

Kevin Lewis

From: doug@vizierenergy.com
Sent: Monday, 24 May 2021 2:16 PM
To: Kevin Lewis
Subject: Proposed changes to the oil and gas reporting requirements in the ASX Listing Rules

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Dear Kevin,

Vizier Energy Consultants provide technical evaluations and independent technical specialist reports to the oil and gas industry worldwide.

I have a PhD in Geology, a Qualified Reserves Estimator and am a member of the SPE.

My response to the 4 key questions that the ASX raise regarding the proposed changes are as follows:

1. whether stakeholders agree with the proposed rule changes and, if not, why not;
 - Yes I approve of the changes and particularly standardising on the PRMS 2018 version
2. in particular, whether the proposed new rules 5.28.3, 5.28.4, 5.28.5 and 5.28.6 for prospective resources are appropriate;
 - Yes but see my additional comments below
3. whether compliance with any of the amended rules might have any unforeseen consequences or give rise to undue compliance burdens for listed entities;
 - Should not be additionally burdensome if companies are already following the existing guidelines. There will no doubt be more requirement for defensible financial analyses for the Reserves and Contingent Resources, but this is a good thing.
4. noting that ASX currently envisages that the proposed rule changes will take effect on 1 July 2022 for reporting periods commencing on or after that date (see section 5 below), whether stakeholders see a need for any specific transitional arrangements to facilitate oil and gas entities moving from the current reporting rules to the proposed new reporting rules and, if so, their views on what those arrangements should be; and
 - If announced in sufficient time (6-9 months ahead) and adequately communicated to the industry (which is a big issue for the smaller companies particularly) then it should be manageable.
5. whether stakeholders see a need to have rules allowing oil and gas entities to report historical estimates or foreign estimates of petroleum resources in certain circumstances – similar to the provisions in LR 5.10-5.14 allow mining entities to report historical estimates or foreign estimates of mineralisation in certain circumstances – and, if so, what those rules should provide.
 - I do not believe this is appropriate for the oil and gas industry. Petroleum resources (particularly those for exploration or pre-development projects) are based on very little hard data and the techniques and technology for evaluating the assets are improving all the time. Historical estimates are therefore rarely more informative than those using modern methods and technologies. The only situation I could envisage where this might not be the case is where physical data has been lost or where new data can be demonstrated to be fundamentally flawed.

I have the following additional comments:

1. **Rule 5.25: Syntax of PRMS petroleum resource classes.** The SPE resource classes are “defined terms” in the PRMS documentation and as such are written as proper nouns with capitals – i.e. **P**roduction; **R**eserves; **C**ontingent **R**esources; **P**rospective **R**esources.
In working with clients and when reading other public reports, there is often confusion between generic descriptions of reserves or resources (lower case) and the defined SPE class which should have capitals e.g. “Reserves” or “Prospective Resources”. I feel this should be formalised such that any reference to the defined resource class should be required to use the syntax of the defined terminology in the SPE documentation.

Rule 5.25 should therefore be amended to read:

5.25 An entity publicly reporting petroleum resources, including estimates of:

- (a) Petroleum Reserves;
- (b) Contingent Resources; or
- (c) Prospective Resources,

Note (or new 5.25.1): The SPE PRMS (2018) resource classes are defined terms and as such should always be written as above (capitalised – not all lower case) to avoid confusion with generic comments.

2. Rule 5.25 introduction of additional statements regarding level of risk.

I fully support the additional requirements to include the SPE project maturity sub-class. I would add that it should be a requirement for all resource estimates, and particularly Prospective Resources and Contingent Resources, to be accompanied by a statement of the chance of commerciality (P_c) as defined in the SPE guidelines (section [2.1.3.2](#) & [2.1.3.3](#)), to include the chance of geological discovery (P_g) and the likely chance of development (P_d);

- 2.1.3.3 There must be a high degree of certainty in the chance of commerciality, P_c , for Reserves to be assigned; for Contingent Resources, $P_c = P_d$, and for Prospective Resources, P_c is the product of P_g and P_d .

In my experience, there are far too many examples of press releases by ASX companies or in IPO prospectuses which refer to very large Prospective Resources without any clear statement of risk (or it is hidden in a different part of the report to the resource estimates). This is very misleading for investors. Most of these very high resource estimates have very little chance of success and I believe this undermines the confidence of the investor community because the large numbers are used to secure financing for projects that rarely come to fruition. This would be overcome if it was a requirement to state unrisks and risks resources together in a common table.

3. Aggregation of resources

I approve of the proposed changes, but again would go one step further in insisting that not only should the resource aggregates be clearly defined, but also that the aggregated risk should be considered for the portfolio as a whole. If all prospects in a portfolio are linked, i.e. in some way dependent, then success in one improves the likelihood of success in the others. If, on the other hand, the prospects are independent of each other, then success in one will have little bearing on the chance of success of the others. The risk of each individual component needs to be correctly addressed.

I hope this is of use.

Please feel free to contact me if you would like to discuss further.

Yours sincerely,

Doug Gillies
Director
Vizier Energy Consultants Pty Ltd

Doug Gillies BSc, PhD.



☎ Mobile (AU) : +61 488 577 555
☎ Office (AU) : +61 488 577 555
☎ Skype : balbithan2

✉ Email : doug@vizierenergy.com
🌐 Website : www.vizierenergy.com