



**IN THE SECOND SESSION OF THE SIXTH PARLIAMENT OF
THE FOURTH REPUBLIC OF GHANA**

REPORT OF THE COMMITTEE ON MINES AND ENERGY

ON THE

**PETROLEUM AGREEMENT AMONG THE GOVERNMENT OF
THE REPUBLIC OF GHANA, THE GHANA NATIONAL
PETROLEUM CORPORATION (GNPC) AND GNPC
EXPLORATION AND PRODUCTION COMPANY LIMITED,
HERITAGE OIL PLC AND BLUE STAR EXPLORATION GHANA
LIMITED**

IN RESPECT OF THE

**OFFSHORE SOUTH WEST TANO BLOCK, OFFSHORE OF THE
REPUBLIC OF GHANA**

JULY, 2014

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OFFSHORE OF THE REPUBLIC OF GHANA**

1.0 INTRODUCTION

The Petroleum Agreement among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC) and GNPC Exploration Production Company Limited, Heritage Oil Plc and Blue Star Exploration Ghana Limited in respect of the Offshore South West Tano Block, Offshore of the Republic of Ghana was laid in Parliament on Wednesday, 16th July, 2014 by the Hon. Minister for Energy and Petroleum, Mr. Emmanuel Armah Kofi Buah in accordance with Article 268 of the 1992 Constitution.

Pursuant to Orders 156 and 188 of the Standing Orders of Parliament, the Agreement was subsequently referred to the Select Committee on Mines and Energy for consideration and report.

2.0 DELIBERATIONS

The Committee met with the Hon. Minister for Energy and Petroleum, Mr. Emmanuel Armah Kofi Buah and his Deputy, Hon. Benjamin Kwaku Dagadu to consider the Agreement. Officials of the Ministry of Energy and Petroleum, the Ghana National Petroleum Corporation (GNPC) and the Petroleum Commission were also in attendance to assist in the deliberations.

The Committee is grateful to the Hon. Minister and his Deputy as well as the Officials for their assistance during its deliberations.

3.0 REFERENCE DOCUMENTS

The Committee was guided by the following documents during its deliberations:

- i. The 1992 Constitution of the Republic of Ghana;

- ii. The Standing Orders of Parliament;
- iii. The Ghana National Petroleum Corporation Law, 1983 (PNDCL 64);
- iv. The Petroleum (Exploration and Production) Law, 1984 (PNDCL 84);
- v. The Petroleum Income Tax Law, 1987 (PNDCL 188);
- vi. The Petroleum Commission Act, 2011 (Act, 821);
- vii. The Environmental Protection Agency Act, 1994 (Act 490);
- viii. The Environmental Impact Assessment Regulations, 1999 (L.I. 1652); and
- ix. The Petroleum (Local Content and Local Participation) Regulations 2013 (L.I. 2204).

4.0 BACKGROUND INFORMATION

Heritage Oil Plc. (“Heritage) and Blue STAR Exploration Ghana Limited (“Blue STAR”) showed interest in the Offshore South West Tano Block after it was relinquished by Tullow Oil and declared opened by the Minister. They visited the GNPC Data room and began a comprehensive review of data covering the block in early February 2014. Having reviewed the data, Heritage and BLUE STAR submitted a formal application to the minister in late February, 2014 .The minister approved application in March, 2014. The Minister approved the application in April, 2014.

Article 268 of the 1992 Constitution requires that all Agreements or Leases involving natural resources shall be ratified by Parliament.

It is in fulfillment of the above constitutional requirement that the Hon. Minister for Energy and Petroleum laid in Parliament the Petroleum Agreement among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC) and GNPC Exploration Production Company Limited, Heritage Oil Plc and Blue Star Exploration Ghana Limited in respect of the Offshore South West Tano Block, Offshore of the Republic of Ghana for its ratification.

5.0 THE APPLICANTS

- 5.1 Heritage oil Plc. is an independent oil and gas exploration and production company. The Company was incorporated in January 1992 as Land and Marine Hydrocarbons Development Limited and the name was changed to Heritage Oil and Gas Limited in June, 1993. It has Premium Listing on the London Stoke Exchange. The Company is member of The FTSE 250 Index and has Exchangeable Shares listed on the Toronto Stoke Exchange.

Heritage Oil Plc. has producing assets in Nigeria and Russia and exploration assets in Tanzania, Papua New Guinea, Malta, Libya and Pakistan. Heritage oil Plc. is the operator in these entire licenses.

Blue STAR Exploration Ghana Limited is a startup company incorporated on 28th June, 2013 in Ghana by an experienced team of Ghanaian upstream professional with background in managing oil and gas development projects in Ghana and abroad. A majority share of the company is owned by Ghanaian citizens.

Heritage and Blue STAR would have equal participation interest each in the venture under an arrangement in which Heritage guarantees the performance obligations of Blue STAR. Heritage and Blue STAR propose the incorporation of a Joint Operating Company (JOC), "GNPC Technical Services Company" to act as operator for the Block.

The technical strength of the JOC, the Operator of the Block, hinges on the technical capacity and expertise of Heritage. The technical expertise therefore of each senior member of the Heritage and Blue STAR teams ranges between 15-30 years, with several senior managers with over 20 years industry experience in deep-water exploration, field development and production. The projects handled by some of these professionals include Jubilee and TEN fields in Ghana and other fields in Angola. Their technical personnel have worked for high profile companies such as BP, Tullow Oil, Schlumberger, PetroCanada and Sonangol.

Heritage is the operator (through Shoreline) for OML 30 which is located onshore Niger Delta in Nigeria. OML 30 comprises eight producing fields with associated infrastructure which includes an 850,000 bpd capacity Trans Forcados pipeline running from the Eriemu Field, within the license, to the Forcados River manifold. OML 30 has a 45% interest in the pipeline.

OML 30 is one of the largest onshore licenses, by reserves, in Nigeria with gross proved and probable reserves of 1.1 billion barrels of oil, as estimated

independently by RPS Energy Consultants Ltd, as at 31 March 2012. OML 30 achieved record peak production of 46,000bopd in September 2013.

Heritage operates four exploration blocks in Tanzania, three of which are considered to be geologically analogous to the Lake Albert Basin in Uganda.

In 2013 Heritage expanded its portfolio into onshore Papua New Guinea through a farm-in to two licenses with an 80% working interest in Petroleum Prospecting License 319 and Petroleum Retention License 13. Heritage also has interests in a producing field in Russia.

In August 2011, Heritage acquired a controlling 51% interest in Sahara Oil Services Holdings Limited (“Sahara Oil”) which owns the entire share capital of Sahara Oil Service Limited in Libya.

5.2 GNPC Exploration and Production Company Limited

Explorco is a subsidiary of GNPC established under the PNDCL 64. It was set up as a key vehicle for transforming GNPC into a fully commercial entity in which Ghanaians would hold commercial interest in exploration and production assets. Per the Agreement, Explorco will hold a commercial interest of 8.8% in the Block.

5.3 The Ghana National Petroleum Corporation (GNPC)

The GNPC is a Public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64). The Corporation by virtue of the PNDCL 84 has the right to undertake exploration, development and production of petroleum over all Blocks declared open for petroleum operations by the Minister for Energy and Petroleum. It is further authorized to enter into association with Contractors for the purpose of exploration, development and production of petroleum by means of Petroleum Agreements.

Accordingly, the GNPC has entered into an association with Heritage Oil Plc. and Blue Star Exploration Ghana Limited for the Block.

6.0 THE INTEREST STRUCTURE

6.1 The interest structure of the partners is as follows:

Explorco, Heritage Oil Plc and Blue Star Exploration Ghana Limited	88%	Participating Interest
GNPC	12%	Initial Carried Interest

The GNPC may elect to have additional paying interest of 13% in the event of discovery of oil in commercial quantities.

7.0 THE CONTRACT AREA

This application covers the recently relinquished portion of the Deep-water Tano acreage, southwest of the Jubilee field operated by Tullow. The proposed Contract Area is about 175 sq.km. It is part of the final relinquish from the original Tullow Deep-water Tano Block. The acreage is located in the Tano Basin, bounded to the north by the Jubilee Field and the Central Tano Block (Amni), to the west by the TEN Field and to the east by part of the West Cape Three Points Block. The size of the available (open) Contract Area is approximately 175 sq km, and lies in water depth ranging from 1,000m to 1900m (see attached map).

8.0 DURATION OF THE CONTRACT AND WORK PROGRAMME

The Petroleum Agreement is for a total of twenty-five (25) years if a commercial discovery is made under Article 23 of the Agreement. However, the Agreement expires after seven (7) years if no commercial discovery is made within that period.

8.2 Work Programme

Article 4 of the Agreement commits the Contractor to a minimum exploration programme in three phases comprising the Initial Exploration Period of Two (2½) years, two (2) years for the First Extension Period and another one and half (1½) years for the Second Extension Period.

8.3 The detailed Work Programme and the minimum financial commitments are as follows:

i) **Initial Exploration Period**

This would last for a period of two and half (2½) years. At this stage, the Contractor would be required to license and reprocess up to 175 km² of existing 3D Seismic Data over the applied Contract Area and drill one (1) Exploration Well. The Contractor's Minimum Expenditure Obligation for the work during this period is Eighty Million United States Dollars (US\$80,000,000.00).

ii) **First Extension Period**

This stage is to last for a period of two (2) years. During this period the Contractor would be required to drill one (1) Exploration Well and expend a minimum expenditure of Eighty Million United States Dollars (US\$80,000,000.00).

iii) **Second Extension Period**

This would last for one and half (1½) years during which the Contractor would be required to drill one (1) Exploration Well and to commit a minimum expenditure of Eighty Million United States Dollars (US\$80,000,000.00).

The exploration operations are required by the Agreement to commence as soon as practicable latest by 60 days after ratification of the Agreement by Parliament.

8.0 RELINQUISHMENT

Under the Agreement, there will be no relinquishment of the Contract Area during the Initial Period. However, at the end of the First Extension Period, the Contractor shall not retain an area exceeding 85% of the Contract Area. At the end of the Second Extension Period, the Contractor would be required to relinquish the remaining Contract Area except for any discovery and/or development and production areas.

9.0 PERFORMANCE BOND

Upon the coming into effect of the Agreement, the Contractor will provide a number of security-guarantees to demonstrate its financial capability to perform its work obligations under the Agreement.

Under the Proposed Agreement, the Contractor shall furnish GNPC with a parent company guarantee to cover all of its performance obligations for the duration of the Petroleum Agreement. Of significance to Contractor's financial capabilities, the Qatari Sovereign Wealth Fund acquired a significant interest in Heritage parent company would guarantee the performance obligations of Blue STAR. Heritage and Blue STAR have also agreed on an arrangement in which the Heritage parent company would guarantee the performance obligations of Blue STAR.

10.0 FISCAL TERMS

In the event of commercial discovery of oil in the Contract Area, the following fiscal benefits will accrue to the State under Article 10 of the Agreement.

10.1 Royalties and other Entitlements

On royalties and other entitlements, the State would benefit from oil and gas production at the rates provided in the Table 1 below.

Table 1: Royalties and other Entitlements under the Agreement

Entitlement	Percentage
Royalty – Oil	12.5%
Royalty - Gas (Domestic)	10%
Royalty – Gas (Export)	10%
GNPC – Initial Carried Interest	12%
GNPC - Additional Interest	13%
GNPC Explorco Commercial Interest	8.8%
Corporate Income Tax	35%

10.2 Additional Oil Entitlements

In the event of commercial oil discovery, the State will receive Additional Oil Entitlements upon the attainment of agreed Rates of Return under Article 10.2 of the Agreement as shown in Table 2 as follows:

Table 2: Additional Oil Entitlements under the Agreement

Rate of Return	Additional Oil Entitlement
<12.5%	0%
≥12.5% ≤ 17.5%	10%
≥17.5% ≤ 22.5%	12.5%
≥22.5% ≤27.5%	20.0%
≥27.5% ≤ 32.5%	25.0%
≥32.5%	30.0%

10.3 Surface Rentals

The Contractor would also pay surface rentals in respect of the remainder of the Contract Area at the beginning of each Contract Year (Article 12) of the Agreement. The details are as shown in Table 3 below:

Table 3: Annual Surface Rentals under the Agreement

Phase of Operation	Annual Surface Rentals
Initial Exploration Period	US\$50/km ²
First Extension Period	US\$100/km ²
Second Extension Period	US\$100/km ²
Development and Production Period	US\$200/km ²

11.0 TRAINING AND TECHNICAL SUPPORT

Under the Agreement, Heritage and Blue STAR shall pay to Explorco a lump sum of Ten Million United States Dollars (US\$10,000,000.00) as technology allowance within 30 days after the effective date of the Agreement. This amount shall be used towards the establishment of a Joint Operating Company (“Technical Services Company”) to be set-up between Explorco, Blue STAR and Heritage to operate oil and gas blocks in Ghana. The Technical Service Company shall then set up programmes in respect of education, training and technology transfer across its petroleum operations in the Republic of Ghana.

In addition to the above sum, Heritage and Blue STAR shall pay a training allowance of Two Hundred and Fifty Thousand United States Dollars (US\$250,000.00) within 30 days of each Contract Year to GNPC.

12.0 LEGISLATIVE AND REGULATORY PROVISIONS

It was noted that new legislations or regulatory changes that will have an impact on the Petroleum Agreement after it has been approved are anticipated (Art. 12.1 &12.2). For example the proposed Petroleum

(Exploration and Production) Bill will modify certain aspects of the Petroleum (Exploration and Production) Law 1984 (PNDCL 84) under which this Petroleum Agreement has been negotiated. Such changes may not apply to this Petroleum Agreement but to subsequent ones after the law comes into force.

Recent legislations that have been enacted and have an impact on the Petroleum Agreement include the Local Content and Local Participation Regulations, 2013 (L.I. 2204), which seeks to maximize the value-addition and job creation, and to develop local capacity as well as the Petroleum Commission Act, 2011 (Act 821) to regulate and manage the utilization of petroleum resources and to co-ordinate the policies in relation to them.

The setting up of the Ghana Gas Company Limited, wholly State entity with the responsibility to build, own and operate infrastructure required for the gathering, processing, transporting and marketing of natural gas resources in the country also changes the existing landscape in the haling of gas under the Petroleum Agreements.

13.0 DECOMMISSIONING AND ENVIRONMENTAL MANAGEMENT FUND

The Petroleum Agreement further makes provision for the establishment of a Decommissioning and Environmental Management Fund for the purpose of decommissioning and environmental management. A portion of the revenues from the production from the contract area will be paid into the Fund and will be used in financing decommissioning and any environmental accidents that may occur in the course of petroleum operations.

As further security and in the event that the money accrued in the Decommissioning and Environmental Management Fund is not adequate to cover costs of decommissioning and any environmental incidents that may occur during operations, the Contractor will be required to take an insurance cover to cater for any shortfall in the Fund.

The Fund will be jointly managed by the Contractor and the GNPC.

14.0 JOINT MANAGEMENT COMMITTEE

Per Article 6 of the Agreement, a Joint Management Committee (JMC) will be established by the GNPC and the Contractor not later than 30 days upon the effective date of the Agreement.

The purpose of the JMC will be to oversee and supervise petroleum operations to ensure full compliance with the Work Programmes and Development Plans. It is also to ensure that cost accounting, expenses and maintenance of records and reports relating to petroleum operations are carried out in accordance with the Agreement and procedures generally accepted in the international petroleum industry.

15.0 OBSERVATIONS

15.1 Improved Fiscal Package

The Committee noted that fiscal terms negotiated have improved substantially over existing Agreements. The royalty rate was increased from 10% to 12.5% when compared with the Amni Petroleum Agreement covering acreage Offshore Southwest Tano Basin with similar water depth and characteristics. The improved fiscal elements under the Agreement give the State approximately 75% to 80% of the net oil depending on profitability of the project (i.e. the total oil produced less exploration, development and production costs).

The Committee found this to be tandem with Ghana's strength as an oil producer, the determination to get more out of the resource endowment and a reflection of the work done by GNPC within the Block. The improved fiscal package would therefore lead to increase in revenues to be generated from petroleum operations in the Block to the State if a commercial discovery is made.

15.2 Same Gas Royalty Rates for Domestic and Export

The Committee observed that the State's 10% royalty share on Natural Gas for domestic natural gas projects was the same for its share on Natural Gas for international gas export projects. The Committee found this to be inconsistent with the State's policy of providing differentials in the gas royalty rates to encourage investors to go into domestic natural gas projects. Furthermore, it noted that the gas royalty negotiated under this

Agreement was different from other Petroleum Agreements currently before Parliament. In view of this observation, it urged the Ministry to be consistent in its policies and in cases of where changes are made, it must endeavour to inform the relevant Stakeholders ahead of time.

15.3 Favourable Dispute Resolution Regime

An important feature of the Petroleum Agreement noted by the Committee was the prohibition against the attachment of Government assets in the case of a dispute prior to the final arbitral award. The Committee found this provision very useful and averred that in light of potential damages associated with petroleum operations, Attachments could cripple the ability of the State and/or GNPC to carry on its Governmental functions and/or business. It further indicated that Attachments can be extremely coercive which may weaken the State's positions during arbitration. Moving forward, the Committee urged the Ministry to make this provision a permanent feature of Petroleum Agreements of the State.

15.4 Ring Fencing of Petroleum Costs

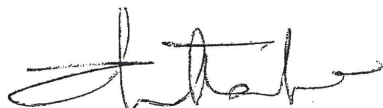
The Committee found that unlike the existing Petroleum Agreements, this Agreement contains a provision that prevents the Contractor from allocating petroleum costs incurred in another Contract Area to the current Contract Area applied for. This provision prevents the reduction in the State's returns on petroleum operations as result of the Contractor allocating petroleum costs of unsuccessful contract areas to the current Block applied for. The Committee accordingly urged the Ministry to make this provision a permanent feature of Petroleum Agreements of the State.

16.0 CONCLUSION

- 16.1 Having diligently discharged its mandate as required by the Standing Orders of the House, the Committee is satisfied with the provisions of the Petroleum Agreement.
- 16.2 It therefore recommends to the House to adopt this Report and ratify the Petroleum Agreement among the Government of the Republic of Ghana, the Ghana National Petroleum Corporation (GNPC) and GNPC Exploration Production Company Limited, Heritage Oil Plc and Blue Star Exploration

Ghana Limited in respect of the offshore South West Tano Block, Offshore of the Republic of Ghana in accordance with Article 268 of the 1992 Constitution.

Respectfully submitted.



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HON. KWABENA DONKOR (DR.)
CHAIRMAN, COMMITTEE
ON MINES & ENERGY

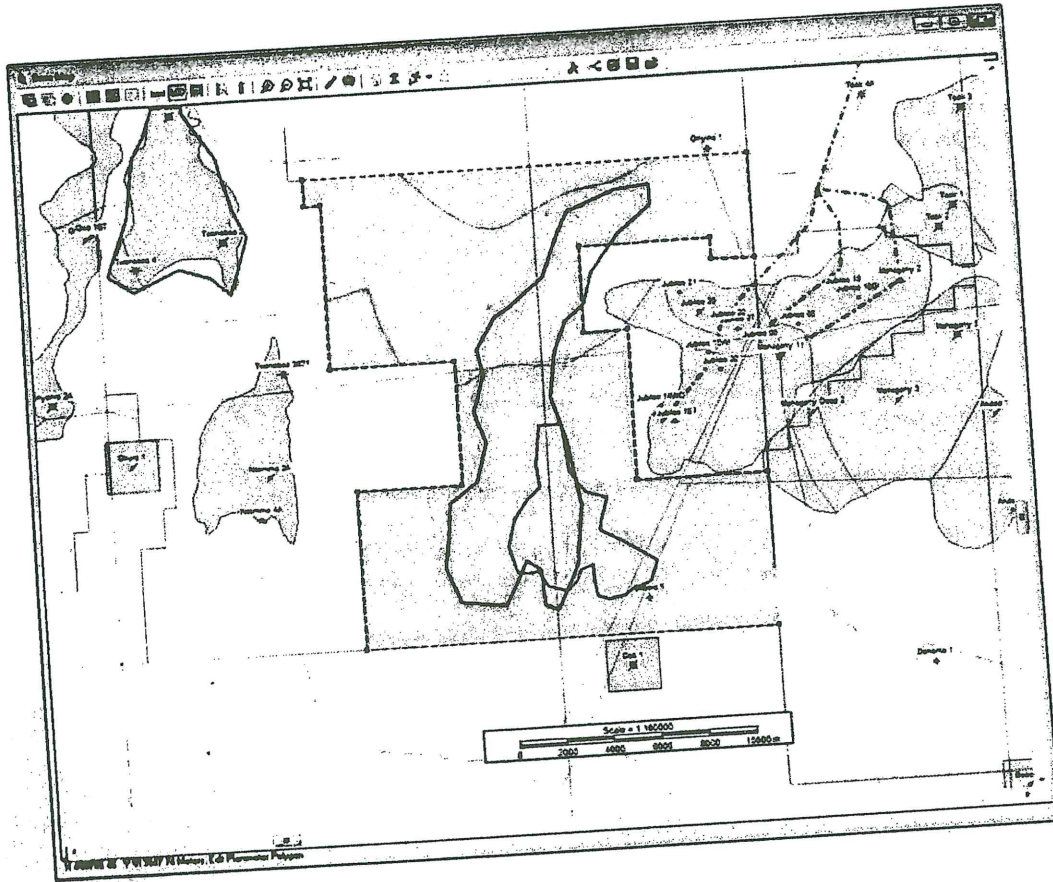


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PEACE FIAWOYIFE (MS.)
CLERK TO THE COMMITTEE

JULY, 2014

ANNEX 1

CONTRACT AREA



X	Y
490299.41	510146.87
509211.16	510146.87
509237.75	505654.73
507404.57	505699.49
507400.68	506607.00
501864.155	506570.0234
501838.8563	502904.3069
503722.6362	502949.0662
503690.8507	496453.7876
509222.8327	496469.356
509236.4551	489852.1247
491860.1415	489812.555
491875.71	496679.5298
496339.3085	496685.368
496304.2795	502001.9867
491003.8779	501966.9577
491013.6082	508987.0221
490311.7315	508972.7511

