

Challenger Energy Limited

ABN 45 123 591 382

Annual Report

For the Financial Year ended 30 June 2017

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CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN

Michael Fry

MANAGING DIRECTOR

Robert Willes

NON-EXECUTIVE DIRECTOR

Bill Bloking

COMPANY SECRETARY

Adrien Wing

REGISTERED OFFICE

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AUDITOR

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Australian Securities Exchange

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WEBSITE

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DIRECTORS' REPORT

The Directors submit the financial report of the Group, consisting of Challenger Energy Limited (“the Company”) and the entities it controlled during the period, for the financial year ended 30 June 2017:

DIRECTORS

The names and details of the Company’s Directors who held office during the year and until the date of this report are as follows. Directors were in office for the entire year unless otherwise stated.

Names, qualifications, experience and special responsibilities

Michael Fry, B.Com, F. Fin - Non-Executive Chairman (Appointed 23 January 2007)

Mr Michael Fry holds a Bachelor of Commerce degree from the University of Western Australia, is a Fellow of Financial Services Institute of Australasia, and is a past member of the Australian Securities Exchange (“ASX”). Michael has extensive experience in capital markets and corporate treasury management specialising in the identification of commodity, currency and interest rate risk and the implementation of risk management strategies.

Robert Willes, BA (Hons) – Managing Director (Appointed 8 April 2013)

Mr Robert Willes has an honours degree in Geography from Durham University in the UK and has completed executive education programs at Harvard Business School in the USA and Cambridge University in the UK. Robert has held a number of senior roles in BP including General Manager of the North West Shelf LNG Project, overall accountability for BP’s interests in the Browse LNG and Greater Gorgon LNG Projects, and for business development activities in Asia Pacific. More recently, Robert was Chief Executive Officer of Eureka Energy Limited. He is a Graduate of the Australian Institute of Company Directors, a member of the Association of International Petroleum Negotiators, and was formerly a director of the Australian Petroleum Production and Exploration Association (APPEA). Robert is a Non-Executive director of Buru Energy Limited.

Bill Bloking, B.Sc (Mech Eng, Summa cum Laude) FAICD – Non-Executive Director (Appointed 27 February 2014)

Mr Bill Bloking has more than 40 years of experience in the petroleum sector and has worked in the USA, Europe, South America, Australia and throughout Asia. Until his retirement from the corporate sector in 2007, Bill was President, Australia/Asia Gas for BHP Billiton Petroleum. Prior to joining BHP Billiton, he spent 24 years with ExxonMobil in a variety of technical and senior executive positions. Bill is currently the Non-Executive Chairman of Nido Petroleum Limited and is a Non-Executive Director of Sun Resources NL. Bill was formerly the Managing Director of Gunson Resources Limited and Eureka Energy Limited and Non-Executive Chairman of the National Offshore Petroleum Safety Authority Advisory Board, Norwest Energy NL, Cool Energy Limited, and Cullen Wines (Australia) Pty Ltd. He was also a Vice Chairman of the Australia China Business Council, a Governor of the American Chamber of Commerce in Australia, an Adjunct Professor at Murdoch University, and Non-Executive Director of the John Holland Group, Miclyn Express Offshore Limited, the Australian Petroleum Production and Exploration Association, the Victorian Energy Networks Corporation, the Lions Eye Institute and the West Australian Symphony Orchestra.

Directorships of other listed companies

Directorships of other listed companies in the last 3 years are as follows:

Name	Company	Period of Directorship
Michael Fry	Brookside Energy Limited	20 April 2004 to date
	Norwest Energy NL	8 June 2009 to date
	Technology Metals Australia Limited	20 May 2016 to date
Robert Willes	Buru Energy Limited	2 July 2014 to date
Bill Bloking	KAL Energy Incorporated	26 June 2007 to 1 April 2015
	Nido Petroleum Limited	7 February 2008 to date
	Gunson Resources Limited	1 August 2013 to 2 March 2015
	Sun Resources NL	25 October 2016 to date

DIRECTORS' REPORT (CONT'D)

COMPANY SECRETARY

Adrien Wing, CPA

Mr Adrien Wing is a qualified Certified Practising Accountant. He practised in the audit and corporate divisions of a chartered accounting firm before working with a number of public companies listed on the Australian Securities Exchange as a corporate/accounting consultant and company secretary.

MEETINGS OF DIRECTORS

The Directors held 9 meetings (of which 3 included Audit and Risk Committee meetings) during the financial year and all meetings were attended by all Directors.

CORPORATE INFORMATION

Corporate Structure

Challenger Energy Limited is a public company listed on the ASX (Code: CEL) and is incorporated and domiciled in Australia. Challenger Energy Limited and the entities it controlled during the period are collectively referred to as Challenger Energy, or the Group, as the context requires.

Nature of operations and principal activities

Challenger Energy is an oil and gas exploration organisation whose primary purpose is to secure, find, develop, produce and sell hydrocarbons.

There have been no other significant changes in the nature of those activities during the year.

OPERATING AND FINANCIAL REVIEW

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 November 2016.**
- **South African Mineral Resources Minister Mosebenzi Zwane reported as stating in March 2017 that: “Based on the balance of available scientific evidence, government took a decision to proceed with the development of shale gas in the Karoo formation of South Africa”.**
- **Additional public hearings on recommended changes to the MPRDA Amendment Bill concluded on 28 June 2017.**
- **Proposed amendments to be considered by Parliamentary Select Committee, with Minister of Finance stating the Government targeting December 2017 for finalisation of Bill.**
- **Preliminary Information Memorandum on the LNG Independent Power Producer Procurement Programme published in early October 2016. 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 2016.**
- **Key milestone achieved as Government commissioned two-year Strategic Environmental Assessment (“SEA”) completed with publication in November 2016 of the final scientific assessment report, and Decision Support Tools Report in July 2017.**
- **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.**

DIRECTORS' REPORT (CONT'D)

OPERATING AND FINANCIAL REVIEW (CONT'D)

Legislative Framework

As previously reported, the petroleum industry (via the industry associations, the Offshore Petroleum Association of South Africa (“OPASA”), the Onshore Petroleum Association of South Africa (“ONPASA”) and the recently formed Shale Gas Association under the auspices of the South African Oil and Gas Association (“SAOGA”)) 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 2016.

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 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.

According to the latest draft Select Committee Plan the public hearings were concluded on 28 June. Challenger understands that the Select Committee will meet with the Department of Mineral Resources and the state law advisors in the third Parliamentary term which commenced on 1 August, and thereafter each province will deliver their proposed amendments to the Bill. Following this ‘negotiating mandate’ meeting, a final mandate meeting will be held on 17 October, following which the Select Committee will consider the proposed amendments and the amended Bill will return to the National Assembly and, if passed, will be sent back to the President for approval.

The current Select Committee Plan does not anticipate that the Bill will be passed before late October. However, in a nine-point economic plan unveiled in July, Minister of Finance Malusi Gigaba, noted that government has targeted December for finalisation of the Bill.

In late March a number of South African news outlets reported that, during a community engagement meeting on shale gas development at Richmond in the Northern Cape, South African Mineral Resources Minister Mosebenzi Zwane stated that;

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

and that;

“The finalisation of Mineral and Petroleum Resources Development Act (MPRDA) amendments will also help to expedite the development of shale gas.”

DIRECTORS' REPORT (CONT'D)

OPERATING AND FINANCIAL REVIEW (CONT'D)

Challenger welcomes these positive indicators of progress towards the finalising of key legislation and the determination of the applications for exploration rights received by the government.

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

Opposition groups Treasure Karoo Action Group (“TKAG”) and AfriForum have for some time indicated their intent to challenge the process. In a March 2017 media release, TKAG stated that;

“In November 2015, Treasure Karoo Action Group (TKAG) and AfriForum moved against the Ministers of Minerals and Environment, their respective departments and some officials in a challenge to the validity of the regulations. The Department of Mineral Resources have indicated that they would be opposing the application.”

and;

“The government appears to have forgotten that there is a High Court challenge to the intrinsic suitability of a patently flawed set of regulations, and that until that matter is properly settled within the realm of legal options at our disposal, any licences authorizing exploration will be urgently challenged in the appropriate forum.”

TKAG stated that it expected its case would be heard before the High Court in May and may seek to use this as a ground for objection to the grant of any exploration rights, although at the time of writing we are unaware of any such hearing having taken place.

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.

It is unclear whether this moratorium will apply to applications in relation to oil and gas rights under the MPRDA, however the notice is clear that the moratorium will ‘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.

Role of gas in South Africa’s energy mix

In October 2016 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.

Then Energy Minister Tina Joemat-Pettersson stated 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,”

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 1,000 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.

DIRECTORS' REPORT (CONT'D)

OPERATING AND FINANCIAL REVIEW (CONT'D)

In late November 2016, the DoE gazetted the draft Integrated Energy Plan (IEP) and the draft Integrated Resource Plan (IRP) Assumptions and Base Case for public comment. 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 2016 has been delayed to ensure alignment between the procurement programme and the IRP.

The process has occasioned much public debate on the topic of South Africa’s future energy mix. The Council for Scientific and Industrial Research (CSIR), for example, submitted an alternative IRP making the case that the least cost option for new investment in the power sector is a blend of solar PV, wind and flexible power (e.g. gas, CSP, hydro, biogas).

In late March, President Zuma announced a substantial cabinet reshuffle, including new Finance and Energy Ministers. The Minister for Mineral Resources, however, remains unchanged.

Strategic Environmental Assessment

In November 2016, 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 significant milestone was reached with the completion of the third and final phase and the announcement of the “Decision Support Tools Report” in July 2017. 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

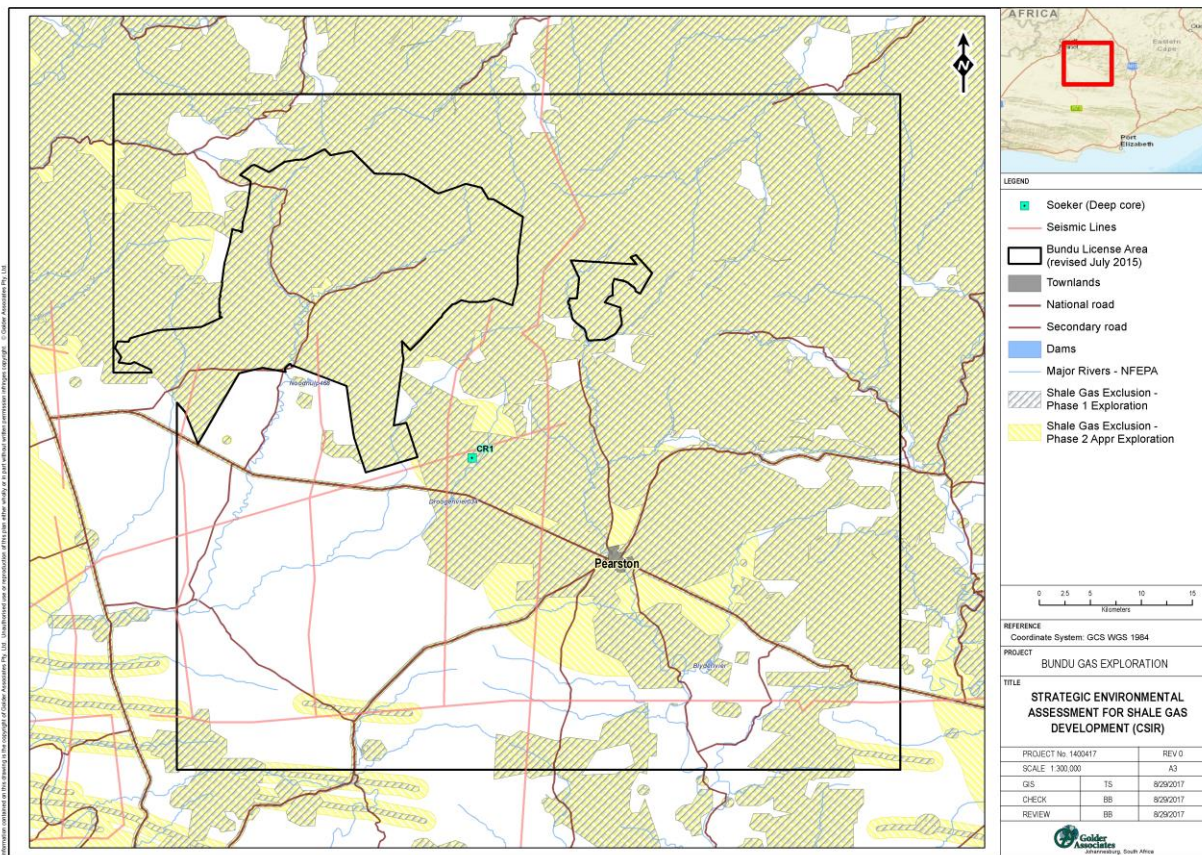
“This effectively means that > 99 % of the surface area of the Central Karoo will not be directly affected by shale gas exploration and production, even at the Big Gas scenario, meaning that it will be entirely possible to use avoidance as the primary mitigation mechanism in reducing the risks posed 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 course 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 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.



DIRECTORS' REPORT (CONT'D)**OPERATING AND FINANCIAL REVIEW (CONT'D)****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 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 km² is located in central and southern South Africa and contains organic rich shales of Permian age with combined thickness up to 5,000 feet. The focus for shale gas exploration is in the southern portion of the basin where the shales are at sufficient depth and where five wells, all pre 1970, intersected the shales with significant gas shows. One well, the Cranemere CR 1/68 well, flowed 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 to be centred around this well.

The U.S. Energy Information Administration (EIA) updated its 2011 report on World Shale Gas Resources in June 2013. The EIA estimates that the Lower Permian Ecca Group shales in the Karoo Basin contain 1,559 Tcf of risked shale gas in-place, with 390 Tcf as the risked, technically recoverable shale gas resource.

To demonstrate the scale of the estimated resource, according to the US Department of Energy 1 Tcf of natural gas is enough to heat 15 million homes for one year, generate 100 billion kilowatt hours of electricity, or fuel 12 million natural-gas-fired vehicles for one year. Significantly the current EIA estimate excludes the thicker Upper Ecca shales on the basis that they have a lower reported total organic carbon content. These Upper Ecca shales include the Fort Brown shale from which gas flowed at the Cranemere CR 1/68 well.

The Karoo Basin has become the focus of intense interest in the past few years, following the initial application to explore for shale gas in the basin by Bundu (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 un-partnered junior company with interests in the basin, alongside Shell and Chevron.

DIRECTORS' REPORT (CONT'D)**FINANCIAL RESULT**

The net loss after tax for the financial year ended 30 June 2017 for the Group was \$852,046 (2016: loss of \$1,130,514).

DIVIDENDS PAID OR RECOMMENDED

The Directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Challenger Energy continues to be focused on exploration for conventional and unconventional oil and gas.

SIGNIFICANT EVENTS AFTER BALANCE DATE

The Directors are not aware of any matters or circumstances that have arisen since 30 June 2017 which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The primary objective of Challenger Energy is to develop a successful focused oil & gas exploration and production business.

The Group intends to offer investors further exposure to natural resources opportunities. The Group aims to achieve this goal through a combination of:

- Advancing exploration on the Cranemere project in South Africa;
- Reviewing and potentially acquiring other natural resources projects; and
- Utilising the Board and management's collective experience and skills to progress any discoveries to commercial production.

ENVIRONMENTAL REGULATIONS

Challenger Energy is aware of its environmental obligations with regards to its exploration activities and ensures that it complies with all regulations when carrying out any exploration work.

REMUNERATION REPORT (Audited)**REMUNERATION POLICY**

The remuneration policy of Challenger Energy has been designed to align Director objectives with shareholder and business objectives by providing a fixed remuneration component that is assessed on an annual basis in line with market rates. The Board of Challenger Energy believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the Company, as well as create goal congruence between directors and shareholders. The remuneration policy, setting the terms and conditions for executive and non-executive directors and other senior staff members, was developed and approved by the Board.

The Board's policy for determining the nature and amount of remuneration for board members is as follows:

In determining competitive remuneration rates, the Board considers local and international trends among comparative companies and the industry generally so that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits, and may be issued options or performance shares from time to time.

DIRECTORS' REPORT (CONT'D)

The Group is currently an exploration entity, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, Executive Directors and Senior Executives are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly if the Group moves from an exploration to a producing entity and key performance indicators such as market capitalisation and production and reserves growth can be used as measurements for assessing executive performance.

All remuneration paid to Executive Directors and Senior Executives is valued at the cost to the Company and expensed. Options are valued using the Black-Scholes methodology, which takes account of factors such as the option exercise price, the current level and volatility of the underlying share price and the time to maturity of the option. Although a value is ascribed and included in total remuneration, it should be noted that the Executive Directors and Senior Executives have not received this amount and the option may have no actual financial value unless the options achieve their exercise price.

The Board policy is to remunerate non-executive Directors at market rates for comparable companies for time, commitment and responsibilities. The Board determines payments to the non-executive Directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive Directors are not linked to the performance of the Company and they do not receive performance shares or options, however, to align non-executive Directors' interests with shareholder interests, the Directors are encouraged to hold shares in the Company.

COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

The Company share price volatility is a concern to the Board but is not considered abnormal for a junior oil & gas explorer such as Challenger Energy. In order to keep all investors fully-informed and minimize market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Details of Key Management Personnel

- (i) *Directors*
 - Michael Fry – Non-Executive Chairman
 - Robert Willes – Managing Director
 - Bill Bloking – Non-Executive Director
- (ii) *Executives*
 - Adrien Wing – Company Secretary

Directors' remuneration and other terms of employment are reviewed annually by the non-executive Directors having regard to performance against goals set at the start of the year, and relative comparative information.

Except as detailed in Notes (b) – (d) below, no Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

(b) Compensation of Key Management Personnel

Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the executive team. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Key Management Personnel is set out below.

DIRECTORS' REPORT (CONT'D)**KEY MANAGEMENT PERSONNEL EMOLUMENTS (CONT'D)**

The value of remuneration received or receivable by Key Management Personnel for the financial year ended 30 June 2017 is as follows:

	Primary		Equity Compensation	Post-employment		TOTAL	Performance Related %
	Base Salary and Fees	Bonus and Non Monetary Benefits	Value of Performance Rights / Shares	Superannuation Contributions	Termination Benefits		
2017	\$	\$	\$	\$	\$	\$	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Robert Willes	347,727	-	-	27,273	-	375,000	-
Bill Bloking	60,000	-	-	-	-	60,000	-
Executives							
Adrien Wing	60,000	-	6,548	-	-	66,548	9.8
Total 2017	527,727	-	6,548	27,273	-	561,548	

	Primary		Equity Compensation	Post-employment		TOTAL	Performance Related %
	Base Salary and Fees	Bonus and Non Monetary Benefits	Value of Performance Rights / Shares	Superannuation Contributions	Termination Benefits		
2016	\$	\$	\$	\$	\$	\$	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Robert Willes	347,727	-	66,648	27,273	-	441,648	15.1
Bill Bloking	60,000	-	-	-	-	60,000	-
Executives							
Adrien Wing	60,000	-	(800)	-	-	59,200	(1.3)
Total 2016	527,727	-	65,848	27,273	-	620,848	

As at 30 June 2017, remuneration amounts of \$546,875 for Mr R Willes (2016: \$375,000), \$87,500 for Mr M Fry (2016: \$60,000) and \$87,500 for Mr B Bloking (2016: \$60,000) have been accrued and not yet paid.

DIRECTORS' REPORT (CONT'D)**KEY MANAGEMENT PERSONNEL EMOLUMENTS (CONT'D)****(c) Compensation Options**

No options were granted to Key Management Personnel of the Group during the year.

During the financial year the following option tranches were in existence:

Directors	Granted	Grant Date	Vesting Date	Value at Grant Date	Exercise Price	Date Expired
Paul Bilston	7,500,000	23 Nov 11	23 Nov 11	\$0.03	\$0.15	20 Nov 16

There have been no alterations to the terms and conditions of options granted as remuneration since their grant date.

(d) Share, Option and Performance Rights holdings

Options and Performance Rights may be issued to Key Management Personnel as part of their remuneration. The Options and Performance Rights are issued to increase goal congruence between Executives, Executive Directors and Shareholders. Options and Performance Rights are not issued to Non-Executive Directors.

Employment Contracts of Key Management Personnel

Pursuant to an agreement executed on 20 August 2008, Mr Michael Fry provides services to the Group as a Non-Executive Chairman. The broad terms of this agreement include remuneration payable of \$60,000 per annum. The agreement may be terminated by either party by providing 3 months written notice and upon payment of any outstanding fees for services rendered.

On 3 April 2013, the Group entered into an executive services agreement with Mr Robert Willes under which Mr Willes receives a salary package of \$375,000 per annum inclusive of superannuation for Mr Willes' services as Managing Director of the Group. The agreement may be terminated by either party by providing 3 months written notice and, in the case of termination by the Company without reason, upon payment of three months salary. Further provisions apply in respect of any unissued Retention Shares and/or unvested Incentive Shares.

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. The final two instalments of shares required to be issued for 1,333,334 shares in total are yet to be issued at the date of this report.

DIRECTORS' REPORT (CONT'D)

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 (fair value of \$69,593 – refer to Note 11 for further details) vest on completion of 12 months continuous employment with the Company and the Company having or achieving a market capitalization of \$100m or greater by no later than 7 April 2016. These Performance Rights have expired.
- Tranche 2 – 4,000,000 Performance Rights (fair value of \$1,707 – refer to Note 11 for further details) vest on completion of 24 months continuous employment with the Company and the Company having or achieving a market capitalization of \$200m or greater by no later than 7 April 2018.
- Tranche 3 – 4,000,000 Performance Rights (fair value of \$308,000 excluding the probability of meeting the performance conditions – refer to Note 11 for further details) 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 (fair value of \$308,000 excluding the probability of meeting the performance conditions – refer to Note 11 for further details) vest on completion of 36 months continuous employment with the Company and either the Company by no later than 7 April 2020:
 - 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 capitalization of \$500m or greater.

Pursuant to an agreement announced on 27 February 2014, Mr Bill Bloking provides services to the Group as a non-executive Director. The terms of this agreement include remuneration payable of \$60,000 per annum.

During the current financial year, the Company issued 2,000,000 Performance Rights to a consultant (fair value of \$50,000 based on 2.5 cents per Performance Right and excluding the probability of meeting the performance conditions – refer to Note 11 for further details) and 500,000 Performance Rights to the Company Secretary (fair value of \$12,500 based on 2.5 cents per Performance Right and excluding the probability of meeting the performance conditions – refer to Note 11 for further details). These Performance Rights expire on 17 March 2018 with vesting conditions as follows:

- 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.

(e) Shares held by Key Management Personnel

	Balance at 1.7.16	Shares Issued	Balance at Retirement	Bought & (Sold)	Balance at 30.06.17
Directors					
Michael Fry	1,832,965	-	-	-	1,832,965
Robert Willes	2,666,668	-	-	-	2,666,668
Bill Bloking	-	-	-	-	-
Executives					
Adrien Wing	2,024,747	-	-	-	2,024,747
	6,524,380	-	-	-	6,524,380

DIRECTORS' REPORT (CONT'D)**(f) Options held by Key Management Personnel**

	Balance at 1.7.16	Received as Remuneration	Options Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.17	Total Vested	Total Exercisable
Directors								
Michael Fry	-	-	-	-	-	-	-	-
Robert Willes	-	-	-	-	-	-	-	-
Bill Bloking	-	-	-	-	-	-	-	-
Executives								
Adrien Wing	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-

(g) Performance Rights held by Key Management Personnel

	Balance at 1.7.16	Received as Remuneration	Rights Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.17	Total Vested	Total Exercisable
Directors								
Michael Fry	-	-	-	-	-	-	-	-
Robert Willes	12,000,000	-	-	-	-	12,000,000	-	-
Bill Bloking	-	-	-	-	-	-	-	-
Executives								
Adrien Wing	-	500,000	-	-	-	500,000	-	-
	12,000,000	500,000	-	-	-	12,500,000	-	-

END OF REMUNERATION REPORT**OPTIONS**

At the date of this report, 34,750,000 unlisted options over new ordinary shares in the Company were on issue:

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

No ordinary shares were issued upon the exercise of options during or since the financial year ended 30 June 2017.

PERFORMANCE RIGHTS

Refer to note (d) in the Remuneration Report for details on 16,000,000 Performance Rights (of which 4,000,000 expired on 7 April 2016) issued to Mr Willes under an established Performance Rights Plan approved by shareholders at the EGM on 22 August 2013. The relevant interests held by each Director in shares, options and performance rights of the Company at the date of this report are as follows:

Directors	Number of Shares	Number of Options	Number of Performance Rights
Michael Fry	1,832,965	-	-
Robert Willes	2,666,668	-	12,000,000
Bill Bloking	-	-	-
	4,499,633	-	12,000,000

No shares were issued by the Group during or since the financial year ended 30 June 2017 as a result of the exercise of an option or performance rights.

DIRECTORS' REPORT (CONT'D)**INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer, auditor or agent of the Group shall be indemnified out of the property of the Group against any liability incurred by them in their capacity as an officer, auditor or agent of the Group or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

The Group currently has a Directors' and Officers' liability insurance in place. A premium of \$16,381 has been paid for cover period from 1 May 2017 to 30 April 2018. Under the terms of the policy, the Group is covered for a limit of up to \$10 million in aggregate against loss by reason of a wrongful act by the Directors and officers during the period of insurance. No excess fee is payable for loss from such claims.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings. The Group was not a party to any such proceedings during the year.

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 audit of the financial report.

The lead auditor's independence declaration is set out on page 17 and forms part of the Directors' Report for the year ended 30 June 2017.

NON-AUDIT SERVICES

No non-audit services were provided by the auditors during the year ended 30 June 2017.

This report is made in accordance with a resolution of the Directors.



Robert Willes
Managing Director

31 August 2017

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Challenger Energy Limited for the year ended 30 June 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 audit; and
- b) any applicable code of professional conduct in relation to the audit.

HLB Mann Judd

**HLB Mann Judd
Chartered Accountants**



**M R Ohm
Partner**

**Perth, Western Australia
31 August 2017**

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

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2017

	Note	Consolidated 2017 \$	Consolidated Restated * 2016 \$
Other income	3	5,704	36,305
Exploration expenditure expensed as incurred		(32,918)	(73,135)
Consultants' fees		(22,548)	(222,670)
Legal and compliance		(222,628)	(211,748)
Administration and travel expenses		(51,908)	(86,488)
Salaries, directors' fees and employee benefits	3	(495,000)	(495,000)
Share based remuneration		(32,738)	(65,848)
Foreign exchange gain/(loss)		(10)	(11,930)
Loss before income tax		(852,046)	(1,130,514)
Income tax expense	4	-	-
Net loss for the year		(852,046)	(1,130,514)
Other comprehensive income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation of foreign operations		2,678	(11,073)
Income tax on other comprehensive income/(loss)		-	-
Other comprehensive income/(loss) for the year		2,678	(11,073)
Total comprehensive loss for the year		(849,368)	(1,141,587)
Loss attributable to:			
Owners of the parent		(859,705)	(1,113,959)
Non-controlling interests		7,659	(16,555)
		(852,046)	(1,130,514)
Total comprehensive loss attributable to:			
Owners of the parent		(847,663)	(1,138,497)
Non-controlling interests		(1,705)	(3,090)
		(849,368)	(1,141,587)
Earnings per share			
Basic loss per share (cents)	15	(0.22)	(0.31)
Diluted loss per share (cents)	15	(0.22)	(0.31)

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	Consolidated 2017 \$	Consolidated Restated * 2016 \$
CURRENT ASSETS			
Cash and cash equivalents	5	331,144	850,913
Trade and other receivables	6	6,685	23,581
Other financial assets	7	32,895	32,200
Prepayments		12,286	21,138
TOTAL CURRENT ASSETS		383,010	927,832
TOTAL ASSETS		383,010	927,832
CURRENT LIABILITIES			
Trade and other payables	8	810,777	650,041
TOTAL CURRENT LIABILITIES		810,777	650,041
TOTAL LIABILITIES		810,777	650,041
NET ASSETS / (DEFICIENCY)	1(v)	(427,767)	277,791
EQUITY			
Issued capital	9	32,017,355	31,944,281
Reserves	12	2,630,156	2,547,378
Accumulated losses		(34,991,072)	(34,131,367)
Equity attributable to owners of the parent		(343,561)	360,292
Non-controlling interest		(84,206)	(82,501)
TOTAL EQUITY / (DEFICIENCY)	1(v)	(427,767)	277,791

The accompanying notes form part of these financial statements.

Refer to Note 1(v) for details on the going concern basis of preparation of the financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

Consolidated 2016	Reserves	Issued Capital	Accumulated Losses	Non-controlling Interest	Total
Restated *	\$	\$	\$	\$	\$
Balance at 1 July 2015	2,509,268	30,885,320	(33,017,408)	(79,411)	297,769
Loss for the year	-	-	(1,113,959)	(16,555)	(1,130,514)
Exchange differences on foreign currency translation	(24,538)	-	-	13,465	(11,073)
Total comprehensive loss for the year	(24,538)	-	(1,113,959)	(3,090)	(1,141,587)
Equity issued	-	900,000	-	-	900,000
Equity to be issued	-	52,500	-	-	52,500
Capital raising costs	-	(9,345)	-	-	(9,345)
Shares in lieu of consulting and corporate costs	-	115,806	-	-	115,806
Share based payments	62,648	-	-	-	62,648
Balance at 30 June 2016 restated *	2,547,378	31,944,281	(34,131,367)	(82,501)	277,791

Consolidated 2017	Reserves	Issued Capital	Accumulated Losses	Non-controlling Interest	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016 (restated *)	2,547,378	31,944,281	(34,131,367)	(82,501)	277,791
Loss for the year	-	-	(859,705)	7,659	(852,046)
Exchange differences on foreign currency translation	12,042	-	-	(9,364)	2,678
Total comprehensive loss for the year	12,042	-	(859,705)	(1,705)	(849,368)
Shares in lieu of consulting costs	-	73,074	-	-	73,074
Share based payments	70,736	-	-	-	70,736
Balance at 30 June 2017	2,630,156	32,017,355	(34,991,072)	(84,206)	(427,767)

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

	Consolidated 2017 \$	Consolidated Restated 2016 * \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	1,698
Payments to suppliers and employees	(526,224)	(761,350)
Interest received	4,631	6,201
NET CASH USED IN OPERATING ACTIVITIES	5(b) (521,593)	(753,451)
CASH FLOWS FROM INVESTING ACTIVITIES	-	-
NET CASH USED IN INVESTING ACTIVITIES	-	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares and options	-	900,000
Transaction costs on issue of shares and options	-	(9,345)
NET CASH PROVIDED BY FINANCING ACTIVITIES	-	890,655
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(521,593)	137,204
Cash and cash equivalents at beginning of the year	850,913	714,063
Foreign currency translation	1,824	(354)
CASH AND CASH EQUIVALENTS AT END OF YEAR	5(a) 331,144	850,913

The accompanying notes form part of these financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

Challenger Energy Limited is a for-profit listed public company limited by shares that is incorporated and domiciled in Australia. The Group has operations in South Africa and its principal activities are exploration for oil and gas.

The financial report is a general-purpose financial report, which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law.

The financial information has been prepared on the accruals basis and is based on historical costs and does not take into account changing money values. Cost is based on the fair values of the consideration given in exchange for assets.

The financial report is presented in Australian dollars.

The financial report was authorised for issue on the date of the signing of the Directors' Declaration.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

The following is a summary of the accounting policies adopted by the Group in the preparation of the financial information. The accounting policies have been consistently applied unless otherwise stated.

(b) Adoption of new and revised standards

In the year ended 30 June 2017, the Directors have adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group and effective for the current annual reporting period. The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2017. 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 the Group's accounting policies.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(c) Basis of Consolidation

The consolidated financial statements comprise of the separate financial statements of Challenger Energy Limited ("Company" or "Parent") and its subsidiaries as at 30 June each year (the "Group"). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The financial statement of the subsidiaries is prepared for the same reporting period as the Parent, using consistent accounting policies.

All intercompany balances and transactions, income and expenses, and profits and losses from intra-group transactions are eliminated in full on consolidation.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Business combinations have been accounted for using the acquisition method of accounting. Investments in subsidiaries are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate statement of profit or loss and other comprehensive income of the parent entity, and do not impact the cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

Non-controlling interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group and are presented separately in the consolidated statement of profit or loss and other comprehensive income and within equity in the consolidated statement of financial position. Losses are attributed to the non-controlling interest even if it results in a deficit balance.

(d) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, as at the end of the reporting period.

Deferred income tax is provided on all temporary differences as at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Income Tax (cont'd)

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, as at the end of the reporting period.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(e) Exploration, Evaluation, Development and Production Expenditure

Exploration and evaluation expenditure is expensed 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.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. An impairment exists when the carrying value of expenditure exceeds its estimated recoverable amount. The area of interest is then written down to its recoverable amount and the impairment losses are recognised in the statement of comprehensive income.

The financial report has been prepared on the basis of a retrospectively applied voluntary change in accounting policy related to exploration and evaluation expenditure (refer to Note 2 for further details). 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. Exploration and evaluation assets are inherently uncertain and expensing as incurred results in a more transparent balance sheet and profit and loss. Furthermore, the newly adopted accounting policy is consistent with those of many other exploration and mining companies.

(f) Trade and Other Payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Amounts are unsecured and are usually paid within 30 to 45 days of recognition.

(g) Cash and Cash Equivalents

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

For the purpose of the statement of cash flows, cash consists of cash and cash equivalents as defined above, net of bank overdrafts.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(h) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the ATO are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the ATO.

(i) Foreign Currency Translation

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of the Group are United States Dollars (USD), South African Rand (ZAR) and Australian Dollars (AUD). The presentation currency is Australian Dollars (AUD).

As at reporting date the assets and liabilities of the subsidiaries are translated into the presentation currency of Challenger Energy at the rate of exchange ruling at the end of the reporting period and income and expenses are translated at the weighted average exchange rate for the year.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

(j) Earnings Per Share ("EPS")

Basic earnings per share is calculated as net profit or loss attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit or loss attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that would have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of shares and dilutive potential shares, adjusted for any bonus element.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(k) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

(l) Trade and Other Receivables

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 30 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Group in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Group. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

The amount of the impairment loss is recognised in the statement of profit or loss and other comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of profit or loss and other comprehensive income.

(m) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(n) Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

(o) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Interest

Interest revenue is recognised when control of the right to receive the interest payment.

(p) Property, Plant & Equipment

Property, plant & equipment is measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on a straight line basis on all property, plant and equipment over 3 years. The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(p) Property, Plant & Equipment (cont'd)

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income in the cost of sales line item.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

(q) Impairment of Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Share-based Payment Transactions

Equity settled transactions:

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently an Employee Share Option Plan (ESOP) in place, which provides benefits to Executive Directors and senior executives. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black & Scholes option-pricing model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Challenger Energy Limited.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The statement of profit or loss and other comprehensive income charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, measured at the modification date.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(s) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate assets but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(t) Employee leave benefits

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled.

(u) Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The application of accounting policies requires the Group's management to make estimates and assumptions that affect the carrying values of assets and liabilities that are not readily apparent from other sources. The determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions and expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Estimates and underlying assumptions are evaluated on an ongoing basis.

Revisions are recognised in the period in which the estimate is revised if it affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed below.

Share-based Payments

The Group measures the cost of equity-settled transactions with employees by reference to the fair value at grant date using the Black & Scholes formula, taking into account the terms and conditions upon which the instruments were granted. The assumptions used are detailed in Note 11.

(v) 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 loss of the Group for the financial year amounted to \$852,046 (2016: \$1,130,514). The Group had a net asset deficiency as at 30 June 2017 of \$427,767, with a net cash outflow from operations and investing activities for the year of \$521,593 (2016: \$753,451).

Whilst the Directors are confident the Group will be able to meet the operational costs and its financial obligations in a timely manner over the next 12 months, they are also aware that to continue to advance the exploration projects, significant capital expenditure will be required. The financial report has been prepared on a going concern basis that assumes the realisation of assets and extinguishment of liabilities in the normal course of business at the amounts stated in the financial report, for the following reasons:

- At 30 June 2017, the Group had cash and cash equivalents of \$331,144 (2016: \$850,913);
- Included in Note 8 are amounts owing to Directors of \$546,875 (2016: \$375,000) for Mr R Willes, \$87,500 (2016: \$60,000) for Mr M Fry and \$87,500 (2016: \$60,000) for Mr B Bloking. The Directors have advised these amounts will not be called upon for repayment by the Company for at least 12 months from the date of signing these financial statements unless the Company is reasonably able to do so without a significant negative impact on the solvency of the Company; and
- The Board is of the opinion that the Group will be able to access equity capital markets for working capital, as has been demonstrated in the past via share and option issues.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) Going Concern (Cont'd)

On the basis that sufficient cash inflows are expected to be raised through future capital raising to fund the further expansion of the exploration programs for at least 12 months after the date of this report, the Directors consider that the Group remains a going concern and these financial statements have been prepared on this basis.

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 financial report.

(w) Parent Entity Financial Information

The financial information for the parent entity, Challenger Energy Limited, disclosed in note 21 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the parent entity's financial statements.

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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

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

(b) Impact on Financial Statements

As a result of the change in the accounting policy for exploration and evaluation expenditure, prior year financial statements had to be restated. The amounts disclosed for the 2016 reporting period and in the statement of financial positions as at 1 July 2015 and 30 June 2016 are after the change in accounting policy for exploration and expenditure.

**Consolidated Statement of Profit or Loss
and Other Comprehensive Income**

	Previously Stated 2016 \$	Loss Increase/ (Decrease) \$	Restated * 2016 \$
Other income	36,305	-	36,305
Exploration expensed as incurred	-	(73,135)	(73,135)
Consultants' fees	(222,670)	-	(222,670)
Legal and compliance	(211,748)	-	(211,748)
Administration and travel	(86,488)	-	(86,488)
Directors' fees and salaries	(495,000)	-	(495,000)
Share based remuneration	(65,848)	-	(65,848)
Foreign exchange loss	(11,930)	-	(11,930)
Loss before income tax	(1,057,379)	(73,135)	(1,130,514)
Income tax expense	-	-	-
Net loss for the year	(1,057,379)	(73,135)	(1,130,514)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	(827,803)	816,730	(11,073)
Other comprehensive loss for the year	(827,803)	816,730	(11,073)
Total comprehensive loss for the year	(1,885,182)	743,595	(1,141,587)
Earnings per share:			
Basic loss per share (cents)	(0.29)		(0.31)
Diluted loss per share (cents)	(0.29)		(0.31)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 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

**Statement of Financial Position
30 June 2015**

	Previously Stated 2015 \$	Loss Increase/ (Decrease) \$	Restated * 2015 \$
Deferred exploration and evaluation	5,200,898	(5,200,898)	-
Total Assets	5,991,427	(5,200,898)	790,529
Net Assets	5,498,667	(5,200,898)	297,769
Equity			
Issued Capital	30,885,320	-	30,885,320
Reserves	808,811	1,700,457	2,509,268
Accumulated losses	(26,376,098)	(6,641,310)	(33,017,408)
Equity attributable to owners of the parent	5,318,033	(4,940,853)	377,180
Non-controlling interest	180,634	(260,045)	(79,411)
Total Equity	5,498,667	(5,200,898)	297,769

Statement of Cash Flows

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 additional cash outflows from operating activities of \$135,169 for the year ended 30 June 2016. This has also resulted in a corresponding reduction of \$135,169 being reflected in the net cash outflows from investing activities for the same reporting period.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

	Consolidated 2017 \$	Consolidated 2016 \$
3. REVENUES AND EXPENSES		
VAT refund	337	27,723
Other income	-	1,698
Interest received	5,367	6,884
	<u>5,704</u>	<u>36,305</u>
Employee benefit expense includes:		
Salary and wages	467,727	467,727
Superannuation contributions	27,273	27,273
	<u>495,000</u>	<u>495,000</u>

4. INCOME TAX

The prima facie tax benefit on loss before income tax is reconciled to the income tax expense as follows:

Net loss before income tax	<u>(852,046)</u>	<u>(1,130,514)</u>
Prima facie tax benefit on loss before income tax at 27.5% (2016: 28.5%)	(234,313)	(322,196)
Add:		
- Revenue losses not recognised	219,184	333,911
- Share based payments	29,098	18,767
Less:		
- Black hole expenditure deductions	(13,969)	(30,482)
Income tax benefit	<u>-</u>	<u>-</u>

The following deferred tax balances have not been recognised:

Deferred tax assets at 27.5% (2016: 28.5%):		
Carry forward revenue losses	2,434,832	2,292,918
Capital raising costs	19,127	34,299
Provisions, accruals and prepayments	21,848	36,497
	<u>2,475,807</u>	<u>2,363,714</u>

The tax benefits of the above deferred tax assets will only be obtained if:

- (a) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (b) the Group continues to comply with the conditions for deductibility imposed by law; and
- (c) no changes in income tax legislation adversely affect the Group in utilising the benefits.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
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5. CASH AND CASH EQUIVALENTS

	<u>Consolidated</u>	<u>Consolidated</u>
	<u>2017</u>	<u>2016</u>
	<u>\$</u>	<u>\$</u>
(a) Reconciliation of cash:		
Cash balances comprises		
- Cash at bank	322,653	834,928
- US Dollar accounts	275	284
- ZAR account	8,216	15,701
	<u>331,144</u>	<u>850,913</u>

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts. Cash at bank earns interest at floating rates based on a daily bank deposit rates.

(b) Reconciliation of net loss after tax to the net cash flows from operations:

Net loss	(852,046)	(1,130,514)
Non cash items:		
Exploration expenditure	17,733	-
Share based payments	32,738	65,848
Consultants and corporate fees	9,252	97,606
Foreign exchange loss/(gain)	10	11,930
Changes in assets and liabilities		
(Increase)/Decrease in receivables and prepayments	8,117	(453)
(Decrease)/Increase in payables and accruals	262,603	202,132
Net cash flows used in from operating activities	<u>(521,593)</u>	<u>(753,451)</u>

6. TRADE & OTHER RECEIVABLES

Current

Other receivables	<u>6,685</u>	<u>23,581</u>
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Terms and conditions relating to the above financial instruments:

Other receivables are non-interest bearing and generally settled within 60 days.

7. OTHER FINANCIAL ASSETS

Current

Term deposits	<u>32,895</u>	<u>32,200</u>
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8. TRADE & OTHER PAYABLES

Current

Trade creditors and accruals	<u>810,777</u>	<u>650,041</u>
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Terms and conditions:

Trade creditors are non-interest bearing and are normally settled on 30 day terms.

As at 30 June 2017, remuneration amounts of \$546,875 (2016: \$375,000) for Mr R Willes, \$87,500 (2016: \$60,000) for Mr M Fry and \$87,500 (2016: \$60,000) for Mr B Bloking have been accrued and not yet paid.

**NOTES TO THE FINANCIAL STATEMENTS
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9. ISSUED CAPITAL

	Consolidated 2017 \$	Consolidated 2016 \$
Issued and paid up capital		
389,466,818 (2016: 384,793,851) Ordinary shares	32,017,355	31,944,281
(a) Movements in issued equity		
At the beginning of the reporting period	31,944,281	30,885,320
Equity movements during the period:		
- Placement at \$0.03	-	900,000
- Issued in lieu of consulting and compliance costs	73,074	115,806
- To be issued in lieu of consulting costs	-	52,500
- Equity issue costs	-	(9,345)
At end of reporting period	32,017,355	31,944,281
	Number of Shares	Number of Shares
At the beginning of the reporting period	384,793,851	351,695,363
Shares issued during the period:		
- Placement at \$0.03	-	30,000,000
- Issued in lieu of consulting and compliance costs	4,672,967	3,098,488
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.

(b) Terms and Conditions

Ordinary shares entitle their holder the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of surplus assets in proportion to the number of and amounts paid on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a Company meeting.

10. OPTIONS

At the end of the reporting year, there are 34,750,000 unlisted options over unissued shares as follows:

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

During the financial year ended 30 June 2017, no ordinary shares were issued as a result of the exercise of options. 7,500,000 unlisted options were not exercised and expired on 20 November 2016.

**NOTES TO THE FINANCIAL STATEMENTS
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11. PERFORMANCE RIGHTS

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 by no later than 7 April 2020:
 - 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.

During the current financial year, the Company issued 2,000,000 Performance Rights to a consultant and 500,000 performance rights to the Company Secretary. These Performance Rights expire on 17 March 2018 with vesting conditions as follows:

- 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.

Summary of Performance Rights as at 30 June 2017 over Ordinary Shares:

<i>Type</i>	<i>Expiry Date</i>	<i>Vesting Period</i>	<i>Number</i>	<i>Probability</i>	<i>Fair Value</i>	<i>Expensed/ (Reversed)</i>
Tranche 2	7 April 2018	2 years	4,000,000	0.1%	1,707	-
Tranche 3	7 April 2018	3 years	4,000,000	* n/a	308,000	-
Tranche 4	7 April 2020	3 years	4,000,000	* n/a	308,000	-
Other	17 March 2018	nil	2,500,000	* n/a	62,500	32,738
Total			14,500,000		680,207	32,738

The fair value of the performance rights granted was estimated at the date of the grant using the market value at that date, the probability of the relevant market conditions being met and the length of the expiry period.

* The probability of the relevant non-market conditions being met is ignored for assessing fair value.

**NOTES TO THE FINANCIAL STATEMENTS
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30 JUNE 2017**

	Consolidated	Consolidated
	2017	2016
	\$	\$
12. RESERVES		
(a) Share based payments reserve	2,384,900	2,314,164
(b) Foreign currency translation reserve	(14,047)	(26,089)
(c) Non-controlling contribution reserve	(611,598)	(611,598)
(d) Options reserve	870,901	870,901
	2,630,156	2,547,378
(a) Share based payments reserve		
At beginning of reporting period	2,314,164	2,251,516
Share based remuneration payments	70,736	62,648
Balance at end of reporting period	2,384,900	2,314,164
(b) Foreign currency translation reserve		
At beginning of reporting period	(26,089)	(1,551)
Foreign currency translation reserve movement	12,042	(24,538)
Balance at end of reporting period	(14,047)	(26,089)
(c) Non-controlling contribution reserve		
At beginning of reporting period	(611,598)	(611,598)
Balance at end of reporting period	(611,598)	(611,598)
(d) Options reserve		
At beginning of reporting period	870,901	870,901
Balance at end of reporting period	870,901	870,901

- i) Share based payments reserve is used to record the value of equity benefits provided to Directors, executives and consultants as part of their remuneration or services provided.
- ii) Foreign currency translation reserve records exchange differences arising on translation of the financial statements of foreign subsidiaries recorded in their functional currency (United States of America Dollars and South African Rand) into presentation currency at balance date.
- iii) Non-controlling contribution reserve records the effect of transactions with non-controlling interests where there is no loss of control by the Group.
- iv) Options reserve is used to record the proceeds of issued share options.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

13. KEY MANAGEMENT PERSONNEL EMOLUMENTS

(a) Details of Key Management Personnel

- (i) *Directors*
Robert Willes – Managing Director
Michael Fry – Non-Executive Chairman
Bill Bloking – Non-Executive Director
- (ii) *Executives*
Adrien Wing – Company Secretary

Directors' remuneration and other terms of employment are reviewed annually by the non-executive Directors having regard to performance against goals set at the start of the period, relative comparative information and independent expert advice, as appropriate.

(b) Compensation of Key Management Personnel

The aggregate compensation paid to Directors and other members of key management personnel is out below:

	Consolidated	Consolidated
	2017	2016
	\$	\$
Short-term employee benefits	527,727	527,727
Post-employment benefits	27,273	27,273
Share-based payments	6,548	65,848
	561,548	620,848

Further details of key management personnel remuneration have been included in the Remuneration Report section of the Directors' Report.

(c) Other Transactions with Key Management Personnel

- (i) Performance Rights – during the year ended 30 June 2017, Mr A Wing was granted 500,000 Performance Rights. Refer to Note 11. A share-based payment expense of \$6,548 (2016: \$(800)) has been included in Key Management Personnel Compensation.
- (ii) Retention Shares – during the year ended 30 June 2014 the Company agreed to issue Mr R Willes 4,000,000 fully paid ordinary shares in the Company in equal 6 monthly instalments of 666,667 shares. A balance of 1,333,332 shares are still required to be issued as at 30 June 2017. Refer to Note 9. A share-based payment expense of \$nil (2016: \$66,648) has been included in Key Management Personnel Compensation.

(d) Amounts owing to Key Management Personnel

As at 30 June 2017, remuneration amounts of \$546,875 (2016: \$375,000) for Mr R Willes, \$87,500 (2016: \$60,000) for Mr M Fry and \$87,500 (2016: \$60,000) for Mr B Bloking have been accrued and not yet paid.

**NOTES TO THE FINANCIAL STATEMENTS
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30 JUNE 2017**

14. 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.

15. LOSS PER SHARE

The following reflects the loss and share data used in the calculation of basic and diluted loss per share:

	Consolidated 2017 \$	Consolidated Restated 2016 \$
	<u> </u>	<u> </u>
Loss used in calculation of basic and diluted loss per share	<u>(859,705)</u>	<u>(1,113,959)</u>
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted EPS	(i) <u>388,839,488</u>	<u>360,779,083</u>

(i) Share options are not considered dilutive, as their impact would decrease the net loss per share.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

16. RELATED PARTY DISCLOSURE**Interest in subsidiaries**

The consolidated financial statements include the financial statements of Challenger Energy Limited and the subsidiaries listed in the following table:

Name	Country of Incorporation	Percentage of equity interest held by the Group	
		2017	2016
Bundu Oil & Gas Exploration (Pty) Ltd	South Africa	95%	95%
Sunset Texas Exploration LLC	USA	100%	100%
Challenger Texas Energy LLC	USA	100%	100%
Challenger Texas Energy Operating LLC	USA	100%	100%

17. AUDITOR'S REMUNERATION

	<u>Consolidated</u> 2017 \$	<u>Consolidated</u> 2016 \$
Amounts received or due and receivable by:		
- HLB Mann Judd (WA Partnership) - audit or review of the financial reports of the Company	34,500	35,500
	<u>34,500</u>	<u>35,500</u>

18. FINANCIAL INSTRUMENTS**(a) Financial risk management and risk policies**

The Group's principal financial instruments comprise of cash and short-term deposits. The main purpose of these financial instruments is to hold finance for the entity's operations. The entity has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the period under review, the entity's policy that no trading in financial instruments shall be undertaken. The main risks arising from the entity's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in Note 1 to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

18. FINANCIAL INSTRUMENTS (CONT'D)**(c) Interest rate risk**

The Group is exposed to movements in market interest rates on short term deposits. The policy is to monitor the interest rate yield curve out to 120 days to ensure a balance is maintained between the liquidity of cash assets and the interest rate return. The Group does not have short or long term debt, and therefore this risk is minimal.

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts might not reconcile to the statement of financial position.

2017

Consolidated	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
	\$	\$	\$	\$	\$
FINANCIAL ASSETS					
Non-interest bearing	6,685	-	-	-	6,685
Variable interest rates instruments	331,144	-	32,895	-	364,039
	337,829	-	32,895	-	370,724
FINANCIAL LIABILITIES					
Non-interest bearing	810,777	-	-	-	810,777
NET FINANCIAL ASSETS	(472,948)	-	32,895	-	(440,053)

2016

Consolidated	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Total
	\$	\$	\$	\$	\$
FINANCIAL ASSETS					
Non-interest bearing	23,581	-	-	-	23,581
Variable interest rates instruments	850,913	-	32,200	-	883,113
	874,494	-	32,200	-	906,694
FINANCIAL LIABILITIES					
Non-interest bearing	650,042	-	-	-	650,042
NET FINANCIAL ASSETS	224,452	-	32,200	-	256,652

(i) Interest Rate Sensitivity Analysis

At reporting date, if interest rates had been 50 basis points higher or lower than the prevailing rates realised, with all other variable held constant, there would have been an immaterial change in post tax loss for the year. The impact on equity would have been the same.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

18. FINANCIAL INSTRUMENTS (CONT'D)

(d) Net fair values of financial assets and liabilities

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised Financial Instruments

Cash and cash equivalents: The carrying amount approximates fair value because of their short-term maturity.

Receivables and payables: The carrying amount approximates fair value.

(e) Credit risk exposures

The Group's maximum exposure to credit risk at each balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowance for doubtful debts, of those assets as indicated in the statement of financial position. The maximum credit risk exposure on receivables of the Group at 30 June 2017 is \$6,685 (2016: \$23,581). There are no impaired receivables at 30 June 2017.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually. The Group measures credit risk on a fair value basis.

Concentration of Credit Risk

The Group is not exposed to any individual customer.

(f) Liquidity risk management

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Group does not have any bank debt.

(g) Foreign exchange risk management

The Group is exposed to US Dollar (USD) and South African Rand (ZAR) currency fluctuations. At 30 June 2017 and 30 June 2016, there would have been an immaterial change in the post-tax operating loss for the year as a result of a 10% change in the Australian Dollar (AUD) to the USD and ZAR. The impact to equity would be the same.

(h) Capital Risk Management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it may continue to provide returns for shareholders and benefits for other stakeholders.

Due to the nature of the Group's activities, being oil and gas exploration, it does not have ready access to credit facilities, with the primary source of funding being equity raisings. Accordingly, the objective of the Group's capital risk management is to balance the current working capital position against the requirements of the Group to meet exploration programmes and corporate overheads. This is achieved by maintaining appropriate liquidity to meet anticipated operating requirements, with a view to initiating appropriate capital raisings as required.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

19. CONTINGENT ASSETS AND LIABILITIES

There are no contingent liabilities or contingent assets.

20. EMPLOYEE BENEFITS

Employee Incentive Option Plan

The Group's Employee Incentive Scheme provides for the Board to elect to offer Options to an employee having regard to the potential contribution of the employee to the Group and other matters the Board considers relevant.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the Scheme, is the price determined by the Board and advised to the employee when Options are offered to the employee.

All employee options expire on the earlier of their termination date or 30 days following termination of the employee's employment. Options vest on granting; however exercise can be conditional upon the Group achieving certain performance hurdles as determined by the Board of Directors.

There are no voting or dividend rights attaching to the options. There are no voting rights attaching to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

Details of shares and options issued to Key Management Personnel are included in the Remuneration Report.

21. PARENT ENTITY DISCLOSURES

<i>Financial position</i>	2017	2016
	\$	Restated \$
Assets		
Current assets	374,151	912,131
Non-current assets	-	-
Total assets	374,151	912,131
Liabilities		
Current liabilities	810,278	649,464
Total liabilities	810,278	649,464
Net Assets	(435,527)	262,667
Equity		
Issued capital	32,017,355	31,944,281
Accumulated losses	(35,708,684)	(34,866,679)
Reserves	3,255,802	3,185,065
Total equity	(435,527)	262,667
 <i>Financial performance</i>		
	2017	2016
	\$	\$
Loss for the year	(842,005)	(1,860,387)
Other comprehensive income	-	-
Total comprehensive loss	(842,005)	(1,860,387)

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017**

22. SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances that has arisen since 30 June 2017 which have significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

23. COMMITMENTS FOR EXPENDITURE

There are no commitments for expenditure as at 30 June 2017 (2016: \$nil).

DIRECTORS' DECLARATION

1. The Directors of the Company declare that:
 - a. the financial statements, notes and the additional disclosures are in accordance with the Corporations Act 2001 including:
 - i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year then ended; and
 - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;
 - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
 - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2017.

This declaration is signed in accordance with a resolution of the Board of Directors.



Mr Robert Willes
Managing Director

31 August 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Challenger Energy Limited

Report on the Audit of the Financial Report*Opinion*

We have audited the financial report of Challenger Energy Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty regarding going concern

We draw attention to Note 1(w) in the financial report, which indicates that the loss of the Group amounted to \$852,046 (2016: \$1,130,514). The Group had a working capital deficiency as at 30 June 2017 of \$427,767 and a net cash outflow from operating and investing activities of \$521,593 (2016: \$753,451). As stated in Note 1(w), these events or conditions, along with other matters as set forth in Note 1(w), indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern*, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

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Liability limited by a scheme approved under Professional Standards Legislation

Key Audit Matter**How our audit addressed the key audit matter**

Change in accounting policy

(Refer to Note 2)

During the current year, the Group changed its accounting policy in relation to deferred exploration and evaluation expenditure. In previous reporting periods, exploration and evaluation expenditure was capitalised under AASB 6 *Exploration for and Evaluation of Mineral Resources*. The accounting policy of the Group in this respect has been changed to expense exploration expenditure as incurred on the basis described in Note 2(a).

Management has assessed this change against accounting standards requirements with respect to voluntary changes in accounting policies and the change in accounting policy is on the basis that it will result in more relevant and reliable information in the financial report.

The change in accounting policy resulted in the restatement of affected 30 June 2016 balances and the disclosure of the impact of the change for each financial statement line item affected.

The change in accounting policy was considered a key audit matter as it was determined to be important to the users understanding of the financial statements as a whole, was material in size and nature and involved the most communication with those charged with governance.

Our procedures included but were not limited to:

- We considered the appropriateness of the change in accounting policy ensuring that the disclosure requirements set out in accounting standards were complied with, including that the change provided more relevant financial information to the users of the financial report; and
- We reconciled the restated balances to the prior year audited balances ensuring that the change was correctly calculated and disclosed.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Challenger Energy Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants



M R Ohm
Partner

Perth, Western Australia
31 August 2017

ADDITIONAL SHAREHOLDERS' INFORMATION

A. CORPORATE GOVERNANCE

Refer to the Company's Corporate Governance Statement at www.challengerenergy.com.au.

B. SHAREHOLDING

1. Substantial Shareholders

The names of the substantial shareholders listed on the Group's register as at 24 August 2017:

Shareholder	Number
LQ Super Pty Ltd	43,070,744
Mr & Mrs Brown	29,084,149

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
30 June 2020 options - \$0.05	34,750,000	25

3. Number of holders in each class of equity securities and the voting rights attached

There are 1,085 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are a total of 34,750,000 unlisted options on issue. Each shareholder is entitled to one vote per share held upon exercise.

On a show of hands every shareholder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

4. Distribution schedule of the number of holders in each class of equity security as at 24 August 2017.

Distribution	Holders of Ordinary Shares
1-1,000	44
1,001 - 5,000	57
5,001 - 10,000	100
10,001 - 100,000	444
100,001 and over	440
TOTALS	1,085

5. Marketable Parcel

There are 276 shareholders with less than a marketable parcel.

ADDITIONAL SHAREHOLDERS' INFORMATION (CONT'D)**6. Twenty largest holders of each class of quoted equity security**

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 24 August 2017) is as follows:

Ordinary Shares

Name	No. of Ordinary Shares	%
LQ Super Pty Ltd	29,166,298	7.49%
Brown Warren W & M H	22,558,333	5.79%
Jacqueline Kay Pty Ltd	14,063,417	3.61%
LQ Super Pty Ltd	10,571,113	2.71%
Rodwell Peter Kelvin	9,966,666	2.56%
Pitt Street Absolute Retu	9,705,000	2.49%
J P Morgan Nom Aust Ltd	6,594,661	1.69%
HSBC Custody Nom Aust Ltd	6,546,667	1.68%
Brown Warren W & M H	6,525,816	1.68%
Sawfam Pty Ltd	6,000,000	1.54%
Eadeh Edward M & D E	5,100,000	1.31%
Citicorp Nom Pty Ltd	4,580,961	1.18%
Greenwood Michael Andrew	4,170,000	1.07%
Cain Gay Vivian	3,942,172	1.01%
Sanperez Pty Ltd	3,333,333	0.86%
Q Supa Pty Ltd	3,333,333	0.86%
Covelane Gold Coast Pty Ltd	3,300,000	0.85%
Elks Nom Pty Ltd & T A	3,200,000	0.82%
Carey D G & Dominguez M C	2,900,000	0.74%
Abegale Pty Ltd	2,700,000	0.69%
Total	158,257,770	40.63%

ADDITIONAL SHAREHOLDERS' INFORMATION (CONT'D)**C. OTHER DETAILS****1. Company Secretary**

The name of the company secretary is Adrien Wing.

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Level 17, 500 Collins Street
Melbourne VIC 3000

Telephone: +(61) 3 9614 0600
Facsimile: +(61) 3 9614 0550

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Security Transfers Registrar
770 Canning Highway
Applecross Western Australia 6153
Telephone: +(61) 8 9315 2333
Facsimile: +(61) 8 9315 2233

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the ASX.

5. Restricted Securities

The Company has no restricted securities on issue.

6. Review of Operations

A review of operations is contained in the Directors' Report.

7. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of listing in a way consistent with its stated business objectives.

SCHEDULE OF OIL AND GAS LEASES AS AT 24 AUGUST 2017***Cranemere Project (South Africa)***

<i>Location</i>	<i>Gross Acreage</i>	<i>Working Interest</i>	<i>Status</i>
Karoo Basin	881,939	95%	Application

Final area is subject to granting of the application.