

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

**Minutes of the meeting held at the Venmyn Deloitte, Sandton, Johannesburg  
on 19 March 2013 at 15h00**

Present:

Johannesburg: A Clay (Chairman)  
A de Bruyn (JSE) R Davel (KPMG)  
C Mumby (ONPASA) G Njowa (Venmyn Deloitte)

Cape Town: S Davids (Deputy Chairman) A Dippenaar (SACOIL)  
J Roux (PASA) B Cerff (SACOIL)  
W de Meyer (SACOIL)

Calling in: E Takolia (Johannesburg) (Deloitte)  
J Etherington (Calgary)

Apologies:

A Steyn H Sternberg  
J Scales K Rayner

Welcome

Welcome to all, those dialling in from Cape Town, Johannesburg and Calgary. Bradley Creff and Willem de Meyer from SACOIL were welcomed to the team.

Mr Andy Clay reported back following his trip to Calgary where he was able to meet with John Etherington and David Elliot. Calgary is the home of the Alberta Securities Commission and Mr Clay was able to meet and discuss matters to try and achieve two things, namely, to make them aware that SA is trying to incorporate NI51-101 as an alignment process for reporting in a South African jurisdiction and as such it is important to get their permission and support to use their regulatory standard. Secondly, to request the assistance of the ASC to help guide the JSE through the implementation of NI51-101.

Mr Etherington confirmed from the Canadian perspective that there would be no problem with South Africa using or adapting NI51-101 and the ASC will be willing to act in a support role to help SA implement it.

Mr Clay has drafted a letter as a matter of record (see attached – annexure A).

The ASC raised two issues in terms of surveillance. One being the issue of independence, which they undertake in the broad sense and they prepare a comprehensive ASC report on this matter each year. Under NI51-101 an independent consultant is required. SAMREC and SAMVAL WGs support omitting the requirement of independence and considered it within the jurisdiction of the Regulator and its listing requirements. It is understood that this would apply to oil and gas as well.

The second issue is that of misleading reporting. There is a cross-check in the ASC rules which identifies what would be considered a misleading statement. It was suggested that the JSE and the ASC should

collaborate to assist the JSE to implement a similar system. The JSE did indicate that they have their own system to detect misleading statements but further consideration on this in light of NI51-101 would be beneficial.

#### Review of Previous Minutes

The minutes of the previous meeting were accepted as a true reflection. Mr Andy Clay proposed acceptance and Mr Riaan Davel seconded them.

#### Actions items

Andy Clay: *Send the minutes of the Oil and Gas meeting to the SPE* – Mr Clay held off on this action until he had spoken to the ASC. This has now been done and he has garnered their support. The minutes will now be sent via Sean Davids as he is based in Cape Town and the SPE have an office in Cape Town. Mr Clay will compile the necessary documents and Mr Davids will make contact. **Action: Sean Davids.**

**Action:  
Sean  
Davids**

Julie Dixon: *Copyright of PRMS* – Ms Dixon has made contact with the SPE. Holly Hargadine will revert with a reply but she is travelling at the moment. Mr Clay suggested also putting this query in his letter to the ASC. **Action: Julie Dixon and Andy Clay.**

**Action:  
-Julie  
Dixon -  
Andy Clay**

Julie Dixon: *Contact the SSC regarding the vague reference to Acts in the SAMREC and SAMVAL Foreword* - The SSC Chairperson said it should be referred to the WGs and addressed in the re-write of the code which is taking place at present. **Action Julie Dixon**

Chris Mumby suggested that the Acts that will be most relevant to this work will be the amended MPRDA and the amendments to the amended version of the MPRDA which is being debated at a ministerial level at the moment.

Mr Mumby gave some insight into the workings of the Onshore Petroleum Association of South Africa (ONPASA) which is a broad gathering of all the operating companies. They are trying to elevate the profile of unconventional gas in the minds of government, the Minister and ministries, and to keep it within a specific area. At present it falls under the Petroleum Association of South Africa (PASA), which is a wholly owned subsidiary of the Central Energy Fund and the current Minister of Mineral Resources has proposed to disband PASA and put all gas, both onshore and offshore under the Department of Mineral Resources and eliminate the Minister of Energy in its entirety. The gas section would fall under a dedicated unit within the Department of Mineral Resources.

Mr Mumby is working with legal counsel (Bowman Gilfillan) and other operators to try and lobby with government.

Sean Davids was asked to comment on whether or not government recognises PRMS or wants to go the UNFC classification route. Seans Davids said that there has been not decision either way at the moment but there is a feeling that PASA must drive it. The current situation with retaining PASA would be the best decision and then the work from the Oil and Gas group would take the lead from that but with government, it is difficult to say that their plans are.

David Elliot, who is on the UNFC, gave an indication that the UNFC defers to the commodity specific specifications, in this case the PRMS for the classification. This can then be translated into the various

numeric codes but the actual guidelines remain PRMS. John Etherington was asked to consult with David Elliot on this matter for more guidance and clarity. **Action John Etherington.**

**Action:  
John  
Etherington**

From the WG point of view, it would recommend the PRMS route. PRMS and COGE are broadly aligned. COGE is a disclosure code but it does not cover anything not already covered in PRMS.

Under 3.2: *We need to consider whether we want companies to include “yet to be discovered”*- John Etherington advised that under NI51-101 an individual cannot disclose respective resources which are yet to be discovered. Most other parts of the world do not do that. Internally people keep track of it but one cannot report it. If it was to be reported, it would be necessary to also give an indication of the risk factor involved and the chance of success/failure. In most cases that would be a qualitative statement so it is difficult to compare company to company and area to area. It could be allowed but it would raise difficulties when it comes to consistency of reporting.

From a JSE point of view, it would be of concern. The Australian Stock Exchange does allow reporting on it but with a lot of caveats. The US Securities and Exchange Commission do not allow it at all. It was suggested that SA would prefer to not have a situation where reports are issued with extensive caveats ie not allow the inclusion of “yet to be discovered”. WG agreed to that.

In 3.3 the question was raised: *We need to consider whether “Possible Reserves” should be included in the valuation of the reserves*- the point would be to be aligned and we would want possible resources to be quoted as per PRMS. It would be important to discuss this at the SSC as it is allowing for the inclusion of possible resources which is effectively the economic reserves from the inferred resources category.

**Action:  
SSC**

**Action: SAMREC SAMVAL Committee**

In 3.6 *It is suggested we refer to Section 5 of NI51-101 instead of the full NI51-101 as the first few paragraphs may be confusing when preparing a report for the SA market*- it was agreed to only refer to Section 5. Mr Riaan Davel asked the question, if IFRS is a financial reporting language it also includes disclosure in the standards and essentially clarity is needed about on whether PRMS is a stand-alone with disclosure requirements in it or not. It was stated that if a person complies with COGE is means they comply with PRMS. Disclosure standards are however contained in NI51-101 and COGE and PRMS are technical references. It was agreed to consider whether to only report to PRMS in the SA code or to quote both. John Etherington to advise.

Point 3.8 requires *a definition for “future net revenue”* – Godknows Njowa has sourced a definition.

**Action Godknows Njowa**

**Action:  
Godknows  
Njowa**

The JSE requested a proper consideration of what Future Net Revenue means and because of the exclusion of the ‘yet to be discovered resources’, it was suggested that the WG needs to devise its own definition of resources and reserves for this code. The JSE suggested the definitions for resources and reserves in PRMS is not appropriate for the SA oil and gas code in totality as it will not cover undiscovered resources. It was also agreed that contingent resources should be reported and where possible, a probabilistic approach instead of a deterministic approach should be adopted but it comes down to the issue of Future Net Revenue.

Andy Clay stated that the whole point of global harmonisation was not to define our own definitions of resources and reserves, as a small country defining our own definitions would be inconsistent with the current WG approach. It was agreed to stick to PRMS/COGE definitions.

For NI51-101 it is common practice to calculate Future Net Revenues for contingent resources but it comes with a caveat that there is a chance of failure and may never develop as reported. There is a risk factor in it but no quantification of the risk in the code. NI51-101 states that the report must qualify it to accurately advise investors that these resources may never be developed.

Quoting contingent resources in the normal manner that PRMS/COGEH and NI51-101 allows would be acceptable to the SA code and where the probabilistic and deterministic approach, whichever is taken as consistent with PRMS, provides for a value going forward and as long as it is reported to PRMS/COGEH and NI51-101, the WG will be happy with that. The SA code must deal with it sufficiently ie a clear definition. It must also include inclusive and exclusive valuation of contingent resources.

Section 5.7 of NI51-101 – the JSE needs to provide specific guidance on this issue, since this clause essentially reinforces the requirements for the Competent Evaluator or Auditor to give consent to the disclosure of the report. It could be an in-house expert or an external independent.

It was agreed that the requirement of independence will be omitted to keep consistent with the SAMREC and SAMVAL codes, and will be dealt with by the JSE in its Listing Requirements with assistance from the ASC. **Action: Annalie de Bruyn**

**Action:  
Annalie de  
Bruyn**

*Section 5.11 – the JSE suggested this be excluded-* net asset value and net asset value per share. In the writing of IMVAL (International Valuations Code), there are issues to do with whether or not the code is sufficiently clear that the CV is going to be capable of calculating the value of mineral assets only **(to be raised at SAMVAL meeting)** or whether or not his duty also embraces the calculating of the economic value or market value. So far it has been clear that market value and total valuation of the company as well as the underlying assets is the responsibility of the valuator. There is more of an obligation on the CV to value the enterprise rather than the individual mineral assets.

It was suggested that the requirement to calculate the value per share be eliminated, ie take out the net asset value per share, and take out 5.11 in totality.

Section 5.13 – “Netbacks” - it is a common term and it was agreed it be added in. A definition is still required. It is included because it impacts on the calculation of royalties at the mine face as opposed to the exit point of the upgraders. This would also have an impact on SARS and this should be referred back to the legal contributors of the oil and gas industry. It forms part of the stabilised financial model with SARS before the operation begins. **Action: Godknows Njowa to contact Bowman Gilfillan attorneys on this aspect and tie in with John Etherington.**

**Action:  
-Godknows  
Njowa**

#### FORM 1

Reference to Part 6, Form 1 would be left pending the finality on the first part of the code. As it stands, the form needs to have more clarity before implemented as part of an SA code. An amended version of Form 1 has been circulated but the committee was asked to consider it again and provide feedback before the next meeting. **Action: Committee**

**Action:  
Entire  
committee**

Under part two, Competence and Responsibility it is not clear if the report should be in line with the SAMREC code or if the Competent Person should be in line with the SAMREC code. Suggested changes to be emailed to Julie Dixon. **Action: Committee**

**Action:  
Entire  
committee**

#### Further comment from the JSE

When referring to the SAMVAL and SAMREC Code, it is incorrect to refer to them as the SAMCodes. It is an incorrect reference but it is used in the web address for the SAMREC and SAMVAL website for the sake of brevity in an address.

Reporting terminology – towards the end of the document there is reference to a check list ‘by submitting a checklist with their reports...’ The question would be, outside of the JSE environment or a listed environment, who would this list be submitted to? It was suggested that this requirement be omitted from the oil and gas code but be included in the JSE listing requirements. It would be a requirement for listing, not for reporting. The WG concurred. It was also suggested that a non-compulsory check list be added to the code for guidance. A final decision on this will be taken once committee comments have been received.

Possible reserves – from a JSE point of view, it will be necessary to decide if they will allow companies to report on it. It is fine in the code but from a JSE perspective they still need to consider it.

In the diagrams, there is a statement that says, *the public reporting procedures preferred by the SSC are defined in NI51-101* – the necessary details of NI51-101 are already in the code, is the sentence necessary? It was agreed that it is as the SSC is the body governing the code, however it was also suggested that it should be listed elsewhere. Again, a decision will be taken once the comments have been received.

The JSE has a very specific definition for Materiality. If NI51-101 has a definition of Materiality, it should be replaced by the JSE definition if it is appropriate to Oil and Gas. A cross check will be done with the ASC in terms of their listing requirements and the definition. **Action JSE and ASC**

**Action:  
JSE and  
ASC**

Reporting Issuer – it is not defined in the code and it is necessary. It was suggested that the wording be changed as the reporting issuer term is used in the listing requirements in a listed space. But in this space it is more like a company or entity that is reporting. It was suggested and agreed to that the reporting issuer should be changed to the reporting entity.

Paragraph 5.1, dictates when the reporting entity must submit a report but in part 2 it already states that the codes is applicable to all public reports. It would seem to be duplication. Agreed and will be dealt with after the comments are submitted.

Paragraph 5.2 refers to all other information that is of a type specified in form 5, 51-101 – it was suggested that unless the ‘information of this type’ is defined, it should be removed as it is not clear as to what is being referred to. It was submitted that the ‘information of this type’ is detailed in Section 6 of Form 1 which will be included. **Action: Andy Clay**

**Action:  
Andy  
Clay**

Oil and Gas Working Group meeting  
19 March 2013

A question was raised regarding audit requirements – if the SA code is using PRMS instead of COGE, it is important to ascertain if the audit requirements in both are similar. **Action: Andy Clay**

<b>Action: Andy Clay</b>
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John Etherington informed the meeting that the SPE actually lists its audit requirements in another document and therefore, PRMS is in fact void of any audit requirements. In addition, concerns were raised as to whom would be qualified to perform the audit, does SA have the necessary skilled individuals? It was then decided to delete the word 'audited' from point 5.2.A2 and 3 ie a requirement for an audit in line with PRMS.

Referring to section 5.2 on page 5 of the code, in the second section "possible reserves" – this section needs more clarity. Committee members were asked to consider this section and see how it could be expressed with more clarity. The same will apply to point 5.9.2.

Section 5.7 – Ms de Bruyn will draft wording for this section to make it more applicable to the South African context and code.

Section 5.11 will be deleted, the reasoning as discussed above.

Committee members were asked to submit all comments and suggestion on the draft code before the next meeting which will take place on the 13<sup>th</sup> of May in Cape Town at 15:00.



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**VMD1429L**

25<sup>th</sup> March 2013

To: Blaine Young, Tom Graham, Floyd Williams, Philip Chan

Alberta Securities Commission

Suite 600, 250–5th St. SW  
Calgary, Alberta, T2P 0R4

cc David Elliot, John Etherington, Ed Swindell, Annalie De Bruyn

**MEETING AT THE ALBERTA SECURITIES COMMISSION FRIDAY 8<sup>TH</sup> MARCH 2013  
AS CHAIRMAN OF THE SOUTH AFRICAN OIL AND GAS COMMITTEE**

Dear Tom, Blaine and Company

Firstly, thank you for setting aside valuable time in Calgary to afford me the time to explain the principles behind the South African approach to adopting a reporting code for the reporting of oil and gas and unconventional resources.

At the outset, as Chairman of the South African Oil and Gas Committee, I need to thank John Etherington who is not only part of my committee but has assisted me specifically to connect with global experts such as yourselves.

As a summary of our meeting, the purpose of this letter is to confirm your future support at both my committee level and separately with the Johannesburg Securities Exchange (JSE) which will be addressed through an additional letter to follow from the JSE.

As specific points:-

- the SAMOG committee intends to incorporate directly the NI51-101 standard in part as it can be applied in South Africa for reporting requirements, primarily into the public domain;
- the SAMOG committee would like to confirm the support of the ASC so that South Africa can demonstrate alignment with an established and recognised authority in the oil and gas industry; and
- for future assistance the SAMOG committee can collaborate to ensure ongoing alignment with the NI51-101 standards and in particular with future technical revisions for the industries of unconventional.

I was very warmed by our ability to recognise and appreciate common issues relating to both the statutory and regulatory issues for this industry sector. For me to be able to tap into the friendly support of the ASC and the obvious knowledge of David Elliot and John Etherington ,is also an immense privilege for which I am very grateful. The fact that I was able to meet you all in Calgary with Fiona was very opportune.

As an basis for global harmonisation, I feel confident that with your support going forward this does set a firm platform of collaboration which will certainly benefit the South African industry which is as the cusp of potential development of a future unconventional business.

Thank you once again and your acknowledgement of your support to the SAMOG Committee will be greatly appreciated.

Yours Sincerely,

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**A.N.CLAY**

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**MANAGING DIRECTOR**