction that could result in a change of its activities. ASX further advised that;

"The Company's securities will remain suspended until it has either complied with Chapters 1 and 2 of the Listing Rules in accordance with Listing Rule 11.1.3, or provided ASX Limited with sufficient information to satisfy ASX that it should not exercise its discretion under Listing Rule 11.1.2 to require

¹ - on a post 1 for 5 consolidation basis

² The MPRDA Amendment Bill (the "Bill") was referred back to Parliament by then President Jacob Zuma on the basis that further public hearings were required to correct defects in the initial public participation process. The NCOP Select Committee on Land and Mineral 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 the Select Committee called for written and oral submissions directly, the latter being hosted in Parliament from 13 to 28 June 2017. The Select Committee was mandated to vote on any amendments to the Bill before sending the final draft to the National Assembly for parliamentary approval, and each provincial legislature was requested to propose amendments in accordance with comments received in the public hearings. Following the Select Committee voting process, the final draft Bill was collated by the State Legal Advisors. Procedural issues were raised in relation to the inclusion of amendments in the Bill which amend the underlying MPRDA Act directly (as opposed to amending the Bill).

the transaction to be conditional on the approval by the Company's ordinary security holders, and under Listing Rule 11.1.3 to require the Company to re comply with Chapters 1 and 2 of the Listing Rules."

On 27 September 2018 Challenger announced the appointment of Robert Lees as Company Secretary. Mr Lees has over 35 years of experience in the accounting profession and 17 years of experience as a Company Secretary for ASX Listed companies. Mr Lees replaces Adrien Wing, who has elected to stand down as Company Secretary.

The Annual Report was released to the ASX on 28 September 2018 and the Annual General Meeting was held on 29 November 2018. All resolutions were passed by the requisite majority.

Funding

A further \$25,000 has been drawn under the unsecured loan facilities provided by Pitt Street Absolute Return Fund Pty Ltd and Seco Resource Finance Pty Ltd and an additional \$200,000 under an unsecured convertible facility related to the proposed transaction under consideration with ASX. A further \$100,000 has been drawn under this facility subsequent to balance sheet date.

Background – South Africa

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

On 22 February 2019, the Company announced it had signed a binding heads of agreement to acquire 100% of the issued capital in AEP Corporation Pty Ltd (AEP) (the Transaction). AEP owns the rights to earn in to 75% of the Hualilan Project in Argentina and 100% of the El Guayabo Project in Ecuador (collectively referred to as the Projects). In addition to \$300,000 founder capital AEP has raised \$2.25m in seed capital over the past 6 months. Under the terms of the Transaction, the current shareholders in AEP (Vendors), which includes the seed capital shareholders, will receive 180m³ ordinary shares 78.44³ million 4 cent options expiring 30 June 2022, and 120m³ performance shares in the Company as consideration for the acquisition.

The Transaction is subject to and conditional upon the satisfaction of certain conditions precedent including; the Company obtaining all regulatory and shareholder approvals for the Transaction; completion of due diligence by the Company; execution of definitive legal documentation; and re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

Hualilan Project Overview

The Hualilan Project is a skarn and manto gold silver deposit associated with a porphyry intrusive. It has extensive historical drilling with in excess of 150 drill-holes dating back to the 1970s. There has been limited historical production reported despite having in excess of 6km of underground workings reported. The property was last explored by La Mancha Resources, a Toronto Stock Exchange listed company, in 2006. La Mancha's work resulted in NI43-101 (non-JORC) resource estimates that remain open in most directions. Exploration by La Mancha attempted to assess the continuity of mineralization across the property, but this has yet to be tested by systematic drilling.

El Guayabo Project Overview

The El Guayabo Project is a breccia and porphyry gold / copper project. It was last drilled by Newmont Mining Corporation Limited and Odin Mining and Exploration Limited in 1995 and 1997 targeting gold in hydrothermal breccias. The drilling to date has demonstrated potential to host significant copper and associated gold and silver mineralisation. Drilling has returned a number of intersections of greater than 100m of intrusion related breccia and vein hosted mineralization. The El Guayabo Project has multiple targets including breccia hosted mineralization, an extensive flat lying late stage vein system and an underlying porphyry system target.

Overview of Other Transaction Terms

The Transaction consideration consists of 180m ordinary shares, 78.44m options and 120m performance shares, with the hurdles to the conversion of the performance shares linked to two Project related milestones.

The Company will, on completion of the Transaction, appoint three new experienced directors: Kris Knauer as Managing Director / CEO, Fletcher Quinn as Non-Executive Chairman, and Scott Funston as Finance Director and CFO.

As part of the Transaction, AEP has advanced \$300,000 (including an additional \$100,000 post Balance Date) to the Company with the capacity for the Company to draw down further advances of up to \$200,000. This will allow the Company to complete re-compliance and the associated \$5.0m capital raise without the need for additional capital.

The Company will seek to consolidate its shares as part of the process of seeking to re-comply with Chapters 1 and 2 of the ASX Listing Rules. The consolidation is currently proposed on a one for five basis (i.e. every 5 shares held will consolidate to 1 share). The Company intends to issue a prospectus to raise \$5,000,000 at a price of \$0.03 which is the pre-consolidation equivalent of \$0.006 per share.

Further details on the proposed Transaction, projects and work programmes are contained in the release to ASX dated 22 February 2019.

³ - on a post 1 for 5 consolidation basis

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 2018.

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



Robert Willes

Managing Director

Dated this 12th day of March 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the condensed consolidated financial report of Challenger Energy Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



Perth, Western Australia
12 March 2019

B G McVeigh
Partner

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2018**

		Consolidated	
	Note	31 December 2018 \$	31 December 2017 \$
Other revenue		149	1,198
Consultants		(1,870)	(9,691)
Legal, accounting and compliance		(115,418)	(117,053)
Administration and travel expenses		(9,138)	(20,918)
Director fees and employee benefits		(19,500)	(124,692)
Evaluation costs on potential new projects		(37,786)	(122,808)
Interest expense		(15,101)	-
Share based remuneration		-	32,738
Loss before income tax expense		(198,664)	(361,226)
Income tax expense		-	-
Net loss for the period		(198,664)	(361,226)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign subsidiaries		(12)	705
Income tax on other comprehensive income		-	-
Other comprehensive loss for the period		(12)	705
Total comprehensive loss for the period		(198,676)	(360,521)
Loss attributed to:			
Owners of the parent		(198,341)	(364,510)
Non-controlling interests		(323)	3,284
		(198,664)	(361,226)
Total comprehensive loss attributable to:			
Owners of the parent		(198,503)	(361,168)
Non-controlling interests		(173)	647
		(198,676)	(360,521)
Basic loss per share (cents per share)	7	(0.05)	(0.09)
Diluted loss per share (cents per share)	7	(0.05)	(0.09)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

		Consolidated	
	Note	31 December 2018 \$	30 June 2018 \$
Assets			
Current Assets			
Cash and cash equivalents		103,205	92,914
Trade and other receivables		5,524	11,934
Other financial assets		4,810	4,810
Prepayments		17,270	16,171
Total Current Assets		130,809	125,829
Total Assets		130,809	125,829
Liabilities			
Current Liabilities			
Trade and other payables	2	268,013	298,410
Borrowings - unsecured	3	486,543	275,000
Total Current Liabilities		754,556	573,410
Total Liabilities		754,556	573,410
Net Assets / (Deficiency)		(623,747)	(447,581)
Equity			
Issued capital	4	32,017,355	32,017,355
Reserves		2,620,087	2,597,739
Accumulated losses		(35,177,421)	(34,979,080)
Equity attributable to owners of the parent		(539,979)	(363,986)
Non-controlling interest		(83,768)	(83,595)
Total Equity / (Deficiency)		(623,747)	(447,581)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Issued Capital	Accumulated Losses	Consolidated Reserves	Non- Controlling Interest	Total
	\$	\$	\$	\$	\$
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 loss 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 2018	32,017,355	(34,979,080)	2,597,739	(83,595)	(447,581)
Loss for the period	-	(198,341)	-	(323)	(198,664)
Exchange differences on translation of foreign subsidiaries	-	-	(162)	150	(12)
Total comprehensive loss for the period	-	(198,341)	(162)	(173)	(198,676)
Convertible Note Option	-	-	22,510	-	22,510
Balance at 31 December 2018	32,017,355	(35,177,421)	2,620,087	(83,768)	(623,747)

The accompanying notes form part of these financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(214,948)	(284,664)
Interest received	231	606
Net cash (used in) operating activities	(214,717)	(284,058)
Cash flows from financing activities		
Proceeds from unsecured loans	225,000	100,000
Net cash provided by financing activities	225,000	100,000
Net increase/(decrease) in cash and cash equivalents held	10,283	(184,058)
Cash and cash equivalents at 1 July	92,914	331,144
Effects of foreign exchange rate fluctuations	8	471
Cash and cash equivalents at 31 December	103,205	147,557

The accompanying notes form part of these financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

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 2018 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 12th March 2019.

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 2018.

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 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised Accounting Standards

Standards and Interpretations applicable to 31 December 2018

In the period ended 31 December 2018, 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 2018. 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 \$198,664 (2017: \$361,226). As at 31 December 2018 the Group's net asset deficiency was \$623,747 and the net current asset deficiency was also \$623,747.

Included in current liabilities as at 31 December 2018 are amounts owing to Directors and officers/advisers for past services of \$219,500. Payment of these amounts were 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: TRADE AND OTHER PAYABLES

Included in trade and other payables as at 31 December 2018 are amounts owing to Directors for past services of \$219,500 (30 June 2018: \$200,000).

NOTE 3: 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 called upon unsecured loans of \$200,000 incur a 5% p.a. interest rate.

The Company has entered into an unsecured loan facility provided by Pitt Street Absolute Return Fund Pty Ltd and Seco Resource Finance Pty Ltd for up to \$100,000. This facility has been fully called, has a nil interest rate and is repayable by way of an issue of shares in the Company at 80% of the 5 day volume weighted average share price.

Related to the proposed transaction currently under discussion with the ASX, the Company has entered into an unsecured loan facility provided by AEP Corporation Pty Ltd for \$200,000. This facility provides for additional drawdowns of up to a further \$300,000 and is convertible at a deemed issue price of \$0.004 in circumstances whereby the transaction does not complete by 30 June 2019 (or such later date as may be agreed between the parties). The issue of shares is subject to the Company obtaining all required regulatory and/or shareholder approval(s) for the issue and compliance with all applicable laws, including the Corporations Act 2001 (Cth) (Act). As of 31 December 2018 this facility has been called upon for \$200,000 and has a nil interest rate. A further \$100,000 has been drawn subsequent to Balance Date. Under Accounting Standards an amount of \$13,457 has been included in the Equity area of the Statement of Financial Position as at 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

NOTE 4: ISSUED CAPITAL

	Consolidated	
	6 months to 31 December 2018 \$	Year to 30 June 2018 \$
<i>Ordinary shares</i>		
389,466,818 (30 June 2018: 389,466,818) Issued and fully paid ordinary shares	32,017,355	32,017,355

There was no movements in shares on issue.

As part of his remuneration package, and as approved by shareholders at the EGM held 22 August 2013, Mr Willes was to 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. As of 31 December 2018, the Board had resolved to issue and had issued 2,666,666 Retention Shares to Mr Willes. In February 2019 the Board advised Mr Willes that it no longer considered it appropriate to resolve to issue the balance of the Retention Shares and had resolved not to do so.

NOTE 5: OPTIONS

Options as at 31 December 2018 over Ordinary Shares:

Type	Expiry Date	Exercise Price	Number
Unlisted	30 June 2020	\$0.05	34,750,000
Total			34,750,000

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. These Performance Rights have expired.

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. These Performance Rights have expired.

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.

It is not currently considered probable the Tranche 4 Performance Rights will vest.

Performance Rights as at 31 December 2018 over Ordinary Shares:

Type	Expiry Date	Exercise Price	Number
Unlisted	7 April 2020	nil	4,000,000

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2018

NOTE 7: LOSS PER SHARE

	Consolidated	
	31 December 2018 \$	31 December 2017 \$
(a) Loss used in the calculation of loss per share	(198,341)	(364,510)
	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	389,466,818

NOTE 8: 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 9: 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.

NOTE 10: EVENTS SUBSEQUENT TO REPORTING DATE

On 22 February 2019 the Company announced it had signed a binding heads of agreement to acquire 100% of the issued capital in AEP Corporation Pty Ltd (AEP) (the Transaction). AEP owns the rights to earn in to 75% of the Hualilan Project in Argentina and 100% of the El Guayabo Project in Ecuador (collectively referred to as the Projects). In addition to \$300,000 founder capital AEP has raised \$2.25m in seed capital over the past 6 months. Under the terms of the Transaction, the current shareholders in AEP (Vendors), which includes the seed capital shareholders, will receive 180m[#] ordinary shares 78.44[#] million 4 cent options expiring 30 June 2022, and 120m[#] performance shares in the Company as consideration for the acquisition.

The Transaction is subject to and conditional upon the satisfaction of certain conditions precedent including; the Company obtaining all regulatory and shareholder approvals for the Transaction; completion of due diligence by the Company; execution of definitive legal documentation; and re-compliance with Chapters 1 and 2 of the ASX Listing Rules.

Hualilan Project Overview

The Hualilan Project is a skarn and manto gold silver deposit associated with a porphyry intrusive. It has extensive historical drilling with in excess of 150 drill-holes dating back to the 1970s. There has been limited historical production reported despite having in excess of 6km of underground workings reported. The property was last explored by La Mancha Resources, a Toronto Stock Exchange listed company, in 2006. La Mancha's work resulted in NI43-101 (non-JORC) resource estimates that remain open in most directions. Exploration by La Mancha attempted to assess the continuity of mineralization across the property, but this has yet to be tested by systematic drilling.

El Guayabo Project Overview

The El Guayabo Project is a breccia and porphyry gold / copper project. It was last drilled by Newmont Mining Corporation Limited and Odin Mining and Exploration Limited in 1995 and 1997 targeting gold in hydrothermal breccias. The drilling to date has demonstrated potential to host significant copper and associated gold and silver mineralisation. Drilling has returned a number of intersections of greater than 100m of intrusion related breccia and vein hosted mineralization. The El Guayabo Project has multiple targets including breccia hosted mineralization, an extensive flat lying late stage vein system and an underlying porphyry system target.

Overview of Other Transaction Terms

The Transaction consideration consists of 180m ordinary shares, 78.44m options and 120m performance shares, with the hurdles to the conversion of the performance shares linked to two Project related milestones.

The Company will, on completion of the Transaction, appoint three new experienced directors: Kris Knauer as Managing Director / CEO, Fletcher Quinn as Non-Executive Chairman, and Scott Funston as Finance Director and CFO.

As part of the Transaction, AEP has agreed to advance \$300,000 to the Company with the capacity for the Company to draw down further advances of up to \$200,000. This will allow the Company to complete re-compliance and the associated \$5.0m capital raise without the need for additional capital.

The Company will seek to consolidate its shares as part of the process of seeking to re-comply with Chapters 1 and 2 of the ASX Listing Rules. The consolidation is currently proposed on a one for five basis (i.e. every 5 shares held will consolidate to 1 share). The Company intends to issue a prospectus to raise \$5,000,000 at a price of \$0.03 which is the pre-consolidation equivalent of \$0.006 per share.

Further details on the proposed Transaction, projects and work programmes are contained in the release to ASX dated 22 February 2019.

- on a post 1 for 5 consolidation basis

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes thereto, as set out on pages 8 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 2018 and of its performance for the half-year then ended.
2. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Robert Willes
Managing Director

Dated this 12th day of March 2019.

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 2018, 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 2018 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 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 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 2018 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.

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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
Chartered Accountants

Perth, Western Australia
12 March 2019



B G McVeigh
Partner