

**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 9 May 2014 at 15:00**

Present:

Johannesburg: A C Clay (Chairman)  
A de Bruyn (JSE)

Calling in: S Davids

Apologies: R Becker W de Meyer  
B Cerff A Dippenaar  
R Davel D Elliott  
J Decker J Etherington

In Attendance: S Moolla

Mr Clay explained that the purpose of the meeting was to deal with the queries that had arisen as a result to the request for comments by the Canadian Securities Commission to the existing NI51-101 which were circulated some weeks ago, and to which no response had been received. It was agreed at the last meeting that a number of outstanding issues, which are incorporated into this Agenda, might not necessarily be resolved pending further deliberation.

Mr Elliott's comments had been received in a separate e-mail and would be listed in the minutes.

Ms de Bruyn was of the opinion that the draft Code be distributed in its current format to obtain feedback from the industry.

1. Prospective Resources

The definition and disclosure of Prospective Resources is included in the new version of NI51-101 and therefore in Form 1 of the SAMOG Code (iv) (v) (vi). The common theme throughout the 14 industry responses in Canada was that this was not supported.

Mr Elliott: The definition of Prospective resources used by NI 51-101 comes from COGEH which itself uses the PRMS classification. I am not sure what is "not supported" by the responses from Canada, or who the responses came from. NI 51-101 was established after very extensive consultation with the Canadian oil and gas industry, which supported the optional disclosure of Contingent and Prospective resources and their disclosure has always been permitted (but not mandatory) in NI 51-101 since its inception in 2003, and has increased substantially since then.

It was agreed that the SAMOG Code would exclude prospective resources.

2. Contingent Resources

The issue here is the same as for Prospective Resources but we require clarity as to whether or not Contingent Resources are essentially the same as Inferred Resources (SAMREC Code) since the commentary from the industry in Canada included the statement that "By definition, Resources do not meet the requirements of commerciality." It is suggested that it is only applicable to Prospective Resources.

Mr Elliott: The definition of Contingent resources used by NI 51-101 also comes from COGEH which itself uses the PRMS classification and disclosure has increased significantly since then. The statement, **"By definition, Resources do not meet the requirements of commerciality."**, is correct, but I am not sure of its relevance, since the criterion for disclosure is value, not commerciality. There have been many multi-million (and multi-billion) dollar transactions of oil and gas properties in Canada for which most, and sometimes all, the value was related to Contingent resources and also Prospective resources.

A sub-committee (that I chaired) of the Society of Petroleum Evaluation Engineers (Calgary) has just completed draft Guidelines for the Evaluation and Classification of Resources Other than Reserves, and submitted it to the COGEH Standing Committee for approval. It was prepared in response to a request from the ASC for improved guidelines because for the great increase in the disclosure of Contingent resources (but it also covers all the other PRMS resource Classes). It is an 80 page document and is planned for publication by the end of June as an addition to COGEH Volume 2.

The committee agreed that it was the same as Inferred Resources.

### 3. Valuation of Resources

It is suggested that if Contingent Resources are comparable to Inferred Resources, then a valuation should be applicable. If not, then valuation should not be applicable for either Contingent Resources or Prospective Resources.

It should be noted that the Canadian comments were not in favour of valuation of either category.

Mr Elliott: It is my understanding that oil and gas Contingent Resources are comparable to mining Inferred Resources (they both map to the same place in the UNFC), but John E should be able to confirm this.

Mr Ethrington: Petroleum Contingent Resources sub-class "economic" maps to Mineral Resources and can be categorised based on uncertainty: C1 = Measured, C2 = Indicated and C3 = Inferred.

I understand that CRIRSCO has no equivalent of petroleum Possible Reserves

Mr Elliott: **"It should be noted that the Canadian comments were not in favour of valuation of either category"**.

I am not sure what these "Canadian comments" are, since it is common practice for the Canadian oil and gas industry to estimate an NPV for Contingent resources and often an EMV (i.e., a risked value), and, to a lesser extent, also for Prospective resources. This has always been permitted disclosure in

NI 51-101, but one of the proposed (not yet implemented) amendments to NI 51-101 is to require an NPV if Contingent or Prospective resources are disclosed.

The committee felt that Inferred Resources were the same as Contingent Resources. However, valuation should be applicable to Contingent Resources, but not to Prospective Resources.

#### 4. Input Commodity Prices (SEC)

This topic has been discussed on numerous occasions and there is still no conclusion. The twelve months training average is not necessarily consistent with IAS 13 (observable inputs) and in any case to my knowledge there is no final decision from SAMVAL. In our current version of the SAMOG Code we have insisted on a training average. The Canadian commentary appeared to be relatively uninformed with regards to a decision.

Mr Elliott: I assume that this should be "trailing" average constant price, which is the SEC requirement. NI 51-101 requires forecast prices which have not presented any problem in the 10 years since it was implemented.

It was agreed to leave this clause as is. Mr Clay added that the valuation of oil and gas would be taken out of the SAMVAL Code and included in the SAMOG Code.

#### 5. Abandonment and Reclamation

It is unclear how the difference between abandonment and reclamation costs should be incorporated. There is industry kick-back on separate disclosure.

Mr Clay advised that there wasn't clarity on the difference between abandonment and reclamation, and he suggested splitting this into two issues. However, after further discussion it was agreed to leave it in its current form and to wait until public comment was received.

#### 6. Working arrangements with the ASC

We are proud to confirm that the ASC has agreed to support the JSE and the SSC in a collaborative manner with the maintenance of the SAMOG Code.

In addition a Memorandum of Understanding (MoU) was currently being finalised between the ASC and the JSE. Ms de Bruyn reported that the JSE legal advisers were looking at the MoU after which it would be returned to Mr Phillip Chan of the ASC for legal opinion from them. She added that Mr Elliott and Mr Etherington would serve on the JSE Readers Panel.

In reply to Mr Davids' question, Mr Clay advised that this was a formal arrangement between the JSE and the ASC and as such did not need to be included in the Code.

#### 7. Approval process

Ms de Bruyn advised that the draft Code had been sent to the JSE Advisory Committee for review and very few comments were received. It was currently at EXCO and she was confident that they would give the go-ahead by the end of next week.

The Code would be sent for public comment and a month would be allowed for this process. She would include it on SENS, and Ms Moolla would send it to SAIMM members as well as the GSSA for circulation. All committee members would also be requested to circulate it to their contacts.

Ms de Bruyn added that it would be published in the Government Gazette for comment. Once any issues arising from this were dealt with it would again be published in the Government Gazette, after which it would be taken as final.

#### 8. Parked issues

Mr Davids questioned what would happen with regard to the parked issues raised at meetings. Mr Clay advised that these would be dealt with once public comment was received. The list of parked issues was:

- The use of constant prices, forecast prices and the twelve month historical average;
- Registration of Qualified Reserves Evaluators (suitable organisations) and move from five to ten years' experience;
- Alignment throughout to PRMS (convergence project of COGE with PRMS);
- Prescribed Discount Rates 0,5,10,15 and 20%;
- Compulsory disclosure of forecast and constant money valuation under item 2.2 *reporting entity changed to must may* ;
- Item 3.1 changed from if to when; and
- Clarification of the effective date.

#### Date of next meeting

Mr Clay advised that a meeting would be arranged once the Code was out for public comment, and would be held once all the feedback had been received.

There being no further matters for discussion the meeting ended at 15:44.