

**THE SOUTHERN AFRICAN INSTITUTE OF MINING AND METALLURGY  
OIL AND GAS WORKING GROUP COMMITTEE**

**Minutes of the meeting held at Deloitte,  
The Woodlands, 20 Woodlands Drive, Woodmead, Johannesburg  
on 31 July 2014 at 15:00**

Present:

Johannesburg: A C Clay (Chairman)  
A de Bruyn (JSE)  
M Coetsee (Sasol)  
M Tosdevin

Calling in: S Davids J Etherington  
W de Meyer

Apologies: R Becker J Decker  
B Cerff A Dippenaar D Elliott  
R Davel

In Attendance: S Moolla

Mr Clay explained that although the closing date for comments was 23 July Sasol had requested an extension in order to submit their response. He added that if there was not sufficient time to get through all their comments any additional recommendations would be communicated to all members after the meeting in order to maintain transparency.

Ms de Bruyn stated that she would deal with the JSE listing requirements. She added that her understanding was that the Code applied only to public reporting but that if companies did not have reserves, they could not be forced to publish a report.

Comments received from Mr David Elliot and Mr John Ethrington are also noted in the minutes.

1. Dual disclosure

Mr Coetsee stated that the SAMOG requirements for disclosure were very prescriptive. In their letter they stated:

Dual disclosure will result in different sets of information being filed with the applicable regulatory authorities, which are not comparable as the assumptions and calculations in determining resources and reserves and the supplementary information are different. Dual disclosure will also result in significant additional costs for the company (cost of compilation and employing of specialist resources to compile the disclosure). In addition, it is our view that investors will be confused as the resources and reserves reported to the JSE and SEC will be different and that dual disclosure requirements will therefore achieve the opposite of what was intended by the JSE.

John Ethrington: The definitions of Proved and Probable Reserves under SEC and NI 51-101 and PRMS are closely aligned with the only exception being forecast versus SEC 1 yr historical pricing. NI 51-101 requires a forecast case but allows a supplemental report based on SEC constant pricing. Note that the new (2008) SEC guidance allows companies to additionally submit an assessment based on alternative pricing scenarios.

The other major difference is breakdown by product type. SEC splits into oil (includes NGL's) and gas, but does not split out synthetic oil and gas and production that will be converted to synthetic oil or gas by third parties. Note that SEC requires that NGL's be reported separately if volumes are significant (> 5%?).

David Elliott: A number of Canadian companies report in the US under an agreement (Multijurisdictional Disclosure System – MJDS) that enables eligible cross-border securities offerings to be governed by the disclosure requirements of the issuer's home country. What this means is that a “wrapper” is put around Canadian disclosure and is accepted in the US (and vice versa). I know that Canadian MJDS covers more than the US, but don't know if it includes South Africa. I don't know if South Africa has a similar provision.

When NI 51-101 was implemented, a small number of companies were granted an exemption to report using US requirements. This exemption no longer exists; all are required to report using NI 51-101, but a few (5 or 6) are allowed to provide supplementary disclosure using other standards such as those of the US. Consideration is currently being given to expand allowing this supplementary disclosure to all Canadian reporting issuers.

Ms de Bruyn added that the JSE would not like to force any company to disclose at any level. She added that the underlying definition of the Code was materiality. 1P was the basis Mr de Meyer stated that we were referring to reserves and not inferred resources. Mr Davids stated that it was mandatory from an investment viewpoint. There were 600 companies on the Canadian Stock Exchange using NI51-01 and it was necessary to take into account the global viewpoint. As Sasol reported on 1P across the board they would have to report under the SEC and the JSE rules.

## **2. *Disclosing information of a strategic nature***

We consider several of the new disclosures required to be of strategic importance to the company, and we therefore strongly recommend that this information not be made public. Divulging this information may result in a favourable advantage to competitors.

John Ethrington: Regards pricing, sales contracts may be an issue.

We understand that the parameters mentioned are used in the calculation of reserves volumes and valuations, and should be auditable by the appropriately qualified individuals; however these parameters should not be in the public domain due to the undue competitive advantage it may provide.

David Elliott: Under NI 51-101 the reserves evaluations reports are not public, so the details of parameters used in the calculation of reserves are not public. I assume this would be the same under SAMOG.

## **3. *Disclosure of probable reserves***

Based on our reading that disclosure of probable reserves would be mandatory in terms of the Code, we wish to emphasise that we do not support the mandatory reporting of probable reserves, especially in view of the high probability of fluctuations and the level of uncertainty involved in the measurement thereof. We propose that disclosure of probable reserves be made voluntarily. We do however support the mandatory disclosure of proved reserves.

John Ethrington: My understanding is that SAMOG would (as NI 51-101) **require**

disclosure of Probable Reserves but Possible Reserves, Contingent Resources and Prospective Resources are optional. Proved + Probable (2P) is the best estimate as used internally to make investment decisions; it is logical that investors should have access to these estimates to understand the basis of investment decisions and compare companies. The 2P estimate is the least volatile – Proved increases and Probable decreases as development proceeds.. A few SEC reporting companies do disclose Probable.

Ms de Bruyn advised that the draft Code had been changed to take into account the South African context and that it leaned towards discretionary and not mandatory.

Mr Coetsee questioned whether requirements of the draft Code would have a prejudicial distraction for companies to invest on the JSE? He added that 2P should not be mandatory and that as three main hubs of the industry are happy to report 1P why did SAMOG want to insist on 2P. After due deliberation it was agreed that 1P was compulsory and 2P was mandatory.

## **Part 2 COMPETENCIES AND RESPONSIBILITY**

Reserves and Resources evaluation that will be disclosed to the public must be prepared by a Qualified Reserves Evaluator (QRE) <sup>N3</sup>. To qualify as a QRE an individual needs to prove the following: <sup>N4</sup>

Registration as a professional in good standing, with the SPEE <sup>N4</sup>, and/or a Certified Petroleum Geologist with the American Association of Petroleum Geologists (AAPG) <sup>N4</sup> and licensed to practice in engineering, geology geophysics or other relevant disciplines;

- have a minimum of ten years' practical experience in petroleum engineering, geology or geophysics, with at least three recent years of such experience in the evaluation of Reserves and Resources <sup>N4</sup>; and
- must be current and competent in the methods and practices of Reserves and Resource Evaluation.

### Sasol's comments on the aforementioned paragraph:

*N3: We understand the Working group's preference for the reports to be prepared by a QRE however we do not believe that it should be a requirement for all publications. For example, in the case of an initial public offering a Competent Person's Report could be justified, but not in the case of annual reports.*

David Elliott: SASOL's comment implies that it would be OK for information in an annual report to be prepared by someone who was NOT qualified. I would hope that all oil and gas evaluations would be carried out by someone who was appropriately qualified.

Mr Coetsee questioned how the scope of a QRE would be set if he is an external person. Mr Ethrington stated that a system or guidelines should be set up within a company to do this.

*N4: We do not believe that the requirements stipulated in this code for a person to qualify as a QRE is appropriate in the South African environment. The fact that the person must be registered as a professional in good standing with either the SPEE or AAPG is very restrictive as it is highly unlikely that all registrants required to provide the disclosures contemplated in this code will employ a person of such designation, or be able or willing to incur the additional expenditure to contract with an individual or company with this designation on an ongoing basis. We are of the opinion that this will have a significant impact on South African based operations. We propose that other*

*appropriate disciplines and professional bodies, including the SPE, also be considered in this regard.*

*John Ethrington: SAMOG has the right to create a list of acceptable **self-regulating organizations** in addition to SPEE and AAPG DPA. For example: Energy Institute, Geological Society of London. The following is extracted from NI 51-101CP: A reporting issuer or other person may apply for an exemption to enable a reporting issuer to appoint an individual who is not a member of a self-regulating professional organization, but who has other satisfactory qualifications and experience. Such an application might refer to a particular individual or generally to members and employees of a particular reserves evaluation firm. In considering any such application, the securities regulatory authority or regulator is likely to take into account the individual's professional education and experience or, in the case of an application relating to a firm, to the education and experience of the firm's members and employees, evidence concerning the opinion of a qualified reserves evaluator or auditor as to the quality of past work of the individual or firm, and any prior relief granted or denied in respect of the same individual or firm.*

David Elliott I agree that there are more organisations than SPEE and AAPG who can be considered as Professional Organisations. I am not familiar with the South African situation but there may be an appropriate South African engineering or geological professional body that could fill this role. The ASC is periodically approached by an individual or organisation for recognition, and provided the required criteria are met, they are recognised. For example, the UK Energy Institute and some individuals in France have been recognised. The SPE is not recognised because it does not have a disciplinary procedure for its members.

After some discussion Ms de Bruyn suggested that a clause could be added to make reference to SAMREC's Recognised Professional Organisations (RPOs).

## **Part 5 REQUIREMENTS APPLICABLE TO ALL DISCLOSURE**

(d) A statement of the reserves data and other information stated in Form 1 should be disclosed as at the last day of the reporting entity's most recent financial year or a later date if more than six months have elapsed since the most recent financial year.<sup>N11</sup>

### Sasol's comments on the aforementioned paragraph:

*N11: We are concerned that this may result in multiple updates of the reserves information being required to be done per annum. Would there therefore be a requirement to publish updated reserves information when interim (half-year) results are released?*

John Ethrington: Anytime there is a material change, an amended reserves report should be issued for that property.

David Elliott: The situation is a bit more nuanced. You would need to talk to a lawyer, but I do not believe that "material facts" need to be disclosed, but "material changes" do need to be disclosed. However, trading on any undisclosed material information is insider trading. If you need more on this, ask an ASC lawyer.

Mr Coetsee questioned the frequency of reporting and whether it needed to be certified every time by a QRE. He advised that Sasol held an independent audit on a rotational basis, and mineral reports were done annually. Ms de Bruyn stated that it was the JSE's intention that a new listing had to have a QRE report on all its assets. Over the next 2 –

3 years it would list what needs to be published in an annual report. Section 12 would be tidied up to fix this.

Mr Coetsee felt that if they had to disclose this information they could be giving their competitors an advantage. The SEC required one year historical information.

### **PART 3 PRICING ASSUMPTIONS**

#### **Item 3.2 Forecast Prices Used in Estimates**

After some discussion it was agreed to revert back to the original clause in NI51-101.

### **PART 5 ADDITIONAL INFORMATION RELATING TO RESERVES DATA**

- (a) disclose for each *product type* the volumes of *proved undeveloped reserves* that were first attributed in each of the most recent three financial year's end and
- (b) discuss generally the basis on which the *reporting entity* attributes *proved undeveloped reserves*, its plans (including timing) for developing the *proved undeveloped reserves* and, if applicable, its reasons for deferring the development of particular *proved undeveloped reserves* during the following two years .

It was agreed that the SAMOG code would change this to five years.

#### **Product types**

Mr Coetsee stated that the QRE was doing work on different products but what was reported to investors were only liquids and gas. Ms de Bruyn stated that NI51-101 referred to "gas activities" and not "product types". However, Mr Ethrington advised that the Canada was going to stick with "product types". Mr Coetsee questioned why there was a push for a low level of definitions when there was already a higher level available.

After further deliberation it was agreed that the words "material product type" would be used.

The words "by country" conflicted with Part 6 and it was agreed to change this to and "geographical area".

#### **Definitions**

**5.13 Netbacks** - Written disclosure of a net back **N18** must

- (a) **Repealed**
- (b) Reflect netbacks calculated by subtracting royalties and operating costs from revenues; and
- (c) State the method of calculation.

Sasol's comments on the aforementioned paragraph:

*N18: We do not understand why netbacks and the associated disclosure as indicated above is required to be disclosed.*

*John Ethrington:* A summary of all the costs associated with bringing one unit of oil to the marketplace, and all of the revenues from the sale of all the products generated from that same unit. The **netback** is calculated by taking all of the revenues from the oil, less all costs associated with getting the oil to a market. These costs can include, but are not limited to, importing, transportation, production and refining costs, and royalty fees. This figure allows exploration and production firms to compare their costs with those of their competitors

David Elliott: Netbacks are not required to be disclosed under NI 51-101, but if disclosed, must meet these criteria.

With regard to discount rates Mr Coetsee advised that Sasol used 10% as the standard rate. This was reflected differently in SAMREC, SAMVAL and SAMOG.

It was agreed that there were still some issues that needed to be resolved but the Code would always be a work in progress. Ms de Bruyn would update the changes in an Excel spreadsheet and there may need to be another round of discussions with Sasol to address issues that had not been covered.

Date of next meeting

This would be discussed once the draft Code had been updated...

There being no further matters for discussion the meeting ended at 17:23.