

10 FEBRUARY 2021

OIL & GAS ALERT



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The Brulpadda and Luiperd gas discoveries: A game changer for South Africa's petroleum offshore exploration

Following the Brulpadda gas discovery, announced in February 2019, the recent Luiperd gas discovery, made off the south coast of Mossel Bay, South Africa, has been widely reported and celebrated in the local upstream oil and gas industry, and rightfully so. These discoveries have been described as "*game-changers*" for the South African economy and it is important to understand why this is the case.

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The Brulpadda and Luiperd gas discoveries: A game changer for South Africa's petroleum offshore exploration

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The discovery of gas condensate fields during 2019 and 2020 are significant and they have the potential to expedite the government's much touted energy transformation. Whilst studies are still being conducted, early estimates are that the two gas fields may hold in excess of 1 billion barrels of gas condensate each. If these estimates are accurate, these discoveries would be huge for South Africa as a non-producing country, which is heavily reliant on oil and gas imports.

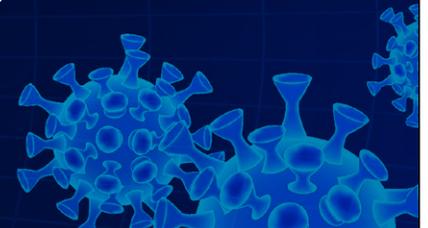
Oil and gas production would dramatically reduce South Africa's current reliance on imports, create employment opportunities in various sectors and provide an alternative to the current coal dominated energy sector. Currently, majority of South Africa's gas demand is supplied by the Pande-Temane development in Mozambique. However, energy demand in the country has been growing at a much faster rate than can be supplied. This has necessitated a development of the country's energy pool and capacity, and if the early estimates of the recent Brulpadda and Luiperd discoveries are accurate, the gas produced from Brulpadda and Luiperd would be sufficient to meet more than half of the country's current energy demands.

Why the excitement?

It is projected that South Africa has resources of approximately 9 billion barrels of oil, and roughly 60 trillion cubic feet of gas offshore. Offshore oil and gas

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The Brulpadda and Luiperd gas discoveries: A game changer for South Africa's petroleum offshore exploration...*continued*

Oil and gas exploration and development has become an integral part of a number of government development plans and initiatives, such as Operation Phakisa, the Integrated Resource Plan, and the National Development Plan, to name a few.

exploration require significant investments, as exploration activities are estimated to cost upward of US\$ 150 million, and due to historically low exploration success rates, exploration opportunities are considered risky. The only way to have an accurate view on the hydrocarbon prospectivity of South Africa's offshore blocks is through exploration and the drilling of exploration wells.

Oil and gas exploration and development has become an integral part of a number of government development plans and initiatives, such as Operation Phakisa, the Integrated Resource Plan and the National Development Plan, to name a few. In summary, these initiatives envisage *inter alia* diversification of South Africa's energy sources, infrastructure development, foreign investment and a reduction in South Africa's dependence on energy imports. Operation Phakisa, launched by the government some seven years ago, encouraged an increase of offshore exploration activities and has set a target to achieve at least 30 exploration wells by 2024. The National Development Plan states that once gas reserves are proven, the development of these resources as well as gas-to-power projects, should be fast tracked. The Brulpadda and Luiperd discoveries are therefore significant in that (1) they prove that South Africa, though under explored, does have exploration and production potential, and (2) if Brulpadda and Luiperd are determined to

be commercially viable, these discoveries could launch the South African oil and gas industry to the next level and attract much needed investment.

As noted, in the Operation Phakisa framework, one of the obstacles to open the economic potential of South Africa's offshore operations is a lack of legislative certainty, which has also been acknowledged as an investor deterrence. The South African government has been actively working toward creating legislative stability and certainty. The draft Upstream Petroleum Resources Development Bill (Upstream Bill), released in December 2019, reflected the anticipated legislative reform and there is little doubt that the Brulpadda and Luiperd discoveries will positively contribute towards governments efforts to enact the Upstream Bill and regulations. Notably, the current draft of the Upstream Bill, reflect governments intention to facilitate new entrants in the oil and gas sector by the implementation of by-invitation bid rounds, which will allow the Minister of the Department of Mineral Resources and Energy to invite multiple bids for designated blocks and then select the best bid before the award of the petroleum right or permit. Provision is also made for the by-invitation rounds which will be awarded on a 'first come first serve' basis. The provision for these two alternative regimes can be an effective tool to maximise and accelerate exploration activities for petroleum resources in frontier basins.

The Brulpadda and Luiperd gas discoveries: A game changer for South Africa's petroleum offshore exploration...continued

It remains necessary for government to action and facilitate the various initiatives, through the enactment of the required and much anticipated legislation, to provide legal certainty to attract investors, both foreign and local.

What is next?

The Brulpadda and Luiperd gas discoveries have highlighted South Africa's lack of the required infrastructure for the development of gas, such as port facilities, pipeline networks and multi-purpose research vessels. It remains necessary for government to action and facilitate the various initiatives, through the enactment of the required and much anticipated legislation to provide legal certainty to attract investors, both foreign and local.

Like many other countries, the COVID-19 pandemic has added to South Africa's economic struggles, however, development of the oil and gas sector has the potential to play a significant role in our economic recovery. There is still a significant amount of work to be done in the 11B/12B block, where the Brulpadda

and Luiperd discoveries have been made before the joint venture partners are able to enter the production phase. Fortunately, other holders of exploration rights in the surrounding exploration areas have expressed their intention to commence drilling activities in the upcoming future.

Undeniably, these are promising signs for the South African oil and gas industry, particularly during these tough economic times globally and we are optimistic that these discoveries will aid in not only attracting new entrants to the South African oil and gas sector, but also investors. We look forward to seeing the results of the upcoming drilling campaigns as well as the promulgation of the Upstream Bill, in the near future.

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BBBEE STATUS: LEVEL TWO CONTRIBUTOR

Our BBBEE verification is one of several components of our transformation strategy and we continue to seek ways of improving it in a meaningful manner.

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