

## CO2009 BID ASSESSMENT POLICY

The work program valuation methodology used varies from basin to basin and bid round to bid round, depending on prospectivity issues and the area on offer. This document specifies the methodology to be used to select winning bidders for the CO2009 acreage release.

### **Exploration wells**

The well score is discounted to account for timing using standard discount factors for guaranteed and non-guaranteed exploration, (where the bid has not been 'loaded' with non-guaranteed activity – see below). The maximum score is 1.5. Appraisal and development wells score zero.

*Table 1: Discount factors for guaranteed and non-guaranteed work*

Year	Guaranteed exploration	Non-guaranteed exploration
1	1	1
2	1	0.70
3	0.9	0.45
4	0.8	0.40
5	0.7	0.35

Where any non-guaranteed exploration drilling in years 3-5 exceeds the total guaranteed drilling program, a sliding scale of additional discount factors is applied (Table 2). This reduces the effect of an applicant loading bids with non-guaranteed wells in later years.

*Table 2: Discount factors where non guaranteed drilling exceeds twice guaranteed drilling*

Non-guaranteed year	Ng > 2 x g	Ng > 3 xg	Ng > 4 x g	Ng > 5 x g
3	0.3	0.15	0.075	0.04
4	0.3	0.15	0.075	0.04
5	0.25	0.125	0.06	0.03

**Where g = guaranteed program, ng = non-guaranteed program**

**The resulting score = total well score (weq)**

### **Seismic**

Assessment of seismic surveys reflects the value of seismic compared to drilling and also the greater value of full fold 3D surveys relative to 2D surveys.

In frontier blocks, where it is considered that a minimum amount of seismic per well is required to locate a prospect, wells that do not appear to be supported by sufficient seismic per proposed well (e.g. 200 km 2D seismic per well) will result in those wells not being included in the assessment.

The value of each seismic survey is discounted using the following cost factors:

*Table 3: Seismic surveys and cost factors*

Seismic survey type	Seismic cost factor
2D	0.5
Full fold 3D	0.75

**The seismic survey score (weq) = (cost of work x seismic cost factor)/1,000,000**

The seismic survey WEQ scores are then further discounted using the factors in Table 1 and also Table 2 where any non-guaranteed seismic exceeds the total guaranteed seismic.

The sum of all discounted seismic survey scores = **total seismic score (weq)**

**Other data acquisition**

Other data acquisition includes seismic reprocessing, aeromagnetic surveys, geochemical surveys etc. Each of these activities will have the following cost discount factors applied:

*Table 4: Discount factors for other data acquisition*

Type of work	Cost discount factor
Gravity survey	0.01
Seismic reprocessing	0.05
Aeromagnetic survey	0.01
Geochemical survey	0.01

Geological and Geophysical studies is part of normal business operations for a Petroleum Exploration Licence and is not scored.

**The activity score (weq) = (cost of work × cost factor)/1,000,000**

The other data acquisition WEQ scores are then further discounted using the factors in Table 1 and also Table 2 where any non-guaranteed work exceeds the total guaranteed work.

**The sum of all discounted activity scores = total acquisition and reprocessing score (weq).**

**Scoring**

**Total bid score (weq) = total well score + total seismic score + total acquisition and reprocessing score**

Two situations may arise at this point:

- either there is a clear winner (ie bid > 0.3 weq from the nearest other bidder, or
- the two highest bids are regarded as similar (within 0.3 weq of each other).

***Clear winner (difference in bids > 0.3 weq)***

Total bid scores for each bid will be ranked by the BAT. Where there is a clear winning bid, the Director will be informed and will ask the BRT to initiate financial checks.

***Similar bids (difference in bids ≤ 0.3 weq)***

Similar bids are defined as those where total scores are within ± 0.3 weq for a block. If similar bids cannot be separated by financial assessment, extra criteria may be considered in making a recommendation by the BAT:

- the bidder with the highest number of guaranteed wells will be recommended the winner, however,
- if bids are still equal after these tests are applied, then timing and amount of non guaranteed wells and seismic will be used to separate bids. (i.e. to select the best structured technical program).

The BAT will then inform the BRT of the winning bids.

**Financial resources assessment**

Checks on the financial status of the highest ranking applicants are undertaken, with the applicants being classified as “adequate”, “marginal”, or “inadequate”. The financial assessment includes both other licence commitments in SA (or if more than one block is to be offered to an applicant, the commitments in all blocks) and the previous performance in meeting work program

commitments (including a new company with a Director of a previously poor performing company). If the applicant is classified as "inadequate", a report on the likelihood that the capital may be raised, and/or that the work program may be fulfilled is also included.

The BRT reports to the BAT on the bidders status. The BAT makes a recommendation to the Director. Any applicant whose status is classified as "inadequate" may be excluded from being offered the licence, and the second highest bidder may be considered. However, if the company is the only bidder for the block and their financial status is classified as "inadequate", the block may be offered if there is a reasonable likelihood that the capital may be raised, and that the work program may be fulfilled.

**Disclosure of winning bidder**

The identity of the winning bidder is only to be revealed to the Director and BAT after the Director has made a final decision on the winner. The winning bid is released to the public in the licence document, unsuccessful bids are held confidential.