NOTES OF THE SAMOG COMMITTEE MEETING

HELD ON 25 FEBRUARY 2020 AT 14:00

TELECONFERENCE

Present: **Mr P Dekker (Chairperson)**
Mr A Clay
Dr T Marshall
Mr M Tosdevin
Ms T Orford
Mr Sean Davids

Apologies: **Mr D Elliott**
Mr J Etherington

In Attendance: **Ms C Jardine (SAIMM)**

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1. WELCOME

The Chairperson welcomed everyone to the telecon and advised that apologies had been received from D Elliott and J Etherington. He outlined the proposed agenda and asked if there were any further matters to be added. None were forthcoming.

2. UPDATE OF THE SAMOG CODE

Mr Dekker advised that the SAMOG Code had been slightly amended in the past few years, but it was felt that it might be useful now that the PRMS and SAMCODE had been updated, to also update the SAMOG Code now. Mr Dekker had sent all the members the draft updated Code, which had also been discussed with Ms de Bruyn and Mr Clay. In principle, it was suggested to change the title of the Code slightly to include Valuation as well as Resources and Reserves, i.e. 'Resources, Reserves and Valuation'. The date had been changed to 2020 and some changes had been made in terms of semantics, i.e. 'oil and gas resources'.

Mr Dekker took the meeting through some of the changes which he had made. The main thing was to take all references to COGEH out of the Code. The COGEH Code was mainly written for Canada and much of it did not apply to South Africa. The Chairperson asked whether everyone was in favour of taking COGEH out of the SAMOG Code. Mr Clay commented that he did not have a problem with that, but he asked whether the Committee felt there was still any value in maintaining the co-operative working relationship with the Alberta Securities Commission. He felt strongly that this relationship should be maintained, as the ASC had more experience than South Africa with listed securities in the USA and they had been very helpful in providing a sounding board for any developments. A related question was that there were elements in the Code that had been adopted from COGEH even if the reference was lost; so, was it proposed to keep those elements in? The Chairperson advised that there were elements in the Code that should be maintained, but there would not be a reference to COGEH, rather to PRMS. PRMS was more flexible than COGEH in terms of making changes. The Chairperson also believed that the relationship with the Alberta Securities Commission had been very valuable, but the NI51.101 was really written for Canada and not South Africa. He agreed with Mr Clay to keep the relationship going with The Alberta Securities Commission. Mr Clay was not sure if Ms de Bruyn was on line, but the Stock Exchanges globally were having a major problem as being the conventional platforms to access capital and that was changing. The JSE, given its relatively poor performance in the past 18 months – two years, if it wanted to try and increase its acceptability to African countries going north, then not pursuing the relationship with the Alberta Securities Commission as a fellow Stock Exchange through SAMOG was an opportunity lost for everyone. The Chairperson supported Mr Clay but wanted the Committee to think for itself. This was agreed.

The Chairperson also raised the question of synthetic crudes and gas. He had done some research as the only synthetic gas he knew was from Sasol. He was unsure about synthetic crude and he did not believe Sasol reported on synthetic gas; only natural gas. Mr Tosdevin confirmed that Sasol did report on synthetic crude. He advised that this was the synthetic crude obtained from coal. The Chairperson believed SAMOG should not then depart from NI51.101 and it should be left in the Code. PRMS also allowed this. Mr Clay suggested asking the Alberta Securities Commission as to why that was specifically there and what the implications were. He believed it would not have been included if there was not a reason for it. This was agreed

In response to a question on PRMS reporting, the Chairperson advised that PRMS and COGEH had merged significantly regarding reporting. He did not believe there was an issue. Mr Clay commented that initially the idea was to try and follow the reporting content and style of NI51.101. The COGEH issue was always there and as a backbone to that. One of the tasks that Mr Etherington had been assigned was to align COGEH with PRMS however that never happened and it had become almost a moot point. COGEH was relevant at that time but had now become irrelevant, most of the companies outside Canada are reporting according to PRMS.

The Chairperson advised that helium was very important in South Africa. It did not fall under hydrocarbons, but it was produced with hydrocarbons. In PRMS, one did not have to report on Helium in Reserves and Resources, but one could allow the process to get Helium production to come into the cashflow when determining reserves and resources. In South Africa, there was a greater gas content in the helium than in other parts of the world and this could be very strategic in terms of production. It was very important to establish how Helium would be reported. Mr Clay added that, in his experience, the method of calculating volumes, etc. would just follow the same principles as for gas and that was the only way to treat it. Mr Tosdevin did not see any reason why it should not be included, and one could say if SAMOG did not recognise it, then how would it be possible to protect the investor. It would bring some control to the estimating process. There was no other home for it. Sulphur was also produced sometimes and also had value in some instances. PRMS did allow for volume to be mentioned in the value side. Some discussion followed and it was felt that Helium should be mentioned separately in the SAMOG Code. The Chairperson agreed to send this out to all participants for final approval. Other elements that could be covered would be sulphur, carbon dioxide and thought would need to be given on how this would be worded. Mr Clay believed this could also be sent out to the wider SSC for their consultation. Dr Marshall agreed to take this to the SSC meeting for further discussion.

ACTION: Tania Marshall

The next point was competence and responsibilities regarding qualified evaluators. The new PRMS was giving new experience required. The new PRMS makes a difference between Qualified Reserves Auditor (QRA) with more than 10 years' experience and Qualified Reserves Evaluater (QRE) with more than 5 years' experience. The SAMOG code refers to QRE with 10 years' experience which is not in line with PRMS. The question was asked as to whether SAMOG should align more with PRMS by putting in two different levels, with the different responsibilities, or to leave it as is. The Chairperson read out the different requirements and levels of experience for each position. Mr Tosdevin adviced that he would rather align with PRMS. In response to a question from the Chairperson as to whether SAMOG should align with the other SAMCODES, Mr Clay suggested asking the ASC their opinion on this issue and make a recommendation back to the Committee. The Chairperson asked Dr Marshall's view on the other committees. She responded that on the Code, they used the Competent Person or Competent Valuator. The only time they used QRE was when referring to SAMOG; so, if SAMOG changed this, it could just be done in the main Terms of Reference, because it referred only to SAMOG. The Chairperson agreed to follow up with the ASC.

ACTION: Peter Dekker

In Part V, the Chairperson had changed 'requirements applicable to all disclosures which make reference to the SAMOG Code'. The SAMOG Code was not compulsory in South Africa or anywhere unless the company was registered with the Stock Exchange. If a company reported outside the JSE, then it could make reference to the SAMOG Code. All agreed.

Dr Marshall explained the rules that would apply to another other stock exchange coming on line in South Africa.

Regarding discount rates, this had been a subject of discussion for some time. The question was whether SAMOG should insist on reporting all discount rates, i.e. 0%, 5%, 10%; or should it disallow discount rates. Some discussion followed and it was agreed that this should be fairly easy to comply with. Mr Clay added that the process was to move towards standardised reporting. He believed it was written in a logical manner. Dr Marshall declined to comment.

The Chairperson agreed to send out a revised draft to all participants. He believed it was important to get this amended document out in 2020. Mr Tosdevin would send his marked-up draft to the Chairperson.

ACTION: Peter Dekker/Mike Tosdevin

3. REQUIREMENT OF ANNUAL REPORTING AND THE EFFECT ON THE SAMOG COMMITTEE AND READERS' PANEL

Regarding annual reporting, this was not required by the Johannesburg Stock Exchange on Oil and Gas as yet. The question was raised as to whether this should be implemented for Oil and Gas reserve reporting. Dr Marshall advised that this was a requirement for Minerals, so she did not see why it should not be the same for Oil and Gas. Mr Clay asked what Sasol was doing on an annualised basis. Mr Tosdevin responded that he believed it was required by the JSE. Sasol is dual listed on the JSE and NYSE, where it was required. Mr Clay noted that if Sasol was already reporting to the NYSE, that should be good enough. He asked what the minimum annual reporting requirements for JSE listed companies would be. Mr Tosdevin responded that it would be difficult to use the overseas reporting template for SAMOG. Mr Clay believed the idea was to try and make it simple. Ms Orford advised that the mining side had a separate annual report requirement which had a short list of the minimum requirements and this should overlap with most of the international requirements. The Chairperson agreed to discuss this with Ms de Bruyn to see what could be done on annual reporting. Mr Clay requested that it be kept simple.

ACTION: Peter Dekker

4. ISSUES PARKED WITH RELATION TO THE SAMOG CODE OR SSC TO BE PUT BACK ON THE AGENDA

On the question of issues parked with relation to the SAMOG Code or SSC to be put back on the agenda, the Chairperson advised that several issues had been put on the backburner regarding parked issues. He asked if there are any other items that needed to be put back on the agenda. Mr Clay believed the three points were independent evaluators, reporting exclusively or inclusively, and discipline. The only one would be independents. Dr Marshall advised that independents had just been put on the SAMREC agenda for discussion at their meeting next week.

5. A NEW PROPOSAL TO HAVE INDEPENDENT EVALUATORS

Regarding the proposal to have independent evaluators, the Chairperson advised that this had also come up with Ms de Bruyn some weeks ago. Mr Clay gave some context as to where this had originated. Historically, there had been an attempt to keep the service lines between Oil and Gas, Mining and the auditing profession parallel on how they went about doing their work. The accounting standards changed in 2008 to incorporate a specific requirement that said that auditors, when assessing the value merits as presented by the company, had to consult with independents on subjects that they were not equipped to opine on, e.g. mineral resources. They themselves had to consult with the experts. The Oil and Gas industry is primarily independent and reserve estimators are often used to the extent that it is compulsory in some jurisdictions. They have moved that step so that auditors did not have to do that – it was done by an independent. Mr Clay was ambivalent about this, because if the company did not contract an individual valuator or QRE, then the auditor was going to do this anyway.

Mr Tosdevin advised that the same question was raised when the SSC did its regulation modernisation in 2010. It was a specific proposal and it did not find favour in the industry. He thought that was the purpose of the QREs; they were in-house people but they were subject to a code of practice and that should be sufficient. He also thought it was very superficial and did not add quality. The Chairperson shared this view. It was noted that there were challenges with the amount of people who were available. The conclusion was that the Committee was neither in favour nor against this.

6. DIFFERENT WAYS OF VALUATING AND WHAT SHOULD BE THE PREFERRED WAY OR WHAT IS ACCEPTABLE

The Chairperson advised there were so many ways of valuating a property and he asked what a fair valuation was. Mr Clay responded that they had tried to pull out all the Oil and Gas companies' information to try and find a systematic way of comparison that they felt useful to compare to what was being done in the mining industry. They had not had success. What PRMS gave guidance on was probably all that SAMOG would get. The Chairperson added that it was very difficult to find the true value for shareholders. It was also very difficult to pin down the fair value. Mr Clay gave some background to the Committee on the IMVAL Committee and their challenges in getting recognition. The accounting profession had its own way of valuing things and did not want to adopt a code that provided a different level of scrutineering. He agreed to feed back to the Committee on the progress but he believed what was in the SAMOG Code was about as good as it was going to get.

7. TERMS OF REFERENCE

The Chairperson had a few issues on the Terms of Reference and these had been addressed with Dr Marshall. He asked that if there were any changes required, these should be sent to him so that he could forward them on to Dr Marshall. These would be discussed on 05 March. Dr Marshall asked that any comments be sent to her as soon as possible.

ACTION: All Members

8. ANY OTHER BUSINESS

Dr Marshall asked the Committee's opinion on the SAMOG Course that was planned for March. This had been marketed to targeted companies and there had only been one response. She asked if there was anything that the Committee could do to assist; or whether the course should be postponed to later in the year. A suggestion was that the Geo Conference was coming up in July in Stellenbosch and that this could be linked to a one-day SAMOG Course. The only challenge was that the SAMOG Course had been held in Cape Town previously and the idea had been to have it in Gauteng. The Chairperson proposed that the person who had responded be offered individual training and then the course could perhaps be postponed to later in the year, possibly as a Zoom webinar. The Committee agreed and Dr Marshall would advise the respondent.

ACTION: Tania Marshall

9. CLOSING

Mr Dekker thanked all participants for their input and closed the meeting.

KEY ACTION ITEMS

1. TANIA MARSHALL
Take the issue of Helium reporting to the SSC for their consultation.

2. PETER DEKKER
Follow up with ASC the question of competence and responsibilities regarding qualified evaluators.

3. PETER DEKKER
Send out revised draft of SAMOG Code to all participants, including comments received from Mike.

4. PETER DEKKER
Discuss annual report requirements with Ms de Bruyn.

5. ALL MEMBERS
Send any proposed changes to Terms of Reference to Mr Dekker for onward submission to Dr Marshall.

6. TANIA MARSHALL
Advise delegate for SAMOG Course about individual training due to postponement of Course.