

13 June 2018

UPDATE ON PROGRESS IN SOUTH AFRICA AND PLANNED CAPITAL RAISING

Highlights

- Continued positive momentum in South Africa following the election of Cyril Ramaphosa and key cabinet changes with progress on the MPRDA Amendment Bill, statements from the Minister of Mineral Resources of intent to fast-track the finalisation of the shale gas exploration rights applications, and reports that the Department has appealed the Eastern Cape High Court's decision to set aside the Technical Regulations.
- Company to undertake 1:4 non-renounceable rights issue to raise approximately \$973,000 before costs. Funds raised under the Rights Issue are intended to fund the progression of the licence application process in South Africa, the continued investigation of potential new opportunities, working capital and the cost of the offer.
- Confirmation of support from Challenger's major shareholders to take up their respective entitlements and shortfall for a total of approximately \$500,000.
- Proposal to satisfy accrued directors' fees and salary.
- Clinton Carey to join board as Non-Executive Director, replacing Bill Bloking.

Update on progress in South Africa

The Company continues to pursue its application for shale gas exploration rights in South Africa. As indicated in the latest Quarterly Report, Challenger is encouraged by recent developments in this regard with the election of Cyril Ramaphosa as President in February 2018 and a number of key changes in cabinet announced shortly thereafter, including new ministers of Finance, Mineral Resources and Energy. There appears to be newfound political momentum, with progress on the final draft of the long awaited MPRDA Amendment Bill at the parliamentary select committee in anticipation of the Bill proceeding to the National Assembly. We have been advised that the select committee has concluded the voting process in relation to amendments to the MPRDA Amendment Bill received during the public participation process, and the final draft of the Bill is being collated by the South African State Legal Advisors.

In his budget vote speech on 15th May the Minister of Mineral Resources, Gwede Mantashe, acknowledged that the processing of mineral rights applications in general has been too slow and indicated that measures are being taken to speed this up. He urged Parliament to proceed faster towards finalisation of the MPRDA, "*because it is key in entrenching regulatory and*

policy certainty necessary for investment, thereby attainment of sustainable growth, development and transformation in the sector” and indicated that the department aims to finalise the Mining Charter in June as called for by the President.

He further stated that;

"According to the Fraser Institute, an international rating agency that rates 91 mining economies, South Africa could potentially be rated at 21 overall. Currently, on investor attractiveness, we are rated number 47; and are placed number 80 in policy and regulatory framework. It is evident that the conflict in the industry around the mining charter and, therefore, failure to have the sector coalesce contributed to uncertainty and fear among investors. This has further been exacerbated by delays in finalising the Mineral and Petroleum Resources Development Act (MPRDA)."

"Since South Africa is part of the global economic village it is necessary to heed surveys from rating agencies. We should aim to be competitive and use our competitive advantages to attract investment. This will give us the necessary capacity to transform and meet our Social Labour Plan commitments for community development and the improvement of the living conditions of mineworkers."

He also specifically addressed the matter of shale gas, stating that;

"The southern Main Karoo Basin is considered the most prospective area for shale gas, with a possible estimation of 205 Trillion cubic feet of gas technically recoverable, as reported by Petroleum Agency SA. The successful development of this resource has the potential to transform the national energy economy of South Africa. To that end, we intend to move with speed to fast-track the finalisation of Exploration Rights applications so that South Africa can maximise its chances of reaping the benefits from shale gas exploration and exploitation."

The South African media has also reported that the High Court in Pretoria has dismissed a joint application by AfriForum and Treasure the Karoo Action Group (“TKAG”) to set aside the Regulations for Petroleum Exploration and Production 2015 (the “Technical Regulations”). The Technical Regulations cover technical details relating to exploration and production of petroleum through hydraulic fracturing and must be promulgated before licences for shale gas exploration by means of hydraulic fracturing can be granted.

While the Technical Regulations were previously set aside by order of the Eastern Cape High Court in October 2017, and notwithstanding the decision of the Pretoria High Court remain so, this new decision indicates that there is a strong argument to be made that the Technical Regulations were lawfully promulgated. It has been reported that the Department of Mineral Resources has appealed the decision of the Eastern Cape High Court, and it is hoped that on appeal the Technical Regulations will be reinstated.

Planned Capital Raising

Challenger Energy Limited (**CEL** or the **Company**) wishes to advise that it plans to undertake a non-renounceable entitlement offer (Rights Issue) to raise up to approximately \$973,000.

The Rights Issue will be undertaken by way of offering 1 new share for every 4 shares held at an issue price of \$0.01 (1 cent) per share.

The Company will distribute the necessary documentation in due course.

The funds raised will be utilised to fund the progression of the licence application process in South Africa, the continued investigation of potential new opportunities, working capital and the cost of the offer.

The Company has received commitments from several of its major shareholders for the proposed Rights Issue to take up their respective entitlements and shortfall to approximately \$500,000.

Satisfaction of accrued Directors' fees and salary

At the Company's request and in order to preserve working capital, the Directors had previously agreed to accrue a significant proportion of fees and the Managing Director's salary. These amounts have been accordingly accrued and noted in the audited financial statements of the Company. As at the end of May 2018 the total accruals stood at \$948,750. In consideration of the support of major shareholders for the proposed capital raising, the Company proposes to enter into an agreement with each individual Director to satisfy the accrued fees and salary substantially as follows;

- The Managing Director to receive accrued salary of \$200,000 following a further capital raising of not less than \$1,000,000 together with 10,000,000 performance rights based on the granting of Bundu's exploration rights in the Karoo;
- The current Non-executive Directors to agree to forgo their accrued fees;
- No further board fees to be payable until completion of the Rights Issue, following which the Managing Director's remuneration to be reduced to \$10,000 per month for a three-month term and revisited at the end of this period, and the Non-executive Directors' fees to be accrued and paid in cash upon a further capital raising of not less than \$1,000,000.

Board Representation

Challenger is pleased to announce the appointment of Clinton Carey to the board as a Non-Executive Director. Mr Carey has more than twenty years' experience as a manager and director in a range of listed companies in the resources, oil & gas and technology sectors. He has extensive experience in the resources sector providing management, capital raising and corporate advisory services to a range of listed mining and energy companies and has worked for mining and energy companies in Russia, Brazil, Australia and the UK.

Mr Carey replaces Bill Bloking, who has elected to stand down as a Director.

Commenting on Mr Carey's appointment, Challenger Chairman Michael Fry said:

"We are pleased to welcome Clinton as a Non-Executive Director and look forward to adding his experience to the Board.

"On behalf of the Company, I would also like to thank Bill for his invaluable contribution as a director. We wish him all the best for the future."

ENDS -

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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.