

**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

**ULTRA DEEPWATER EAST KETA BLOCK OFFSHORE OF THE
REPUBLIC OF GHANA**

JULY, 2014

**PETROLEUM AGREEMENT AMONG THE GOVERNMENT OF THE
REPUBLIC OF GHANA, THE GHANA NATIONAL PETROLEUM
CORPORATION (GNPC) AND GNPC EXPLORATION AND
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BLUE STAR EXPLORATION GHANA LIMITED IN RESPECT
OF THE ULTRA DEEPWATER EAST KETA BLOCK,
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 Ultra Deep-water East Keta Block, Offshore of the Republic of Ghana was laid in Parliament on Monday, 14th July, 2014 by the Hon. Minister for Energy and Petroleum, Mr. Emmanuel Armah Kofi Buah in accordance with Article 268 of the 1992 Constitution.

Consequent to this, the Petroleum Agreement was referred to the Committee on Mines and Energy for consideration and report pursuant to Orders 156 and 188 of the Standing Orders of Parliament.

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 and other Officials of the Ministry to consider the Petroleum Agreement. In attendance at the instance of the Committee were Officials of the GNPC and the Petroleum Commission to assist in the deliberations.

The Committee is grateful to the Officials for their attendance and for providing clarifications to enrich its discussions on the Proposed Agreement.

3.0 REFERENCE DOCUMENTS

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

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

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

4.0 BACKGROUND INFORMATION

In early February, 2014, Heritage Oil Plc. (“Heritage”) and Blue STAR Exploration Ghana Limited (“Blue STAR”) visited the GNPC Data room and began a comprehensive review of data covering the Ultra Deep-water East Keta Block. Having reviewed the data, Heritage and Blue STAR submitted a formal application to the minister who then referred it to the Standing Government Negotiation Team upon receipt of recommendations from GNPC and the Petroleum Commission. 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.

In fulfillment of the above constitutional provision, it was therefore imperative to seek Parliamentary ratification in accordance with Article 268 of the Constitution to bring the Draft Agreement into effect. Hence, the laying 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 Ultra Deepwater East Keta Block, Offshore of the Republic of Ghana for its ratification.

5.0 THE APPLICANTS

5.1 The Contractor

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 deepwater 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 11.6% 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.

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

6.0 THE INTEREST STRUCTURE

6.1 The interest structure of the partners is as follows:

GNPC Exploration Production Company Limited, Heritage Oil Plc and Blue Star Exploration Ghana Ltd	89%	Participating Interest
GNPC	11%	Initial Carried Interest

The GNPC may elect to have additional paying interest of 9% in the event of discovery of oil commercial quantities.

7.0 THE CONTRACT AREA

The area applied for covers the recently relinquished portion of Ultra Deepwater Keta Block, South Eastern part of the Eni/Afren Keta Block. It is about 2,239 square kilometers. The Location Map is attached as Appendix I.

8.0 DURATION OF THE CONTRACT AND WORK PROGRAMME

8.1 The Petroleum Agreement is for a total of twenty-five (25) years in the event of commercial discovery under Article 23 of the Agreement. However, Article 3 of the Agreement provides for an exploration period of Seven (7) years after which the Agreement stands to expire if no commercial discovery is made.

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 years, two and half years for the First Extension Period and another two and half 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 (2) years. At this stage, the Contractor would be required to reprocess existing 2D Seismic Data and acquire, process and interpret 1500km² of 3D Seismic Data over the over applied Contract Area. The Contractor's Minimum Expenditure Obligation for the

work during this period is Fifteen Million United States Dollars (US\$15,000,000.00).

ii) First Extension Period

This stage is to last for a period of 2½ years. During this period, the Contractor will drill one exploration well and expend a minimum of Seventy-Five Million United States Dollars (US\$75,000,000.00).

iii) Second Extension Period

This would last for two and half (2½) years during which the Contractor will drill one (1) exploration well and to also commit a minimum expenditure of Seventy-Five Million United States Dollars (US\$75,000,000.00).

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

9.0 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.

9.1 Royalties and other Entitlements

On royalties and other entitlements, the State would benefit from oil and gas production at the rates (Article 10.1 of the Agreement) provided in the Table 1 below.

Table 1: Royalties and other Entitlements under the Agreement

Entitlement	Percentage
Royalty – Oil	10%
Royalty - Domestic Gas	6%
Royalty – Export Gas	10%
GNPC – Initial Carried Interest	11%
GNPC - Additional Interest	9%
GNPC Explorco Commercial Interest	11.6%
Corporate Income Tax	35%

The Domestic Gas Royalty of 6% was strategically agreed to provide incentive for the Contractor meet its domestic gas supply obligations.

9.2 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
<15%	0%
≥15% ≤ 20%	5%
≥20% ≤ 25%	15%
25% ≤ 30%	20%
≥30% ≤ 35%	25%
≥32%	30%

9.3 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

10.0 LEGISLATIVE AND REGULATORY PROVISIONS

It was noted that new legislation or regulatory changes that will have an impact on the Petroleum Agreement after it has been approved is anticipated. For example the proposed Petroleum (Exploration and Production) Bill will modify certain aspects of the Petroleum (Exploration and Production) Law 1984 (PNCL 84) under which this Petroleum Agreement has been negotiated. Such changes apply to this Agreement.

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 to the gathering, processing, transporting and marketing of natural gas resources in the country also changes the existing landscape in the hauling of gas under the petroleum agreements.

11.0 TRAINING AND TECHNICAL SUPPORT

To ensure the establishment of programmes to train Ghanaians for work in petroleum operations and also for transfer of management and technical skills required for efficient conduct of petroleum operations, the Contract has committed to make two payments to the GNPC for the stated purpose.

The first is a lumpsum of One Million, Five Hundred Thousand United States Dollars (\$1,500,000.00) as technology allowance to be paid within 30 days after the effective date of the Agreement. The second payment is in respect of the amount of Two Hundred and Fifty Thousand United States Dollars (\$250,000.00) per each Contract Year which will be paid within 30 days after the effective date of the Agreement.

12.0 RELINQUISHMENT

Under Article 5 of the Agreement, the Contractor shall retain one hundred percent (100%) of the Contract Area or sixty-seven (67%) of the Contract Area at the commencement of the First Extension Period. However, if on or before the expiration of the First Extension Period, the Contractor elects to enter into the Second Extension Period, the Contractor shall retain an area not exceeding fifty percent (50%) of the Contract Area at the commencement of the Second Extension Period.

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 the monies 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 PERFORMANCE BOND

Under the 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.

15.0 JOINT MANAGEMENT COMMITTEE

Per Article 6 of the proposed 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.

16.0 OBSERVATIONS AND RECOMMENDATIONS

The Committee made the following observations during consideration of the proposed Agreement.

16.1 Improved Benefits to the State

The Committee noted that the Agreement gives improved benefits to the State in the event of discovery of oil in commercial quantities. It was found that the different fiscal elements under the Draft Agreement will provide the

State an approximate of 67% - 72% of the net oil (i.e. the total oil produced less exploration, development and production costs). This represent an improvement compared to those obtained in previous Petroleum Agreements in the same Basin with similar water depth.

In addition, it was observed that the oil discovery would encourage more exploration and production activities in the Basin which would lead to increased national oil and gas reserves and revenues for the country. Furthermore, a discovery would also lead to employment creation and the establishment of ancillary business by Ghanaians to serve the company's operations.

16.2 Sanctioning Foreign Exchange Transactions

The Committee noted that provisions were made for foreign exchange transactions to be sanctioned by the Bank of Ghana under Article 13 of the Agreement. This, according to the Committee represents marked departure from previous Petroleum Agreements where such provisions were not incorporated. In light of recent foreign currency challenges experienced by the country, the Committee viewed this as an important provision that would assist Bank of Ghana in its monetary policy decisions. It further noted that the arrangement would also enable the Ghana Revenue Authority to monitor receipts of the Contractor in ensuring that the Contractor pays the required taxes on transactions to government.

16.3 Modified Stabilization Clause

The Committee noted with satisfaction that the quality of stabilization clauses found in previous Petroleum Agreements have been significantly modified to the benefit of the State in the Draft Petroleum Agreement.

The Agreement provides that the Contract will comply with all future changes in law and policy which may have effect on fiscal and economic terms of the Agreement. However, there is an avenue for the Parties to renegotiate the fiscal and economic terms where the Contractor considers that a significant change in the circumstances prevailing at the time the Agreement was entered into has accrued to affect the economic balance of the Agreement. In the event of such a request, the onus would lie on the Contractor to establish that a change has occurred and also that the change has materially affected the terms of the Agreement and a further prove of the extent of the effect before the provision for renegotiation could be invoked.

The State stands to benefit by introducing the necessary changes particularly in the event of a significant increase in oil prices where it becomes necessary for the terms of the Agreement to be revised. This would help to ensure that the country derives optimum benefits from its petroleum resources.

16.4 Favourable Dispute Settlement Regime

The Committee further noted that the Agreement makes provision for favourable dispute resolution regime for the purpose of addressing possible conflict that may arise between the State and the Contractor (Article 24 of the Agreement). The Committee was particularly satisfied with the waiver by the parties to seek attachment of assets prior to the determination of final arbitral awards in the event of a dispute (Article 24.12 of the Agreement). This provision was considered very useful in light of potential damages associated with petroleum operations. It was of the opinion that the waiver of the right attachments removes the adverse effects that such actions could have on the State and the operations of the GNPC. Attachments could also be extremely coercive and may weaken the bargaining position of the State during dispute procedures.

16.5 Participation of Explorco

The Committee observed with concern the participation of Explorco in Block which in its view was a risky venture signifying a departure from Explorco's policy of participating in Blocks with greater prospectivity. In response, the Officials of Ministry of Energy and Petroleum explained that even though Explorco's asset in the current block seems to be risky, it does not threaten the overall business portfolio of Company. Hence, Explorco's initial interest is minimal but can be increased in the Block. In addition to reasons informing Explorco's participation, the Officials also added that the current operational capacity of the Operator per the Joint Venture Agreement between the Company and Contractor enables GNPC to acquire technical expertise in line with GNPC's strategy of becoming a stand-alone operator.

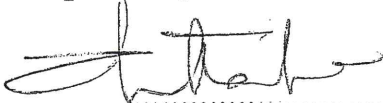
17.0 CONCLUSION

The committee has duly scrutinized the Agreement and is satisfied that the Draft Petroleum Agreement the requirements of the Constitution, the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64), the Petroleum (Exploration and Production) Act, 1984 (PNDCL 84), the

Petroleum (Local Content and Local Participation) Regulations 2013 (L.I 2204) and other relevant laws.

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 in respect of the Ultra Deepwater East Keta Block, Offshore of the Republic of Ghana in accordance with Article 268 of the 1992 Constitution.

Respectfully submitted.



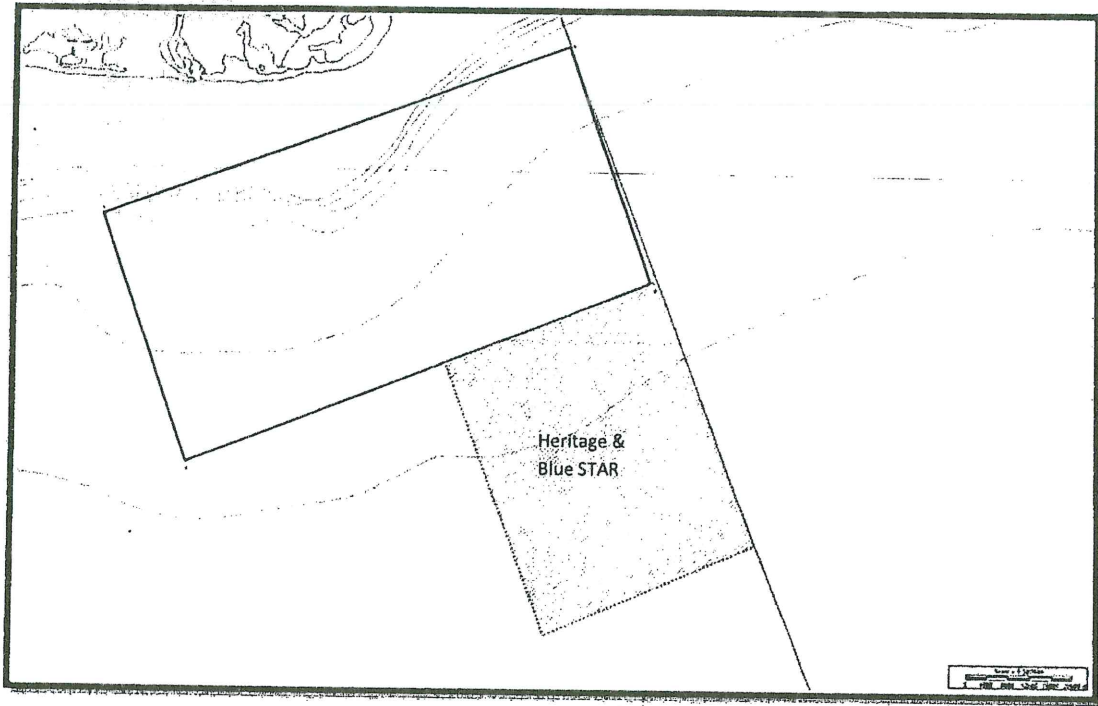
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HON. KWABENA DONKOR (DR.)
CHAIRMAN, COMMITTEE
ON MINES & ENERGY



.....
PEACE FLAWOYIFE (MS.)
CLERK TO THE COMMITTEE

JULY, 2014

HERITAGE & BLUE STAR PROPOSED CONTRACT AREA



COORDINATES FOR THE CONTRACT AREA

X-Coordinate	Y-Coordinate
971410.9449	535500.0587
952941.4448	586083.7773
992328.1392	601611.3373
1010468.142	552498.5888

