ANNUAL REPORT

for the financial year ended 30 June 2015

ACN 123 591 382

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CORPORATE DIRECTORY

NON-EXECUTIVE CHAIRMAN
Michael Fry

MANAGING DIRECTOR
Robert Willes

NON-EXECUTIVE DIRECTOR
Bill Bloking

COMPANY SECRETARY
Adrien Wing

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DIRECTORS' REPORT

The Directors submit their 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 2015:

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. 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
	Killara Resources Limited	14 July 2008 to 9 October 2012
Robert Willes	Buru Energy Limited	2 July 2014 to date
Bill Bloking	KAL Energy Incorporated	Since 2007
	Nido Petroleum Limited	Since 2008
	Gunson Resources Limited	1 August 2013 to 2 March 2015
	Transerv Energy Limited	2011 to 2013
	Miclyn Express Offshore Limited	2010 to 2012
	Eureka Energy Limited	2012

DIRECTORS' REPORT (CONT'D)

COMPANY SECRETARY

Adrien Wing, CPA
Mr Adrien Wing is a qualified Certified Practicing 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 14 (of which 2 included Audit and Risk Committee meetings and 1 included a Remuneration and Nomination Committee meeting) 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, CELO) 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 and production 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

South Africa

- **Momentum grows towards approval of applications for shale gas exploration rights in South Africa. Outcome of shale applications expected in coming months.**
    - ***July 2014***
        - **Government launches "Operation Phakisa" initiative to kick start ocean economy, including the oil and gas sector.**
    - ***October 2014***
        - **Government proceeds with processing exploration right applications.**
        - **Operation Phakisa recommendations announced, including key Mineral and Petroleum Resources Development Act ("MPRDA") Amendment Bill.**
    - ***January 2015***
        - **MPRDA Amendment Bill referred back to the National Assembly.**
    - ***February 2015***
        - **Following stakeholder consultation process, Bundu submits updated Environmental Management Programme (EMPr), commencing EMPr approval process.**
        - **President Zuma's State of the Nation Address and Finance Minister Nene's 2015 Budget Speech continue to highlight Government's resolve to address the energy crisis.**
    - ***May 2015***
        - **Environment Minister launches 2 year Strategic Environmental Assessment for shale gas development ("SEA").**
    - ***June 2015***
        - **Much anticipated Technical Regulations for Petroleum Exploration and Production gazetted by the Minister of Mineral Resources.**
        - **Bundu's updated Environmental Management Programme ("EMPr)" in process with the regulator - Bundu submits corresponding updated work programme.**

- ***August 2015 (Post reporting period)***
  - **President Zuma states "We will soon be issuing licenses for the exploration of shale gas drilling through hydraulic fracturing…" at the Presentation of Credentials by new Heads of Mission accredited to South Africa in Pretoria on 11th August.**
  - **MPRDA Amendment Bill may be passed in current term of parliament.**

- **Shell puts SA shale gas exploration programme on hold citing need for legislative and technical clarity.**
- **Positive industry engagement with Department of Mineral Resources regarding key MPRDA Amendment Bill.**
- **Energy crisis continues with power outages and government selling assets to provide a further R23bn bailout to Eskom.**
- **Farm-out discussions continue pending grant of exploration right.**

Corporate

- **Capital raise completed to raise approximately $1.2 million before associated costs.**
- **Challenger continues to build its corporate profile and relationships in South Africa, and with the Australian Government.**

South Africa

As can be seen from the timeline above, momentum has continued to grow through the year as the government works to put the pre-requisites in place in preparation for the determination of applications for shale gas exploration rights, whilst Challenger's South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd ("Bundu") continued to work to progress its application;

Legislation, Regulation and Policy

The "Operation Phakisa" Government initiative was launched in July 2014 to "kick start" the ocean economy in South Africa, focusing on four key sectors, including oil and gas. The Offshore Petroleum Association of South Africa ("OPASA") participated as a major stakeholder in the offshore oil and gas sector. One of the major issues addressed was the legislative uncertainty created by the MPRDA Amendment Bill. The results were announced in Durban in October. Several of the recommendations coming out of this process relate to the provisions of the MPRDA Amendment Bill. As requested by the Government, OPASA and the Onshore Petroleum Association of South Africa ("ONPASA") made a joint industry submission regarding the proposed amendments to the MPRDA. We understand that following this, the Minister of Mineral Resources, Ngoako Ramatlhodi, made his recommendations to the President regarding the Bill, which was referred back to the National Assembly in January. Positive engagement has continued between industry and the Department of Mineral Resources, and we understand that the Bill may be passed in the current term of parliament, providing greater legislative and fiscal clarity and paving the way for the shale gas exploration rights applications to be progressed.

In May the government formally launched a 2-year Strategic Environmental Assessment for shale gas development ("SEA"). The SEA is a high-level policy and framework setting process the aim of which, according to the Department of Environmental Affairs is;

> *"…to provide an integrated assessment and decision-making framework to enable South Africa to establish effective policy, legislation and sustainability conditions under which shale gas development could occur."*
> *"The strategic environmental assessment (SEA) will be undertaken by a 'science council consortium', consisting of the Council for Scientific and Industrial Research (CSIR), the South African National Biodiversity Institute (SANBI) and the Council for Geosciences (CGS)."*

Challenger sees the SEA as complementary to the shale gas exploration process, which will be guided by the new Technical Regulations for Petroleum Exploration and Production ("Technical Regulations").

In a further key milestone, the Minister published the Technical Regulations in early June. We continue to evaluate these, but the regulations are generally based on sound international practice and are a reasonable basis upon which to commence exploration. We anticipate that the regulations will evolve with the industry over time.

Bundu's Application

In October, Bundu was advised by the regulator, Petroleum Agency SA ("PASA") that a decision had been taken to proceed with processing its application for a shale gas Exploration Right in South Africa's Karoo Basin.

This was a major breakthrough for Challenger and Bundu, and the other companies pursuing acreage in the Karoo as the processing of applications for shale gas Exploration Rights in South Africa had been on hold since 2011.

As part of the procedure for progressing the application, PASA asked that Bundu review and update the Environmental Management Programme ("EMPr") submitted when its application was originally made in 2010 and also to engage in further stakeholder consultation. Bundu engaged Golder Associates, an independent environmental consultancy, to undertake the update of the EMPr, and to support Bundu during the stakeholder consultation process. The new EMPr describes a revised work programme that includes only seismic studies and drilling, the assessment of potential positive and negative impacts related to these activities and proposed mitigation measures to manage potential negative impacts. This is in line with the moratorium on further applications imposed in February last year. The moratorium excluded from its ambit existing Exploration Right applications, subject to the proviso that no hydraulic fracturing would be permitted until such time as the Technical Regulations had been published under the MPRDA.

Following an extensive stakeholder consultation process, a major deliverable was achieved with the filing of the revised EMPr with the regulator, Petroleum Agency SA ("PASA") on 27 February 2015. The filing of the revised EMPr effectively set the regulatory machine in motion and marks both the completion of a very significant body of work, and the first step in what we anticipate will be an ongoing dialogue with local communities and stakeholders once exploration rights have been awarded.

During this period Bundu learned that the South African Department of Environmental Affairs had published notices inviting comment on proposals to incorporate additional land into the Mountain Zebra National Park and to declare portions of land as the Mountain Zebra Camdeboo Protected Environment. Some of these proposed additional portions fall within Bundu's application area. Bundu has accordingly lodged a submission requesting that the Minister for Mineral Resources be consulted in the manner required by the National Environmental Management: Protected Areas Act. The portions falling inside Bundu's application area total approximately 70,800 hectares, representing some 17% of Bundu's application area. If declared, there would be a buffer zone of 5km around each protected area. This buffer zone does not preclude development, but may have the effect of lowering thresholds of activity for permitting purposes (i.e. a lower level of a given activity may trigger the need for a permit). The EMPr is available via a link on the Company's website and contains maps showing the location of existing protected areas, together with those portions of land that are proposed for inclusion in the new Protected Environment. These maps show that the majority of the buffer zone that would result from such a declaration is covered by existing Critical Biodiversity Areas[1] where lower permitting thresholds may already apply. The outcome and timing of the proposal remain uncertain at this time.

Subsequent to the filing of the revised EMPr, Bundu filed a revision to its application incorporating a corresponding updated work programme.

In the meantime, Bundu continued to engage with PASA, providing requested clarifications as the EMPr is processed, and facilitating a site visit. Good progress is being made, and we understand that following submissions made by interested and affected parties, the EMPr is to be referred to the Regional Mining Development and Environmental Committee (REMDEC) and that this process is in addition to the 120-day regulatory period for the Minister to consider the EMPr. Processing of the balance of Bundu's application will take place in parallel with this activity.

Bundu also continues to work with ONPASA as it engages with the Department of Mineral Resources on the key MPRDA Amendment Bill. The industry engagement continues to be positive.

Political context

In the meantime the national energy crisis continues to grow, with ongoing electricity outages by state-owned utility Eskom. President Zuma noted during his State of the Nation Address on 12 February that resolving the energy challenge is the first step in the Government's nine point plan to "ignite growth and create jobs. He stated that:

[1] *Critical Biodiversity Areas ("CBAs") are not legislated but are planning instruments developed to guide decision-making. The Department of Economic Development and Environment Affairs together with the Department of Water Affairs have collaborated to draw up the Eastern Cape Biodiversity Conservation Plan (ECBCP). The ECBCP addresses the need to identify and map CBAs and priorities for conservation in the Province.*

"The country is currently experiencing serious energy constraints which are an impediment to economic growth and is a major inconvenience to everyone in the country.
"Overcoming the challenge is uppermost in our programme. We are doing everything we can to resolve the energy challenge.
"We have developed a plan which involves both short, medium term and long term responses.
"The short and medium term plan involves improved maintenance of Eskom power stations, enhancing the electricity generation capacity and managing the electricity demand.
"The long term plan involves finalising our long term energy security master plan.
"As a priority we are going to stabilise Eskom's finances to enable the utility to manage the current period. In this regard, Government will honour its commitment to give Eskom around R23 billion in the next fiscal year.
"The 'War Room' established by Cabinet in December is working diligently around the clock with Eskom, to stabilise the electricity supply system and contain the load shedding.
"During this period, we have to work together to find solutions.
"Given the high cost of diesel, Eskom has been directed to switch from diesel to gas as a source of energy for the utility's generators."

He also noted that

"South Africa is surrounded by gas-rich countries, while we have discovered shale gas deposits in our own Karoo region."

In the 25 February 2015 Budget Speech, Finance Minister Nhlanhla Nene stated;

"To stabilise Eskom's financial position, it will apply to the regulator this year for adjustments towards cost-reflective tariffs. In October 2014 we announced a broad package for Eskom, including a capital injection of R23 billion, governance improvements, operational cost containment and additional borrowing and support for required tariff increases. The fiscal allocation of R23 billion will be paid in three installments, with the first transfer to be made by June 2015. A special appropriation bill will be tabled, once the finance has been raised. If further support is deemed necessary, consideration will be given to an equity conversion of government's subordinated loan to Eskom."

Minister Nene also announced a temporary increase in the electricity levy, from 3.5c/kWh to 5.5c/kWh, to assist in demand management, proposed a number of tax measures to promote energy efficiency, and a R108 million allocation to "research and regulatory requirements for licensing shale gas exploration and hydraulic fracturing".
With the prospect of the energy crisis persisting for some time, pressure on the economy is likely to increase and public concern to rise.

In March, Shell announced that it was putting its South African shale gas exploration programme on hold, citing the oil price and the need for legislative and technical clarity. It is important to note that Shell has not withdrawn its exploration right applications. Indeed, Shell South Africa's chairman has been quoted as saying "Should attractive commercial terms be put in place, the Karoo project could compete favourably within Shell's global tight/shale gas and oil portfolio".

Meanwhile, efforts continue to restore Eskom's balance sheet with escalating costs on its new build power projects, and to reduce power outages. The government is reported to be selling assets to cover a R23bn bailout package, whilst Eskom looks to raise up to R250bn of fresh funding. At the release of the Organisation for Economic Cooperation and Development's (OECD's) latest economic survey of South Africa in Johannesburg, OECD Secretary General Angel Gurria said the current electricity shortage was damaging the South African economy, which the organisation expected to grow by only 1.9% in 2015. Statistics South Africa also reported that the economy grew at a slower pace in the first quarter of 2015, partly as a result of power outages curbing industrial output.

In summary
Whilst it is difficult to provide guidance on the timing of the application determination process with any precision, there appears to be convincing momentum and Challenger considers that the application process remains on track to be resolved during the second half of this year.

In the meantime, Challenger continues its discussions with prospective farm-in partners and we will continue to keep shareholders updated and informed as and when there is material progress.

Background
The Karoo Basin, which extends across 600,000 km² is located in central and southern South Africa and contains organic rich shales of Permian age with combined thickness up to 5,000 feet. The focus for shale gas exploration is in the southern portion of the basin where the shales are at sufficient depth and where five wells, all pre-1970, intersected the shales with significant gas shows. One well, the Cranemere CR1/68 well, flowed up to 8 million cubic feet/day of natural

gas from the Fort Brown shale during testing over a 158 foot interval in 1968. The production was judged to be from fractures and secondary porosity in the shales. As first mover, Bundu selected its application area of approximately 1 million acres centred around this well.

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

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

The Karoo Basin has become the focus of intense interest in the past few years, following the initial application to explore for shale gas in the basin by Bundu (acquired by CEL in April 2010) in February 2009. A number of major international companies, including Shell, Chevron and Falcon Oil & Gas, are also pursuing exploration rights in the region.

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

As previously noted, Chevron Business Development South Africa Limited (Chevron) has announced an Agreement with Falcon Oil and Gas Ltd to jointly co-operate on unconventional gas opportunities in the Karoo Basin, with the result that Challenger – through its subsidiary, Bundu – is the only junior company with interests in the basin, alongside Shell and Chevron.

Corporate

The Company completed a private placement to raise approximately $1.2 million before associated costs in late November. The placement comprised 20 million new fully paid ordinary shares issued at 6 cents ($0.06) per share. The shares were placed with sophisticated investors, the majority of whom were existing shareholders in the company. This has allowed Challenger and Bundu to focus on moving forward with stakeholder consultation and the Exploration Right application process.

Challenger continued to build its corporate profile and relationships in South Africa, and with the Australian Government. Highlights included:

- Attendance at a private dinner with the Australian Minister for Foreign Affairs, Julie Bishop, in Johannesburg, along with key business and community leaders.
- Presentation to the Africa Down Under conference in Perth in September.
- Sponsorship of the "Celebrating Twenty Years of Democracy: Australia's Contribution to the New South Africa" photographic exhibition, a collaboration between the Australian High Commission and the University of Pretoria.
- Media interviews, resulting in coverage in both Australia and South Africa.
- Introducing Challenger to the investor community in South Africa via one-on-one meetings and investor briefings.
- Participation in the expert panel discussion on shale gas at the Jo'burg Indaba in October.
- Presentation to the Investec Oil & Gas Conference in Cape Town in November.
- Participation in the Coega Shale Gas Forum and the Shell 'Building Petroleum Capability for SA' workshop in Cape Town. The Shale Gas Forum is a regular series of meetings with representatives of development agencies, working together to address capacity issues and to achieve maximum benefit for the region.

Challenger also presented at Proactive Investors investor luncheons in Melbourne and Sydney in October.

The 2014 Annual Report was released to the ASX on 26 September and the 2014 Annual General Meeting was held on 19 November 2014. All resolutions were passed by the requisite majority.

DIRECTORS' REPORT (CONT'D)

FINANCIAL RESULT

The operating result for the financial year ended 30 June 2015 for the Group attributable to owners of the parent was an after tax loss of $1,256,947 (2014: loss of $1,241,188).

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 2015 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 the oil and gas industry. 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 exploration 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 the 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 as 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 Directors 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 Directors and 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 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 by Key Management Personnel for the financial year ended 30 June 2015 is as follows:

	Primary		Equity Compen-sation	Post-employment			Perform-ance Related %
2015	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Performance Rights / Shares $**	**Superannuation Contributions $**	**Termin-ation Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Robert Willes	347,727	22,500	107,936	27,273	-	505,436	25.8
Bill Bloking	60,000	-	-	-	-	60,000	-
Executives							
Adrien Wing	60,000	-	800	-	-	60,800	1.3
Total 2015	527,727	22,500	108,736	27,273	-	686,236	

	Primary		Equity Compen-sation	Post-employment			Perform-ance Related %
2014	**Base Salary and Fees $**	**Bonus and Non Monetary Benefits $**	**Value of Performance Rights / Shares $**	**Superannuation Contributions $**	**Termin-ation Benefits $**	**TOTAL $**	
Directors							
Michael Fry	60,000	-	-	-	-	60,000	-
Paul Bilston[1]	80,000	-	-	-	-	80,000	-
Robert Willes	342,873	21,501	204,593	25,892	-	594,859	38.0
Bill Bloking[2]	20,000	-	-	-	-	20,000	-
Executives							
Adrien Wing	60,000	-	11,846	-	-	71,846	16.5
Total 2014	562,873	21,501	216,439	25,892	-	826,705	

[1] Resigned 27 February 2014.
[2] Appointed 27 February 2014.

A short term incentive bonus of $22,500 was paid to Mr Willes during the year ended 30 June 2015 as a result of the Company achieving successful capital raisings during the 2014 financial year.

As at 30 June 2015, remuneration amounts of $93,750 (Mr R Willes), $15,000 (Mr M Fry), $15,000 (Mr B Bloking) and $15,000 (Mr A Wing), 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	Expiry Date
Paul Bilston	7,500,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14 *
Paul Bilston[1]	2,000,000	18 Aug 10	18 Aug 10	$0.03	$0.35	28 Feb 15 *
Paul Bilston	7,500,000	23 Nov 11	23 Nov 11	$0.03	$0.15	20 Nov 16
Michael Much[2]	2,000,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14 *
Michael Much[3]	2,000,000	23 Nov 11	23 Nov 11	$0.02	$0.15	20 Nov 14 *
David Woodley[2]	2,000,000	1 Oct 10	1 Jan 11	$0.06	$0.35	1 Feb 15 *
	23,000,000					

[1] These options are conditional on the fully diluted market capitalisation of the Company exceeding $45m for 2 consecutive months.

[2] These options were conditional on the Company booking certified 2P reserves of 75PJ (or equivalent).

[3] These options were conditional on the Company booking certified 2P reserves of 150PJ (or equivalent).

* These options expired without being exercised.

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

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	96,593	-
Robert Willes	2,666,668	266,667	16,000,000
Bill Bloking	-	424,495	-
	4,499,633	787,755	16,000,000

No shares were issued by the Company during or since the financial year ended 30 June 2015 as a result of the exercise of an option or performance rights.

Options and Performance Rights issued as Part of Remuneration

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.

DIRECTORS' REPORT (CONT'D)

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. It is a term of his executive services agreement that he was paid $300,000 per annum inclusive of superannuation, with the remainder of his salary accruing and paid upon the Company successfully completing a capital raising of at least $1m (prior to the full expenses of the offer). A successful capital raising of $1m (prior to the full expenses of the offer) occurred on 7 August 2013. 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.

A short term incentive bonus of $22,500 was paid to Mr Willes during the year ended 30 June 2015 as a result of the Company achieving a pre-determined minimum level of capital raising during the 2014 financial year.

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.

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.
- 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 year, the Company varied the terms of 500,000 Performance Rights to the Company Secretary, Mr Adrien Wing. These Performance Rights were set to expire on 20 June 2015, however the expiry date was extended to 30 June 2016 with revised vesting conditions as follows:

- 50% of the Performance Rights (fair value of $15,000 – refer to Note 11 for further details) 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 (fair value of $15,000 – refer to Note 11 for further details) 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.

DIRECTORS' REPORT (CONT'D)

(e) Shares held by Key Management Personnel

	Balance at 1.7.14	Shares Issued	Balance at Retirement	Bought & (Sold)	Balance at 30.06.15
Directors					
Michael Fry	1,832,965	-	-	-	1,832,965
Robert Willes	1,333,334	1,333,334	-	-	2,666,668
Bill Bloking	-	-	-	-	-
Executives					
Adrien Wing	-	-	-	1,666,667	1,666,667
	3,166,299	1,333,334	-	-	6,166,300

(f) Options held by Key Management Personnel

	Balance at 1.7.14	Received as Remuneration	Options Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.15	Total Vested	Total Exercisable
Directors								
Michael Fry	96,593	-	-	-	-	96,593	96,593	96,593
Robert Willes	266,667	-	-	-	-	266,667	266,667	266,667
Bill Bloking	424,495	-	-	-	-	424,495	424,495	424,495
Executives								
Adrien Wing	933,889	-	-	-	-	933,889	933,889	933,889
	1,721,644	-	-	-	-	1,721,644	1,721,644	1,721,644

(g) Performance Rights held by Key Management Personnel

	Balance at 1.7.14	Received as Remuneration	Rights Expired	Bought & (Sold)	Balance at retirement	Balance at 30.06.15	Total Vested	Total Exercisable
Directors								
Michael Fry	-	-	-	-	-	-	-	-
Robert Willes	16,000,000	-	-	-	-	16,000,000	-	-
Paul Bilston	-	-	-	-	-	-	-	-
Bill Bloking	-	-	-	-	-	-	-	-
Executives								
Adrien Wing	500,000	-	-	-	-	500,000	-	-
	16,500,000	-	-	-	-	16,500,000	-	-

END OF REMUNERATION REPORT

OPTIONS

At the date of this report, 73,396,502 unlisted options over new ordinary shares in the Company were on issue, 65,896,502 of which were listed (ASX Code: CELO):

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted	20 November 2016	$0.15	7,500,000
Listed on ASX	30 June 2016	$0.20	65,896,502

No ordinary shares were issued upon the exercise of options during or since the financial year ended 30 June 2015.

PERFORMANCE RIGHTS

Refer to note (d) in the Remuneration Report for details on 16,000,000 Performance Rights issued to Mr Willes under an established Performance Rights Plan approved by shareholders at the EGM on 22 August 2013.

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 $25,784 has been paid for cover period from 1 May 2015 to 30 April 2016. 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 16 and forms part of the Directors' Report for the year ended 30 June 2015.

NON-AUDIT SERVICES

No non-audit services were provided by the auditors during the year ended 30 June 2015.

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

Robert Willes
Managing Director

26 August 2015

HLB Mann Judd

Accountants | Business and Financial Advisers

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 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
26 August 2015

M R W Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 30 June 2015

	Note	Consolidated 2015 $	Consolidated 2014 $
Other income	2	**57,303**	**114,079**
Depreciation expense		**(69)**	**(721)**
Consultants' fees		**(145,423)**	**(86,963)**
Legal and compliance		**(355,075)**	**(258,373)**
Administration and travel expenses		**(201,212)**	**(93,275)**
Occupancy expenses		**(33,394)**	**(113,806)**
Salaries, directors' fees and employee benefits	2	**(517,500)**	**(540,265)**
Share based remuneration		**(52,704)**	**(263,825)**
Foreign exchange gain/(loss)		**(17,376)**	**(3,692)**
Loss before income tax	3	**(1,265,450)**	**(1,246,841)**
Income tax expense	3	**-**	**-**
Net loss for the year		**(1,265,450)**	**(1,246,841)**
Other comprehensive income:			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**256,468**	**(448,309)**
Income tax on other comprehensive income/(loss)		**-**	**-**
Other comprehensive income/(loss) for the year		**256,468**	**(448,309)**
Total comprehensive loss for the year		**(1,008,982)**	**(1,695,150)**
Loss attributable to:			
Owners of the parent		**(1,256,947)**	**(1,241,188)**
Non-controlling interests		**(8,503)**	**(5,653)**
		(1,265,450)	**(1,246,841)**
Total comprehensive loss attributable to:			
Owners of the parent		**(1,010,655)**	**(1,662,763)**
Non-controlling interests		**1,673**	**(32,387)**
		(1,008,982)	**(1,695,150)**
Earnings per share			
Basic loss per share (cents)	15	**(0.37)**	**(0.38)**
Diluted loss per share (cents)	15	**(0.37)**	**(0.38)**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2015

	Note	Consolidated 2015 $	Consolidated 2014 $
CURRENT ASSETS			
Cash and cash equivalents	4	**714,063**	**761,322**
Trade and other receivables	5	**12,406**	**50,349**
Other financial assets		**31,517**	**30,612**
Prepayments		**32,543**	**23,153**
TOTAL CURRENT ASSETS		**790,529**	**865,436**
NON-CURRENT ASSETS			
Trade and other receivables	5	**-**	**13,442**
Plant and equipment	6	**-**	**69**
Deferred exploration and evaluation expenditure	7	**5,200,898**	**4,590,087**
TOTAL NON-CURRENT ASSETS		**5,200,898**	**4,603,598**
TOTAL ASSETS		**5,991,427**	**5,469,034**
CURRENT LIABILITIES			
Trade and other payables	8	**492,760**	**184,424**
TOTAL CURRENT LIABILITIES		**492,760**	**184,424**
NON-CURRENT LIABILITIES			
Trade and other payables	8	**-**	**8,961**
TOTAL NON-CURRENT LIABILITIES		**-**	**8,961**
TOTAL LIABILITIES		**492,760**	**193,385**
NET ASSETS		**5,498,667**	**5,275,649**
EQUITY			
Issued capital	9	**30,885,320**	**29,603,357**
Reserves	12	**808,811**	**612,482**
Accumulated losses		**(26,376,098)**	**(25,119,151)**
Equity attributable to owners of the parent		**5,318,033**	**5,096,688**
Non-controlling interest		**180,634**	**178,961**
TOTAL EQUITY		**5,498,667**	**5,275,649**

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2015

Consolidated 2015	**Reserves**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2014	612,482	29,603,357	(25,119,151)	178,961	5,275,649
Loss for the year	-	-	(1,256,947)	(8,503)	(1,265,450)
Exchange differences on foreign currency translation	246,292	-	-	10,176	256,468
Total comprehensive loss for the year	246,292	-	(1,256,947)	1,673	(1,008,982)
Equity issued	-	1,212,000	-	-	1,212,000
Capital raising costs	-	(75,097)	-	-	(75,097)
Shares in lieu of consulting costs	-	42,394	-	-	42,394
Share based remuneration	(49,963)	102,666	-	-	52,703
Balance at 30 June 2015	808,811	30,885,320	(26,376,098)	180,634	5,498,667

Consolidated 2014	**Reserves**	**Issued Capital**	**Accumulated Losses**	**Non-controlling Interest**	**Total**
	$	**$**	**$**	**$**	**$**
Balance at 1 July 2013	(40,586)	28,552,678	(23,877,963)	403,311	5,037,440
Loss for the year	-	-	(1,241,188)	(5,653)	(1,246,841)
Exchange differences on foreign currency translation	(421,575)	-	-	(26,734)	(448,309)
Total comprehensive loss for the year	(421,575)	-	(1,241,188)	(32,387)	(1,695,150)
Equity issued	988,448	1,000,000	-	-	1,988,448
Capital raising costs	(117,547)	(51,988)	-	-	(169,535)
Purchase of minority interest	42,584	-	-	(191,963)	(149,379)
Share based remuneration	161,158	102,667	-	-	263,825
Balance at 30 June 2014	612,482	29,603,357	(25,119,151)	178,961	5,275,649

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2015

		Consolidated 2015 $	Consolidated 2014 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		**67,350**	**100,846**
Payments to suppliers and employees		**(973,229)**	**(1,194,486)**
Interest received		**16,870**	**10,307**
Interest paid		**-**	**(1,238)**
NET CASH USED IN OPERATING ACTIVITIES	4(b)	**(889,009)**	**(1,084,571)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for exploration activities		**(285,385)**	**(156,093)**
Purchase of non-controlling interest in controlled entity		**-**	**(149,379)**
Payments for deposits		**(8,961)**	**(612)**
Proceeds from deposits received		**13,442**	**27,335**
NET CASH USED IN INVESTING ACTIVITIES		**(280,904)**	**(278,749)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares and options		**1,212,000**	**1,826,012**
Proceeds from borrowings		**-**	**162,436**
Transaction costs on issue of shares and options		**(95,097)**	**(144,879)**
NET CASH PROVIDED BY FINANCING ACTIVITIES		**1,116,903**	**1,843,569**
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(53,010)**	**480,249**
Cash and cash equivalents at beginning of the year		**761,322**	**281,945**
Foreign currency translation		**5,751**	**(872)**
CASH AND CASH EQUIVALENTS AT END OF YEAR	4(a)	**714,063**	**761,322**

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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 the United States.

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 2015, 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 2015. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group and, therefore, no change is necessary to the Group's accounting policies.

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 2015

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 incurred is accumulated in respect of each identifiable area of interest. These costs are carried forward as an asset only if they relate to an area of interest for which rights of tenure are current and in respect of which:

(i) such costs are expected to be recouped through successful development and exploitation or from sale of the area; or

(ii) exploration and evaluation activities in the area of interest have not, at balance date, resulted in booking economically recoverable reserves, and active operations in, or relating to, this area of interest are continuing.

Exploration and evaluation assets are initially measured at cost and include acquisition of rights to explore, studies, exploratory drilling, trenching and sampling and associated activities and an allocation of depreciation and amortisation of assets used in exploration and evaluation activities. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are related directly to operational activities in a particular area of interest.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. The recoverable amount of the exploration and evaluation asset (for the cash generating unit(s) to which it has been allocated being no larger than the relevant area of interest) is estimated to determine the extent of the impairment loss (if any). Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in previous years.

Where a decision has been made to proceed with development in respect of a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is then reclassified to development. Development expenditure is recognised at cost less accumulated amortisation and any impairment losses. Exploration and evaluation expenditure is reclassified to development expenditure once the technical feasibility and commercial viability of extracting the related mineral resource is demonstrable. Where commercial production in an area of interest has commenced, the associated costs together with any forecast future capital expenditure necessary to develop proved and probable reserves are amortised over the estimated economic life according to the rate of depletion of the economically recoverable reserves. Changes in factors such as estimates of proved and probable reserves that affect the calculations are dealt with on a prospective basis.

Accumulated costs in respect of areas of interest which are abandoned are written off in full against profit or loss in the year in which the decision to abandon the area is made.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

(f) Provision for Restoration and Rehabilitation

Provisions for future environmental restoration are recognised where there is a present obligation as a result of exploration, development, production, transportation or storage activities having been undertaken, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of provision can be measured reliably. The estimated future obligations include the costs of removing facilities, abandoning wells and restoring the affected areas.

The provision for future restoration costs is the best estimate of the present value of the expenditure required to settle the restoration obligation at the reporting date, based on current legal requirements and technology. Future restoration costs are reviewed annually and any changes in the estimate are reflected in the present value of the restoration provision at the end of the reporting period, with a corresponding change in the cost of the associated asset.

The amount of the provision for future restoration costs relating to exploration, development and production facilities is capitalised and depleted as a component of the cost of those activities. The unwinding of the effect of discounting on the provision is recognised as a finance cost.

(g) 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.

(h) 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.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

(j) 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) respectively. 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.

(k) 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 ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

(l) 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.

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(ii) Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

(ii) Rental Income

Rental income from sub-leases is accounted for on a straight-line basis over the lease term.

(q) 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 2015

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

(q) 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.

(r) 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 2015

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

(s) 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.

(t) 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 2015

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

(u) 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.

(v) 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.

Carrying Value of Exploration Assets
The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

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 13.

(w) 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 $1,265,450 (2014: $1,246,841). Net current assets as at 30 June 2015 were $297,769 (2014: $681,012), with a net cash outflow from operations and investing activities of $1,169,913 (2014: $1,363,320).

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 2015, the Group had cash and cash equivalents of $714,063 (2014: $761,322); and
- The Board is of the opinion that the Company 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 2015

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

(w) 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.

As at the date of this report, no firm funding facilities are in place. If there are delays in sourcing equity funding for planned activities over the next 12 months, the Company has plans in place to scale back its activities and budgeted expenditure until adequate funding is obtained. 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.

(x) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Consolidated 2015 $	Consolidated 2014 $
2. REVENUES AND EXPENSES		
Other income		
Rental income	**39,528**	**103,772**
Interest received	**17,775**	**10,307**
	57,303	**114,079**
Employee benefit expense includes:		
Salary and wages	**490,227**	**514,373**
Superannuation contributions	**27,273**	**25,892**
	517,500	**540,265**

3. 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	**(1,265,450)**	**(1,246,841)**
Prima facie tax benefit on loss before income tax at 30% (2014: 30%)	**(379,635)**	**(374,052)**
Add:		
- Revenue losses not recognised	**425,930**	**370,586**
- Share based payments	**15,811**	**79,148**
Less:		
- Black hole expenditure deductions	**(62,106)**	**(75,682)**
Income tax expense	**-**	**-**

The following deferred tax balances have not been recognised:

Deferred tax assets (at 30%):		
Carry forward revenue losses	**2,109,603**	**1,755,899**
Capital raising costs	**47,364**	**109,470**
Provisions, accruals and prepayments	**10,399**	**7,770**
	2,167,366	**1,873,139**

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 30 JUNE 2015

4. CASH AND CASH EQUIVALENTS

	Consolidated 2015 $	Consolidated 2014 $
(a) Reconciliation of cash:		
Cash balances comprises		
- Cash at bank	**697,272**	**732,115**
- US Dollar accounts	**12,048**	**24,726**
- ZAR account	**4,743**	**4,481**
	714,063	**761,322**

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:

	2015	2014
Net loss	**(1,265,450)**	**(1,246,841)**
Non cash items:		
Depreciation and impairment of property, plant and equipment	**69**	**721**
Share based payments	**52,704**	**263,825**
Consultants fees	**42,394**	**-**
Foreign exchange loss/(gain)	**17,376**	**3,692**
Changes in assets and liabilities		
(Increase)/Decrease in receivables and prepayments	**27,648**	**(18,873)**
(Decrease)/Increase in payables and accruals	**236,250**	**(87,095)**
Net cash flows used in from operating activities	**(889,009)**	**(1,084,571)**

(c) Non cash financing and investing activities:
During the 2014 year, $162,436 of short-term borrowings was satisfied as part of the options rights issue in Note 12. The remainder of the options rights issue of $826,012 proceeds was received in cash.

5. TRADE & OTHER RECEIVABLES

	Consolidated 2015 $	Consolidated 2014 $
Current		
Other receivables	**12,406**	**50,349**
Non Current		
Deposits paid	**-**	**13,442**

Terms and conditions relating to the above financial instruments:
Other receivables are non-interest bearing and generally settled within 60 days.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2015

	Consolidated 2015 $	Consolidated 2014 $
6. PLANT AND EQUIPMENT		
Computer Equipment		
At cost	-	2,292
Accumulated depreciation	-	(2,223)
	-	69
Leasehold Improvements		
At cost	-	10,000
Accumulated depreciation	-	(10,000)
	-	-
	-	69
Movement in carrying amounts		
Computer Equipment		
Opening balance	69	790
Depreciation	(69)	(721)
Closing balance	-	69
Leasehold Improvements		
Opening balance	-	-
Closing balance	-	-
7. DEFERRED EXPLORATION AND EVALUATION EXPENDITURE		
Exploration and evaluation phases	5,200,898	4,590,087
Movement in carrying amounts		
Opening balance	4,590,087	4,855,330
Expenditure incurred during the period	377,472	185,886
Foreign exchange translation movement	233,339	(451,129)
Closing balance	5,200,898	4,590,087

The ultimate recoupment of costs carried forward in relation to areas of interest in the exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective areas.

8. TRADE & OTHER PAYABLES		
Current		
Trade creditors and accruals (a)	492,760	184,424

(a) Terms and conditions
Trade creditors are non-interest bearing and are normally settled on 60 day terms.

Non-Current		
Rental deposits	-	8,961

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

9. ISSUED CAPITAL

	Consolidated 2015 $	Consolidated 2014 $
Issued and paid up capital		
351,695,363 (2014: 329,482,541) Ordinary shares	**30,885,320**	**30,474,258**

(a) Movements in issued equity

At the beginning of the reporting period	**29,603,357**	**28,552,678**
Equity issued during the period:		
- Placement at $0.06	**1,212,000**	**1,000,000**
- Issued in lieu of consulting costs	**42,394**	**-**
- Managing Director Retention Shares (i)	**102,666**	**102,667**
- Equity issue costs	**(75,097)**	**(51,988)**
At end of reporting period	**30,885,320**	**29,603,357**

	Number of Shares	Number of Shares
At the beginning of the reporting period	**329,482,541**	**311,482,540**
Shares issued during the period:		
- Placement at $0.06	**20,200,000**	**16,666,667**
- Issued in lieu of consulting costs	**679,488**	**-**
- Managing Director Retention Shares (i)	**1,333,334**	**1,333,334**
At end of reporting period	**351,695,363**	**329,482,541**

(i) As part of his remuneration package, and as approved by shareholders at the EGM held 22 August 2013, Mr Willes will be issued 4,000,000 fully paid ordinary shares ("Retention Shares") in the Company in equal 6 monthly instalments of 666,667 Retention Shares for a period of 36 months. The issue of Retention Shares is conditional on Mr Willes remaining an employee of the Company as at the date the respective Retention Shares are issued.

(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 73,396,502 options over unissued shares (65,896,502 of which were listed (ASX Code: CELO)) as follows:

Type	Date of Expiry	Exercise Price	Number under Option
Unlisted	20 November 2016	$0.15	7,500,000
Listed on ASX	30 June 2016	$0.20	65,896,502

During the financial year ended 30 June 2015, no ordinary shares were issued as a result of the exercise of options.

11. PERFORMANCE RIGHTS

Consolidated

Under an established Performance Rights Plan, Mr Willes has been issued 16,000,000 Performance Rights in the following tranches and subject to the following vesting conditions:

- Tranche 1 – 4,000,000 Performance Rights vest on completion of 12 months continuous employment with the Company and the Company having or achieving a market capitalisation of $100m or greater by no later than 7 April 2016.
- Tranche 2 – 4,000,000 Performance Rights vest on completion of 24 months continuous employment with the Company and the Company having or achieving a market capitalisation of $200m or greater by no later than 7 April 2018.
- Tranche 3 – 4,000,000 Performance Rights vest on completion of 36 months continuous employment with the Company and the Company having or achieving a 3P resource in excess of 1TCF by no later than 7 April 2018.
- Tranche 4 – 4,000,000 Performance Rights vest on completion of 36 months continuous employment with the Company and either the Company 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 year, the Company varied the terms of 2,000,000 Performance Rights to a consultant and 500,000 performance rights to the Company Secretary. These Performance Rights were set to expire on 20 June 2015, however the expiry date was extended to 30 June 2016 with revised 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 2015 over Ordinary Shares:

Type	*Expiry Date*	*Vesting Period*	*Number*	*Probability*	*Fair Value*	*Expensed/ (Reversed)*
Tranche 1	7 April 2016	1 year	4,000,000	5.7%	69,593	10,105
Tranche 2	7 April 2018	2 years	4,000,000	0.1%	1,707	853
Tranche 3	7 April 2018	3 years	4,000,000	* n/a	308,000	(2,845)
Tranche 4	7 April 2020	3 years	4,000,000	* n/a	308,000	(2,845)
Other	30 June 2016	nil	2,500,000	* n/a	150,000	(55,231)
Total			18,500,000		837,300	(49,963)

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 FOR THE YEAR ENDED 30 JUNE 2015

12. RESERVES

	Consolidated 2015 $	Consolidated 2014 $
(a) Share based payments reserve	**2,251,516**	**2,301,479**
(b) Foreign currency translation reserve	**(1,702,008)**	**(1,948,300)**
(c) Non-controlling contribution reserve	**(611,598)**	**(611,598)**
(d) Options reserve	**870,901**	**870,901**
	808,811	**612,482**
(a) Share based payments reserve		
At beginning of reporting period	**2,301,479**	**2,140,321**
Share based remuneration payments	**(49,963)**	**161,158**
Balance at end of reporting period	**2,251,516**	**2,301,479**
(b) Foreign currency translation reserve		
At beginning of reporting period	**(1,948,300)**	**(1,526,725)**
Foreign currency translation reserve movement	**246,292**	**(421,575)**
Balance at end of reporting period	**(1,702,008)**	**(1,948,300)**
(c) Non-controlling contribution reserve		
At beginning of reporting period	**(611,598)**	**(654,182)**
Purchase of non-controlling interest	**-**	**42,584**
Balance at end of reporting period	**(611,598)**	**(611,598)**
(d) Options reserve		
At beginning of reporting period	**870,901**	**-**
Options rights issue at $0.015	**-**	**988,448**
Options issue costs	**-**	**(117,547)**
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 2015

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 2015 $	Consolidated 2014 $
Short-term employee benefits	**550,227**	**584,374**
Post-employment benefits	**27,273**	**25,892**
Termination benefits		**-**
Share-based payments	**108,736**	**216,439**
	686,236	**826,705**

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 2014, Mr R Willes and Mr A Wing were granted 16,000,000 and 500,000 Performance Rights, respectively. Refer to Note 11. A share-based payment expense of $6,070 (2014: $77,754) 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. During the year 1,333,334 (2014: 1,333,334) were issued under the agreement. Refer to Note 9. A share-based payment expense of $102,666 (2014: $138,685) has been included in Key Management Personnel Compensation.

(d) Amounts owing to Key Management Personnel

As at 30 June 2015, remuneration amounts of $93,750 (Mr R Willes), $15,000 (Mr M Fry), $15,000 (Mr B Bloking) and $15,000 (Mr A Wing), have been accrued and not yet paid.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

		Consolidated 2015 $	Consolidated 2014 $
The following reflects the loss and share data used in the calculation of basic and diluted loss per share:			
Loss used in calculation of basic and diluted loss per share from continuing operations		**(1,256,947)**	**(1,241,188)**
Net (loss)/profit from discontinued operations		**-**	**-**
Loss used in calculation of basic and diluted loss per share		**(1,256,947)**	**(1,241,188)**
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted EPS	(i)	**341,813,140**	**326,554,687**

(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 2015

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	
		2015	2014
Sunset Energy LLC	USA	100%	100%
Bundu Oil & Gas Exploration (Pty) Ltd	South Africa	95%	95%
Sunset Texas LLC	USA	100%	100%
Challenger Texas Energy LLC	USA	100%	100%
Challenger Texas Energy Operating LLC	USA	100%	100%

17. AUDITOR'S REMUNERATION

	Consolidated 2015 $	Consolidated 2014 $
Amounts received or due and receivable by:		
- HLB Mann Judd (WA Partnership) - audit or review of the financial reports of the Company	36,500	36,000
- HLB Mann Judd (WA Partnership) - audit of subsidiary accounts	5,000	-
- HLB Mann Judd (South Africa) - audit of subsidiary accounts	5,000	-
	46,500	36,000

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.

(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.

18. FINANCIAL INSTRUMENTS (CONT'D)

2015

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**12,406**	**-**	**-**	**-**	**12,406**
Variable interest rates instruments	**714,063**	**-**	**31,517**	**-**	**745,580**
	726,469	**-**	**31,517**	**-**	**757,986**
FINANCIAL LIABILITIES					
Non-interest bearing	**492,760**	**-**	**-**	**-**	**492,760**
NET FINANCIAL ASSETS	**233,709**	**-**	**31,517**	**-**	**265,226**

2014

Consolidated	Less than 1 month $	1 to 3 months $	3 months to 1 year $	1 to 5 years $	Total $
FINANCIAL ASSETS					
Non-interest bearing	**50,349**	**-**	**-**	**13,442**	**63,791**
Variable interest rates instruments	**761,322**	**30,612**	**-**	**-**	**791,934**
	811,671	**30,612**	**-**	**13,442**	**855,725**
FINANCIAL LIABILITIES					
Non-interest bearing	**(184,424)**	**-**	**-**	**(8,961)**	**(193,385)**
NET FINANCIAL ASSETS	**627,247**	**30,612**	**-**	**4,481**	**662,340**

(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 2015

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 2015 is $12,406 (2014: $63,791). There are no impaired receivables at 30 June 2015.

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's exposure to exchange rate fluctuation is minimal.

The carrying amounts of US denominated financial instruments are:

	2015	2014
FINANCIAL INSTRUMENTS	**A $**	**A $**
Cash and cash equivalents	12,048	24,726

The monetary exposure to the South African rand is immaterial.

The Group is exposed to US Dollar (USD) and South African Rand (ZAR) currency fluctuations. At 30 June 2015, 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 2015

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

Financial position	**2015** **$**	**2014** **$**
Assets		
Current assets	**785,786**	**853,842**
Non-current assets	**4,945,629**	**4,585,400**
Total assets	**5,731,415**	**5,439,242**
Liabilities		
Current liabilities	**257,543**	**154,632**
Non-current liabilities	**-**	**8,961**
Total liabilities	**257,543**	**163,593**
Net Assets	**5,473,872**	**5,275,649**
Equity		
Issued capital	**30,885,320**	**29,603,357**
Accumulated losses	**(28,533,865)**	**(27,500,088)**
Reserves	**3,122,417**	**3,172,380**
Total equity	**5,473,872**	**5,275,649**

Financial performance

	2015 **$**	**2014** **$**
Loss for the year	**(1,033,777)**	**(1,844,529)**
Other comprehensive income	**-**	**-**
Total comprehensive loss	**(1,033,777)**	**(1,844,529)**

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

22. SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances that has arisen since 30 June 2015 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

The Group entered into an office premises lease in Melbourne, Victoria which was sub-let to other tenants. This lease expired on 31 October 2014. Future minimum rentals payable are as follows:

	Consolidated	
	2015 $	2014 $
Within one year	-	26,435
After one year but not more than five years	-	-
More than five years	-	-
	-	26,435

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 2015 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 2015.

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

Mr Robert Willes
Managing Director

26 August 2015

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of Challenger Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Challenger Energy Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The Group comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
Level 4, 130 Stirling Street Perth WA 6000. PO Box 8124 Perth BC 6849 Telephone +61 (08) 9227 7500. Fax +61 (08) 9227 7533.
Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's opinion

In our opinion:

(a) the financial report of Challenger Energy Limited is 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 2015 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1(w) in the financial report which indicates that the loss of the Group for the financial year amounted to $1,265,450 (2014: $1,246,841). Net current assets as at 30 June 2015 were $297,769 (2014: $681,012) with a net cash outflow from operations and investing activities of $1,169,913 (2014: $1,363,320). These conditions, along with other matters as set forth in Note 1(w), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2015. 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.

Auditor's opinion

In our opinion the remuneration report of Challenger Energy Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R W Ohm
Partner

Perth, Western Australia
26 August 2015

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 18 August 2015:

Shareholder	Number
LQ Super Pty Ltd	40,138,093
Mr & Mrs Brown	25,750,816

2. Unquoted Securities

Class of Equity Security	Number	Number of Security Holders
20 November 2016 options - $0.15	7,500,000	1

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

There are 1,117 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are a total of 7,500,000 unlisted options on issue. Each shareholder is entitled to one vote per share held upon exercise.

There are a total of 65,896,502 listed 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 18 August 2015.*

Distribution	Holders of Ordinary Shares	Holders of Options
1-1,000	40	6
1,001 - 5,000	58	53
5,001 – 10,000	113	42
10,001 - 100,000	477	199
100,001 and over	429	82
TOTALS	1,117	382

5. Marketable Parcel

There are 241 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 18 August 2015) is as follows:

Ordinary Shares

Name	No. of Ordinary Shares	%
LQ Super Pty Ltd	26,999,631	7.67%
Brown Warren W & M H	25,750,816	7.32%
LQ Super Pty Ltd	10,901,113	3.10%
Sanperez Ltd	9,894,186	2.81%
Pitt Street Absolute Retu	7,205,000	2.05%
Rodwell Peter Kelvin	6,633,333	1.88%
BNP Paribas Noms PL	6,301,000	1.79%
ABN Amro Clrg Syd Nom Pty Ltd	6,027,304	1.71%
Sawfam PL	6,000,000	1.70%
Citicorp Nom Pty Ltd	5,475,959	1.56%
Jacqueline Kay Pty Ltd	4,169,231	1.18%
RJP Fam Pty Ltd	4,026,667	1.14%
Cain Gay Vivian	3,451,425	0.98%
Horwitz Bridget Kim	3,400,000	0.97%
Q Supa Pty Ltd	3,333,333	0.95%
Elks Donald Joseph & T A	3,200,000	0.91%
Eadeh Edward M & D E	3,100,000	0.88%
Carey D G & Carey-Domingu	2,900,000	0.82%
Moneybung Pty Ltd	2,800,000	0.80%
Willes Robert A & Netis P	2,666,668	0.76%
Total	**144,235,666**	40.98%

Options Expiring 30 June 2016

Name	No. of Options	%
LQ Super Pty Ltd	10,597,556	16.08%
Mining Inv Ltd	5,920,456	8.98%
Pitt Street Absolute Return Fund	2,662,331	4.04%
Brown Warren W + M H	2,582,517	3.92%
LQ Super Pty Ltd	2,248,223	3.41%
Sanperez Ltd	1,958,838	2.97%
Powertank Pty Ltd	1,645,127	2.50%
Knauer Fam Super Pty Ltd	1,527,000	2.32%
Saber Ltd	1,500,000	2.28%
Rodwell Peter Kelvin	1,326,667	2.01%
BNP Paribas Noms PL	1,215,200	1.84%
Rosenzweig PJ & DA	1,081,237	1.64%
Cain Gay Vivian	1,027,425	1.56%
Sawfam PL	1,000,000	1.52%
City Sec PL	1,000,000	1.52%
Northern Star Nom Pty Ltd	933,889	1.42%
BT Portfolio SVCS Ltd	900,000	1.37%
Jacqueline Kay Pty Ltd	833,847	1.27%
Horwitz Bridget Kim	702,452	1.07%
Q Supa Pty Ltd	666,667	1.01%
Total	**41,329,432**	62.73%

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 18 AUGUST 2015

Cranemere Project (South Africa)

Location	*Gross Acreage*	*Working Interest*	*Status*
Karoo Basin	**1,040,000**	**95%**	**Application**

Final area is subject to granting of the application.

Mercury Stetson (United States)

Location	*Gross Acreage*	*Working Interest*	*Status*
Grayson County	**~4,380**	**15%**	**15% earned to date with the ability to earn up to 50%**