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SOUTH AFRICAN DEPARTMENT OF MINERAL RESOURCES BRIEFS PARLIAMENT SELECT COMMITTEE ON PROPOSED AMENDMENTS TO KEY LEGISLATION

PERTH: Unconventional oil and gas explorer Challenger Energy Limited (ASX code: CEL) advises that the Department of Mineral Resources (“**DMR**”) provided a briefing on the Mineral and Petroleum Resources Development Act, 28 of 2002 (“**MPRDA**”) Amendment Bill (“**Bill**”) to a meeting of the Select Committee on Land and Mineral Resources (National Council of Provinces “**NCOP**” – the Upper House of Parliament) on 8 November.

The Bill was previously passed, but referred back to Parliament by the President. It currently grants the State a 20% free carried interest in new exploration and production rights and the right to acquire a further unspecified interest in these rights. The Bill also lacks project certainty for the life of the exploration and any subsequent production right.

As previously reported, Operation Phakisa (a government programme aimed at fast-tracking the implementation of solutions on critical development issues, particularly oil and gas), provided a forum for engagement between government and the petroleum industry (via the industry associations, the Offshore Petroleum Association of South Africa, OPASA, and the Onshore Petroleum Association of South Africa, ONPASA). These engagements sought a win-win solution and took into account the frontier nature of South Africa’s petroleum industry, along with the imperative to achieve the national development goals as outlined in the National Development Plan and related government policies. These discussions resulted in recommended changes to the Bill presented by the DMR at yesterday’s Select Committee meeting.

The DMR proposed that the State’s 20% free carried interest be changed to a 20% carried interest with a cost recovery mechanism for the carried interest during the production phase. The holder of an exploration right which has been granted a production right is entitled to apply for a downward adjustment of the 20% state carried interest. The Minister may grant this downward adjustment following consultation with the Minister of Finance on a case by case basis to ensure that projects remain financially viable. It is envisaged that project certainty will be created by agreeing and appending the production right terms and conditions to the exploration right (i.e. the terms of production will be settled at exploration stage), subject to renegotiation between the parties at the renewal of the thirty year production right.

Currently Black Economic Empowerment (“**BEE**”) participation under the MPRDA is governed by the Mining Charter, but this does not specifically provide for upstream oil and gas operations and the industry has not been involved in the consultation on this matter. The DMR proposed that the Minister

of Mineral Resources be given the power to develop a Petroleum Charter for the upstream oil and gas industry and that a lower 10% shareholding be reserved for BEE participation. The DMR explained that after extensive consultation, and given the high cost and associated risk of oil and gas exploration, together with the State's 20% carried interest, this level of BEE participation is considered more appropriate to the industry.

In accordance with the terms of the President's referral of the Bill back to Parliament, Challenger anticipates that the NCOP will need to convene further public hearings on the Bill to correct defects in the initial public participation process. This should be the final step in addressing the President's reservations.

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

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***CHALLENGER ENERGY (ASX code: CEL)** is focused on the fast-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.*