



**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 BY AND AMONG THE
GOVERNMENT OF THE REPUBLIC OF GHANA, THE GHANA
NATIONAL PETROLEUM CORPORATION (GNPC), A-Z
PETROLEUM PRODUCTS GHANA LIMITED AND ECO
ATLANTIC OIL AND GAS LIMITED**

IN RESPECT OF THE

**DEEPWATER CAPE THREE POINTS WEST BLOCK
OFFSHORE OF THE REPUBLIC OF GHANA**

JULY, 2014

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ON THE PETROLEUM AGREEMENT BY AND AMONG THE
GOVERNMENT OF THE REPUBLIC OF GHANA, THE GHANA
NATIONAL CORPORATION, GNPC EXPLORATION AND
PRODUCTION COMPANY LIMITED, THE A-Z PETROLEUM
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OIL AND GAS LIMITED IN RESPECT OF THE
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1.0 INTRODUCTION

The Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Corporation, GNPC Exploration and Production Company Limited, the A-Z Petroleum Products Ghana Limited and ECO Atlantic Oil and Gas Limited in respect of the Deep-water Cape Three Point West Block Offshore of the Republic of Ghana was laid in Parliament on Thursday, 17th July, 2014 by the Hon. Minister of Energy and Petroleum, Mr. Emmanuel Armah-Kofi Buah in accordance with Article 268 of the 1992 Constitution.

Following this, the Rt. Hon. Speaker referred the Petroleum Agreement to the Select 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 Officials of the Ministry of Energy and Petroleum and the Ghana National Petroleum Corporation (GNPC) were in attendance to assist in the Committees deliberations.

The Committee is grateful to the Officials for their attendance and for offering clarifications on issues raised at the meeting.

3.0 REFERENCE DOCUMENTS

The Committee referred to the under-listed 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

Since the exploration of hydrocarbons in Ghana in the 1890s, successive Governments have introduced and implemented policies aimed at ensuring full exploitation of the country's petroleum resources.

For the purpose of accelerating the pace of exploration of the hydrocarbon resources of the country, the Ghana National Petroleum Corporation (GNPC) was established in 1983 through the passage of the Ghana National Petroleum Corporation Law, 1983 (PNDCL 64). Subsequent to this, the Petroleum (Exploration and Production) Law, 1984 (PNDCL 84) was enacted to set out the framework for the exploration and production of petroleum resources in Ghana.

The commencement of petroleum production in 2011 further increased the country's resolve to expand its oil reserves by granting licences to exploration and production companies.

It is in furtherance of this and in compliance with Article 268 of the 1992 Constitution that Hon. Minister for Energy and Petroleum laid in Parliament the above mentioned Petroleum Agreement for its ratification.

5.0 NEGOTIATION OF THE AGREEMENT

In July 2011, Hess Exploration Ghana Limited, operator for the Deepwater Tano Cape Three Points (DWTCTP) Block, as required in the Petroleum Agreement, relinquished 30% of the DWTCTP contract area of

approximately 900 sq. km. The area was subsequently declared open by the Minister of Energy & Petroleum and interested companies were invited to review geological and geophysical data over the area.

A-Z Petroleum Products Ghana Limited (“A-Z Petroleum”) and Eco Atlantic Oil and Gas Limited (“ECO”) were among several companies that visited the GNPC Data room to review data over the area. They subsequently submitted a joint application for exploration and production rights over the area (944 sq.km) in July, 2013. Block Application Evaluation Committee (BAEC) evaluated the application and made initial recommendations to the Minister for Energy and Petroleum for consideration. BAEC conducted further evaluation of supplementary documentation A-Z Petroleum and ECO presented in March and May, 2014 and submitted their recommendations to the Minister.

6.0 BACKGROUND INFORMATION OF THE APPLICANT

6.1 A-Z Petroleum

A-Z Petroleum was incorporated on 21st January, 2009 in Accra, Ghana to engage in exploration and production operations in Ghana. The parent company A-Z Petroleum Products Ltd (“A-Z Petroleum, Nigeria”), which was formally called Life Petroleum Company Limited, was incorporated on 28th December, 1994 in Abuja, Nigeria. A-Z Petroleum Nigeria is a member of the Chicason Group of companies, a major industry player in the Oil and Gas Sector of the Nigerian Economy.

A-Z Petroleum is an exploration and production company. Its parent company, A-Z Petroleum Nigeria, is a downstream company working mainly in manufacturing, sale, distribution, marketing, importation, and exportation of lubricants. The parent company has recently focused its attention in the upstream sector and has established an exploration and production arm that has acquired blocks in Kenya and Burundi.

Petro Gulf Limited, an indigenous Ghanaian company holds 5% equity in the concession, thus satisfying Sub regulation 4(2) of the Petroleum (Local Content and Local Participation) Regulations 2013, (L.I. 2204)

6.2 Eco (Atlantic) Oil and Gas Ltd

Eco Atlantic Oil and Gas was established on November 25, 2011 in British Columbia, Canada. It was formerly known as Goldbard Capital Exploration, incorporated on June 11, 2007 in Ontario, Canada.

Eco (Atlantic) Oil and Gas Ltd is a new emerging oil and gas company that holds three license blocks covering more than 25,000 square kilometers (6,177,000 acres) offshore, and two license blocks covering 30,000 square

kilometers (7,413,000 acres) onshore in Namibia. ECO has majority interest in these licenses, and jointly operates technically with Kinley Exploration LLC. Kinley Exploration LLC has a sizeable work force that is specialized in upstream exploration management and with extensive project execution expertise. Kinley's technical services are provided through their office in the USA and supported by the corporate office in Toronto, Canada.

If the Ghana venture is successful, the block will be jointly operated by ECO and Kinley Exploration. The two companies have signed a Technical Services Agreement through which technical operations will be executed.

6.3 GNPC Exploration and Production Company Limited (Exploco)

GNPC Exploration and Production Company Limited is a wholly owned subsidiary of GNPC with the mandate to carry out exploration and Production operations. It currently holds 26.7% and 25% participating interest in the South Deepwater Tano ("SDWT") Petroleum Agreement with AGM Petroleum Ghana Limited and Expanded Shallow Water Tano Petroleum Agreement with Camac Energy Ghana Limited respectively. Explorco and AGM have formed a joint operating company that is the operator of the SDWT block.

6.3 The Ghana National Petroleum Corporation (GNPC)

The GNPC is a Public Corporation established by the Ghana National Petroleum Corporation Act, 1983 (PNDCL 64). By virtue of the PNDCL 84, the Corporation is authorized to undertake exploration, development and production of petroleum either alone or in association other Exploration and Production Companies.

7.0 THE CONTRACT AREA

The proposed contract area is approximately 944 sq. km, and lies in a water depth between 800m and 2000m. The block is located in the Tano-Cape Three Points (T-CTP) Basin and shares an eastern boundary with the former OCTPS block, a northern boundary with the Eni Cape Three Points Block, and a western boundary with the Hess Deep Water Cape Three Points Block. The Contract area was previously licensed to Hess and Eni. (See attached map)

8.0 INTEREST STRUCTURE IN THE BLOCK

The interest of the each participating company in the block applied for is as indicated in Table 1 below:

Table 1: Interest Structure of Participating Companies

Company	Participating Interest (%)
A-Z	27.14
ECO	50.51
Petro Gulf	5.0
Explorco	4.35
GNPC	13.0

9.0 DURATION OF THE CONTRACT

The Petroleum Agreement is for a total of 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.

10.0 WORK PROGRAMME AND MINIMUM EXPENDITURE OBLIGATIONS

Article 4 of the Petroleum Agreement provides for the Exploration Period of seven (7) years. The subdivision of the exploration period and the accompanying Work Programme and Minimum Expenditure Obligations as provided as follows:

10.1 Initial Exploration Period (2½ years)

During this period, the Contractor has undertaken to license existing 3D Seismic and Well Data over applied area of about 850 square kilometers, reprocess 850 square kilometers of 3D Seismic Data, drill one (1) Exploration Well and Conduct geological and geophysical studies.

The Minimum Expenditure Obligation to be expended by the Contractor to carry out the work in the Initial Exploration period is Sixty-Five Million United States Dollars (US\$65,000,000).

10.2 First Extension Period (2 years)

During this period contractor will acquire 300 square kilomentres of new 3D Seismic Data, and drill one (1) Exploration Well.

Contractor's Minimum Expenditure Obligation for the work in the First Extension Period is Sixty-Five Million United States Dollars (US\$65,000,000).

10.3 Second Extension Period (1 ½ years)

The Contracted has committed during this period to drill one (1) Exploration Well.

The Minimum Expenditure for this period is Sixty-Five Million United States Dollars (US\$65,000,000).

11.0 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.

11.1 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 2 below.

In the event of commercial discovery in the proposed contract area, the following fiscal benefits will accrue to the State from the Agreement:

Table 2: Royalties and other Entitlements under the Agreement

Entitlement	Percentage
Royalty – Oil	12.5%
Royalty – Gas (Domestic)	10%
Royalty – Gas (Export)	10%
GNPC Carried Interest	13%
GNPC Additional Interest	20%
GNPC Explorco Commercial Interest	4.35%
Corporate Income Tax	35%

12.2 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 3 as follows:

The State will receive Additional Oil Entitlement upon the attainment of agreed rates of return as follows:

Table 3: Additional Oil Entitlements under the Agreement

Rate of Return	Additional Oil Entitlement
< 12.5%	0%
≥ 12.5% ≤ 17.5%	10%
≥ 17.5% ≤ 22.5%	15%
22.5% ≤ 27.5%	20%
≥ 27.5% ≤ 32.5%	25%
≥ 32.5%	30%

12.3 Surface Rentals

The Contractor shall also pay to the State surface in respect of the Contract being applied for as follows:

Table 3: Annual Surface Rentals under the Agreement

Exploration and Development Phase	Surface Rentals per annum
Initial Exploration Period	US\$50/sq km
First Extension Period	US\$100/sq km
Second Extension Period	US\$100/sq km
Development and Production Period	US\$200/sq km

13.0 RELINQUISHMENT

Contractor shall take a decision within a year of effectiveness of the Petroleum Agreement to acquire new 3D seismic data which entitles the Contractor to two options to the relinquishment in the Initial Exploration period. The options are as follows:

1. Where Contractor makes a decision to acquire new 3D seismic in excess of 300sq.km, Contractor shall relinquish 20% of the original Contract Area for the Initial Exploration Period.
2. Where Contractor makes a decision not to acquire additional 3D seismic data, the Contractor shall relinquish 30% of the original Contract Area for Initial Exploration period.

After the First Extension Period Contractor shall relinquish twenty per cent (20%) of the remaining Contract Area and at the end of the Second Extension Period Contractor shall be required to relinquish the remaining Contract Area except for any discovery and/or development and production area.

14.0 DECOMMISSIONING AND ENVIRONMENTAL MANAGEMENT FUND

Provision is made in the Petroleum Agreement for the establishment of a decommissioning and environmental management fund which will be managed by the contractor and GNPC. A portion of the revenues from the production from the field will be set aside to build up fund to be used in financing the decommissioning plan and any environmental accidents that may occur in the course of petroleum operations.

As further security, in case the monies accrued in the Decommissioning and Environmental Management Fund is not adequate to cover the cost of decommissioning or any environmental incident that may occur the contractor is required to take an insurance cover to cater for any shortfall in the Decommissioning Fund.

15.0 PERFORMANCE BOND

The Contractor in demonstrating its financial capability shall within ninety (90) days after ratification of the Petroleum Agreement furnish GNPC with a Performance Bond/Guarantee from an entity with an Investment Grade credit rating acceptable to GNPC. The credit rating should be from Moody's Standard & Poor's (S&P), or Fitch. The Performance Bond/ Guarantee shall have a value of Sixty-Five Million United States Dollars (US\$65,000,000) for the Minimum Expenditure Obligation for the Initial Exploration Period.

16.0 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 Contractor has committed to make two payments to the GNPC for the stated purpose.

A one-time payment of Two Million United States Dollars (\$2,000,000.00) shall be paid by the contractor as technology support to GNPC within 30 days after the effective date of the Agreement.

The contractor shall pay to GNPC a training allowance of One Million Two Hundred and Fifty Thousand United States Dollars (\$1,250,000.00) per Contract Year.

17.0 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 are anticipated. For example the proposed Petroleum (Exploration and Production) Bill may modify certain aspects of the Petroleum (Exploration and Production) Law 1984 (PNDCL 84) under which this Petroleum Agreement has been negotiated. Such changes will apply to this Petroleum 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 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.

18.0 OBSERVATIONS

The Committee made the following observations during consideration of the Draft Agreement:

18.1 Improved Benefits to the State

The Committee noted that in the event of a commercial discovery of oil and gas, significant revenue will accrue to the State from the different fiscal terms negotiated. It observed that even though the royalty rate of 12.5% remains the same when compared to recent Agreements within the same basin, there were marked improvements in the Additional Oil Entitlement when the company achieves the agreed rate of return of 12.5%. This provision enables the State to participate in profits in excess of the company's expected risk adjusted rate of return of 12.5%. The Committee viewed this to be consistent with Ghana's strength as an oil producer, the determination to get more out of the oil and gas resource.

18.2 Improvement in the Joint Management Committee Structure

The Committee noted that the Petroleum Agreement makes provision for the effective participation of the GNPC in the management of petroleum operations with respect to the Block. Under Article 6.2 of the Agreement, the Joint Management Committee (JMC) will oversee, supervise and approve all petroleum operations will be composed of two (2) representatives of GNPC and two (2) representatives of the Contractor with the Chairperson designated by GNPC. According to the Committee, this provision empowers GNPC to control spending and ensure that all approved work programme and development plans are complied with. The Committee urged GNPC to utilize the opportunity to enhance its capacity and also ensures that the State's interest remains paramount at all times.

18.3 Improvement in Training and Technology Support

The Committee further noted marked improvements in the technology and training allowances of Two Million United States Dollars (US\$2,000,000.00) and One Million, Hundred and Fifty Thousand United States Dollars (US\$1,250,000.00) negotiated in previous Petroleum Agreements. This, the Committee stated that if put to judicious use and for the intended purpose, it would assist in enhancing the capacity of GNPC to compete favourably with industry players. In addition, the Committee observed and tasked the Minister to ensure that such allowances are utilized to train Ghanaians as provided for by PNDCL 64. The Committee noted the need to train Ghanaians in critical technical areas of the geosciences, instrumentation and petroleum engineering. The need for transparent stewardship of such training funds was emphasized.

18.4 Inclusion of Provisions on Intellectual Property

Under the Agreement, the Committee noted that new intellectual property provisions have been introduced to give GNPC joint ownership rights in all inventions, discoveries or improvements made or conceived in connection with petroleum operations either through the Contractor Party's employees or sub-contractors. The Committee found the provisions to have reinforced GNPC's mandate under the Ghana National Petroleum Corporation Law of 1983 (PNDC L 64) to "obtain the effective transfer to Ghana of appropriate technology relating to petroleum operations". The Committee opined that access to such rights would improve GNPC's technical capabilities in line with its vision of attaining operatorship ability within the shortest possible time.

19.0 CONCLUSION

The Committee is satisfied the Agreement will be in the interest of the State and also meets the requirements of laws relating to petroleum exploration and production in the country.

The Committee therefore recommends to the House to adopt this Report and ratify this Petroleum Agreement by and among the Government of the Republic of Ghana, the Ghana National Corporation, GNPC Exploration and Production Company Limited, the A-Z Petroleum Products Ghana Limited and ECO Atlantic Oil and Gas Limited in respect of the Deep-water Cape Three Point West 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

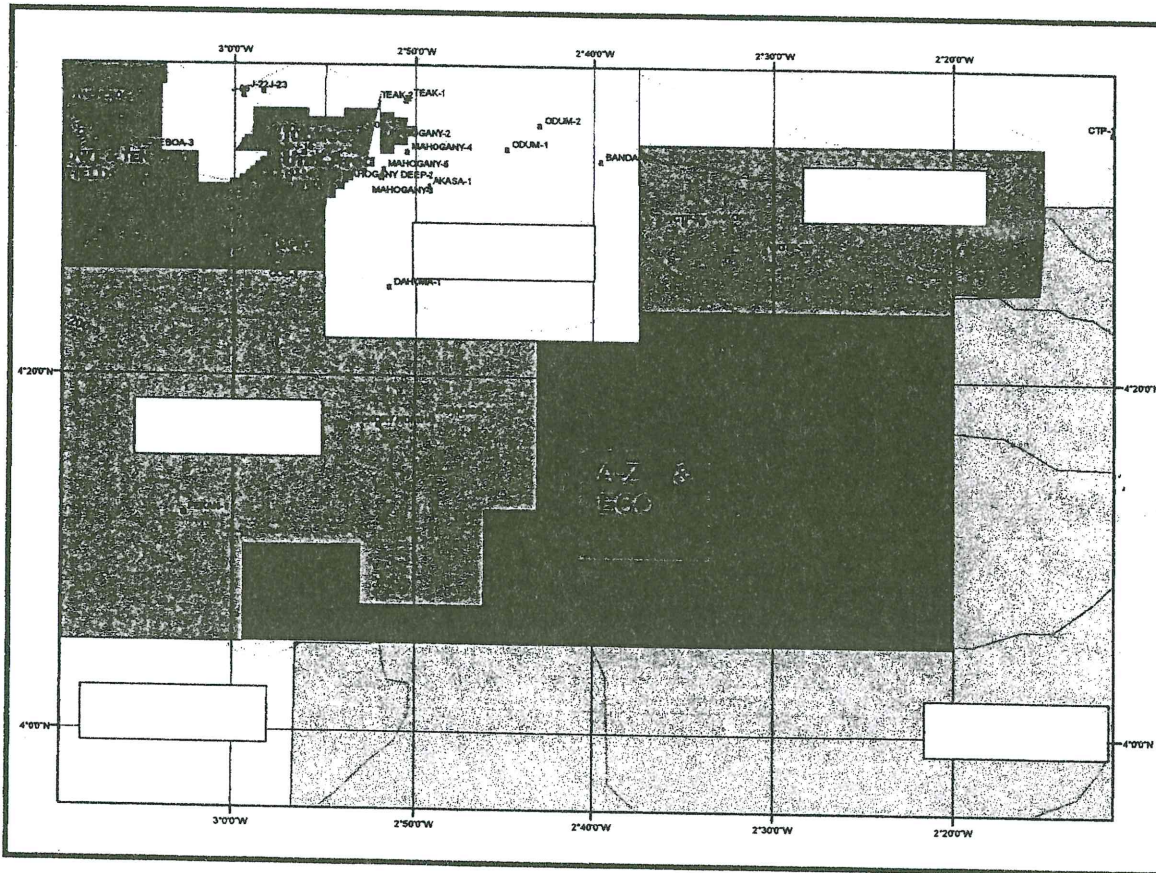


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PEACE FLAWOYIFE (MS.)
CLERK TO THE COMMITTEE

JULY, 2014

ANNEX 1

CONTRACT AREA



	X	Y
0	531209.794	482919.447
1	541628.457	482919.447
2	541628.457	486045.046
3	551966.977	486125.190
4	552447.838	451342.884
5	501075.814	451423.027
6	501075.814	461521.116
7	512776.775	461601.260
8	512856.918	455430.205
9	525679.888	455430.205
10	525840.175	465368.007
11	531209.794	465448.151

ACREAGE: 944 SQ.
KM.

