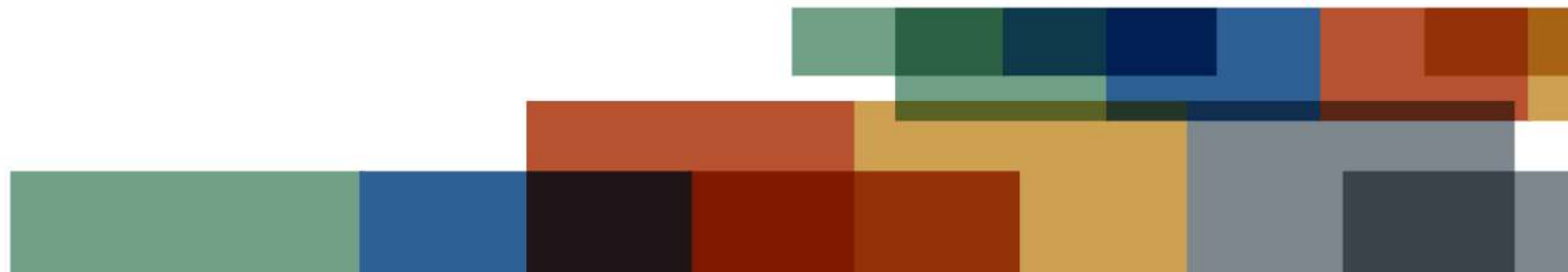




decisions with confidence

PRMS 2018 Update

13th September 2018



Declaration



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It is acknowledged that whilst the PRMS 2018 guidelines have been released, the further release of supporting documentation such as detailed rationale/basis of changes, examples of application, and application guidelines may clarify the intent of the SPE OGRC and as such RISC reserves the right to revise its perspectives and recommendations.

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RISC is an independent oil and gas consultancy firm.

We have been working in partnership with companies for 25 years, supporting their interests in the oil and gas industry and offering a broad and innovative perspective on oil and gas projects around the world.

Part of our core offering is to provide independent reserves and resource evaluations and RISC's value to its clients is in guiding our clients in situations where the application of the PRMS is unclear or ambiguous

RISC staff served on the SPE ORGC when the PRMS was first rolled out and have authored Chapters in the 2011 PRMS Application Guidelines

Key Thought of Presentation

Evolutionary vs Revolutionary

Adoption of the 2018 Update

Will the Changes Affect Your Organization?

Major Changes:

- Shall, Must, Should, May and Recommend
- Resources Classification Framework
- Project Based under Defined Conditions
- Determination of Commerciality
- Project Maturity Sub-Classes
- Contingent Resources Movement to Reserves & Justified for Development
- Commerciality & Economic Criteria
 - Overriding Royalties

Major Changes:

- Consumed in Operation (CIO)
- Discovery Criteria and Analogues
- Prospective Resources:
 - Typical Prospect Evaluation
 - POS vs Volumes
- Unconventionals
- Reconciliation of Differing Resource Estimation Methodologies
- Qualified Reserves Evaluator (QRE)

Rules are for the guidance of the wise and blind obedience of fools..... Gerhard Keilig

When it comes to Reserves and Resource Guidelines everyone wants the “mother of all documents” that has specific details and examples relevant to every situation they are likely to encounter.....

But an inherent focus on detailed rules, results in a lack of requisite experience to judiciously apply principles based guidance leading to defensible intended practices....

Evolutionary vs Revolutionary



The SPE's OGRC view of the updates is they are evolutionary addressing changes in definitions with edits mainly added for clarity and improved consistency as to the intent of the guidelines

The PRMS still retains the concept of principles based guidance, and is now more aligned with the COGEH with respect to Contingent Resources and the SEC with respect to economics

Sounds good, however there are major changes....

Are the changes material, well that depends on your experience, situation and personal bias....

Response within industry to date has been mixed...

One common response is that the basis and/or rationale for changes has not been forthcoming from the OGRC....

Not surprisingly the most common question we are asked is, what were the OGRC's reason for the change....



Review suggests draft SPE PRMS 2017 unfit for public resource reporting

03/04/2018

**Bob Harrison
Patrick Quinn**

Lloyd's Register

The proponents of the changes have not set out reasons or basis for the changes, so it is often very difficult to judge the context or whether the proposed changes achieve their objectives.

Adoption of the 2018 PRMS



Should your organisation adopt the 2018 PRMS?

That depends, as the appropriate guidelines must be applied considering the reporting requirement(s)

The 2018 PRMS was released 30th June 2018. This supersedes the 2007 PRMS:

- Entities are free to adopt 2018 PRMS as their internal reporting standard, but there are areas of ambiguity and intent in the interpretation of 2018 PRMS requiring clarification.
- Guidelines (and examples) for application of 2018 PRMS have not been released and are years away!

What will be your entities approach be in the interim?

The 2018 PRMS has not been formally adopted by the reporting entities such as ASX, LSE, AIM, etc.

Until this happens, entities that formally report to external regulators should still use 2007 PRMS :

- We would be surprised if 1-2 year grace period before adoption of the 2018 PRMS is not proposed by the relevant Bourses



Will Changes Affect Your Organization?

The short answer is yes.....

May change Prospective Resource risking thinking...

May limit what has been considered “discovered”...

May change what is considered Contingent Resources vs Discovered PIIP...

May change determination of commerciality....

May make transparent the maturity status of projects considered Contingent Resources...

May require additional technical work to satisfy the technical requirements of commerciality, in addition to the clarity of meeting commercial requirements...

May lead to having zero 1P reserves...

May lead to debooking of overriding royalty volumes.....

Standardization of Qualified Reserves Auditor requirements...

