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FINAL STRATEGIC ENVIRONMENTAL ASSESSMENT REPORT RECOMMENDATIONS

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

The Decision Support Tools are intended to translate the scientific assessment into an operational decision-making framework to guide site and activity specific assessment processes, and provide government with the necessary tools to enable responsible decision-making into the future regarding shale gas exploration and development.

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

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

and

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

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

sector, which already calls for more natural gas and renewables, but would likely make this mix cheaper and cleaner.”

and

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

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

The Decision Support Tools Report contains proposed strategic management actions to mitigate the identified risk factors and a number of maps proposing exclusion areas for shale gas exploration and appraisal across the combined shale gas application areas in the Karoo. These maps are at a large scale but appear to propose extensive exclusion areas across Challenger subsidiary, Bundu’s application area, most likely including protected areas that Bundu has already removed from its application area. Whilst noting that the SEA provides recommendations and does not constitute regulation or legislation, Bundu and Challenger are working to assess the likely impact and will provide a further update once this work has been completed.

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CHALLENGER ENERGY (ASX code: CEL) is focused on the emerging, world-scale shale gas province in South Africa's Karoo Basin. The Karoo is strategic, and central to the South African Government's agenda, given the country's power crisis and need for economic growth, jobs and infrastructure development. Through its South African subsidiary, Bundu Gas and Oil Exploration Pty Ltd, Challenger was first to recognise this opportunity and to apply for exploration rights in the Karoo - and has since been followed by Shell and Falcon Oil and Gas, which has brought Chevron in as a joint venture partner.