in association with

NIGERIA EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

PROCESS AUDIT 1999-2004

THE PROCESS OF LICENSING

Presented to
The National Stakeholder Working Group

by

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The report and all appendices relating to the report are intended for the use of the National Stakeholder Working Group of the NEITI for the purpose of that initiative and are not to be relied upon by other parties.

CONTENTS

1 INTRODUCTION

This Process Review examines the current Nigerian oil and gas regime and licensing policy, compares them with the situations in the United Kingdom and Norway and identifies areas where improvements may be made. In order to complete this section the following work was performed.

Nigerian petroleum legislation relating to licensing matters was reviewed.

Documentation issued by the Directorate of Petroleum Resources ("the DPR") for the 2005 Bidding Round was reviewed, together with the results of the Round and the comments of certain parties who observed the Round at first hand.

Companies that participated in the Round, IOC's and indigenous, successful and unsuccessful, were approached to provide their reactions to the Round. The companies approached were also asked to provide comments on the manner in which Nigerian petroleum legislation is implemented in practice.

Relevant parts of the petroleum legislation of the United Kingdom and Norway, together with the licensing policy of the two countries, were analysed as comparators.

Aspects of Brazilian Rounds 6 and 7 of 2004 and 2005 respectively, the Libyan EPSA IV Bidding Round of 2004 and Federal lease auctions in the U.S.A. were also reviewed.

2 EXECUTIVE SUMMARY

This review describes the current licensing regime in Nigeria and compares it with the United Kingdom and Norway.

The 2005 Bidding Round is reviewed and issues relating to licensing and arising out of the Bidding Round discussed. These include:

- Criteria for new licensees
- Licensing and the availability of data
- Transparency in bidding criteria
- Prequalification issues
- Basins and licensing rounds
- Signature bonuses and other bidding parameters
- The role of the model PSC
- Local Content Vehicles

Final conclusions and recommendations are set out in section 6. These include:

- Following consultation with industry, updating the Petroleum Act to take account of perceived omissions (gas), ambiguities and lack of clarity (assignments, relinquishments, conversion of OPL's).

- Absorbing the Lessons of the 2005 Bid Round:

- the necessity of adherence to the declared Bid Round Schedule by ensuring that all necessary elements are in pace at the time the bidding round is announced.

- Pre-qualification issues: tighten pre-qualification criteria to eliminate unsuitable companies; reduce the administrative burden on the DPR by allowing pre-qualification out of round as well as part of the bid round process; pre-qualify local content vehicles ahead of bidding rounds to allow operators to perform thorough due diligence; and maintain a publicly accessible list of pre-qualified companies.

- Transparency in the bidding process: reduce the bidding criteria to a market biddable signature bonus and local content.

- Database issues: improve the quality and quantity of publicly available data to facilitate transfers of licences and provide transparency in the bidding process.

- Model production sharing contract: develop a model PSC in conjunction with industry which should be executed by a successful bidder without alteration.

- Signature bonuses: they should be market biddable and supported by "earnest money" in the form of a certified cheque or bank draft which is forfeited in the event that a successful bidder fails to pay the bonus in full and on time.

- Local Content Vehicles: they should be pre-qualified ahead of the bidding round; make available to operators relevant corporate, financial and technical information; and be required to give specific undertakings with respect to their ability to finance their participating interest in licences. Consultation between the DPR and industry to clarify operators' continuing obligations.

3 THE NIGERIAN OIL & GAS LICENSING REGIME

3.1 Legal Basis of the Licensing System

The Federal Republic of Nigeria possesses a considerable body of legislation relating to all aspects of the petroleum industry, both upstream and downstream. The concession regime was established by the Petroleum Act 1969 which established the principle that "the entire ownership and control of all petroleum in, under or upon …all land (including land which is covered by water) which (a) is in Nigeria; or (b) is under the territorial waters of Nigeria; or forms part of the Continental Shelf."

For the purposes of effecting the exploitation of such petroleum the Minister of Petroleum Resources is empowered by the Act to grant Oil Exploration Licences (now fallen into disuse), Oil Prospecting Licences and Oil Mining Leases. However, in practice the Department of Petroleum Resources acts as the day to day regulatory authority in all matters pertaining to licence and lease issues.

The First Schedule to the Act goes on to define in greater detail the rights and obligations relating to, and the administration of, these contractual instruments between individual entities and the State.

It should be noted that the Petroleum Act consistently uses the term "oil" in a way that is now anomalous, given the increasing importance of gas production in the Nigeria.

3.2 The Licences and Leases

The licensing system for the national territory of the Federal Republic of Nigeria varies depending on whether the licence area in question applies to:

(i) the Deep Offshore areas (water depths beyond 200 metres) and Inland Basin areas (the Anambra, Benin, Benue, Bida, Chad, Gongola and Sokoto basins, together with such other basins as the Minister may designate from time to time);

(ii) the Onshore and Shallow Water areas.

Oil Exploration Licence (PA, Sch.1, 1-4)

The Oil Exploration Licence can be granted for a limited period and does not confer upon the holder any exclusive rights with respect to the licence area, nor to the grant of an Oil Prospecting Licence or an Oil Mining Lease. Over a period of time Oil Exploration Licences have fallen into disuse and speculative seismic is now acquired under a form of consent granted by the DPR.

Oil Prospecting Licence ("OPL") (PA Sch.1, 5-7)

The OPL confers upon the holder the exclusive right to explore for oil within the defined area of the Licence and to dispose of any petroleum won during prospecting operations, subject to any royalty or Petroleum Profit Tax obligations to which the holder may be subject. Originally the duration of an OPL was determined by the Minister, subject to a maximum period of five years.

The current situation is as follows:

(1) Onshore and shallow water areas: the term of the OPL may not exceed five years, divided into terms of three and two years.

(2) Deep offshore and inland basin areas: the term of the OPL may not exceed ten years, divided into two terms of five years.

Oil Mining Lease ("OML") (PA Sch.1, 8-12)

An OML may only be granted to the holder of an OPL who has both satisfied all the conditions imposed upon the OML or on him by the Petroleum Act and has discovered oil in commercial quantities, defined in the Act as minimum daily production of 10,000 bopd.

The OML confers on the holder the exclusive right within the lease area to conduct exploration and prospecting operations and to "win, get, work, store, carry away and transport, export or otherwise treat petroleum discovered in the lease area."

The term of an OML may not exceed twenty years and after ten years of the lease term one half of the area of the lease must be relinquished. The area to be retained must be approved by the Minister.

3.3 Allocation of OPL

The Petroleum (Drilling and Production) Regulations, which deal largely with operational matters, also set out the requirements for a licence application. It must be in the prescribed form and accompanied by, inter alia, the following: the appropriate fee, a map and description of the boundaries, evidence of financial status and technical competence, details of the work programme offered by the applicant, the date of which operations will commence, the scheme proposed for the recruitment of Nigerian nationals, evidence of the applicants ability to market crude oil and the annual reports for the three preceding years covering oil exploration and production activities.

3.4 Assignment of OPL and OML (PA Sch.1, 14-16)

The assignment of an OPL or OML requires the consent of the Minister, who may not give his consent unless he is satisfied that:

(i) the assignee is of good reputation;

(ii) there is likely to be available to the proposed assignee itself or affiliated companies "sufficient technical knowledge and experience and sufficient financial resources to enable him effectively carry out a programme satisfactory to the Minister in respect of licence or lease operations" ; and

(iii) the proposed assignee is "in all other respects acceptable to the Federal Government".

It is to be noted that requirements (i) and (iii) possess a degree of subjectivity that may cause a measure of unease to a potential investor.

The Petroleum (Drilling and Production) Regulations supplement the above by providing that an application to assign a licence or lease must be made to the Minister in writing and accompanied by all the information required of an application for a new licence (see section 3.3).

3.5 Conversion of OPL to OML

The Petroleum Act does not prescribe a procedure for the conversion of an OPL to an OML.

Practice is that a letter requesting the conversion and confirming that the statutory level of production (10,000bopd) has been attained, together with details of the fifty percent of the licence area (map and coordinates etc.) to be relinquished, and the appropriate fee.

The Petroleum (Drilling and Production) Regulations does, however, provide that the part retained must be in compact blocks or units and, where more than one block or unit is retained, each block or unit or unit shall be the subject of a distinct lease. The prior agreement of the DPR with respect to the shape and size of the retained area must be obtained before an application can be submitted. These are typical requirements of international petroleum legislation and are designed to prevent the shape of the relinquished acreage from being unattractive to new applicants.

3.6 Termination of OPL and OML (PA Sch.1, 17)

The holder of an OPL or OML may, at any time, terminate his licence or lease by giving three months notice to the Minister to this effect. He may also, by giving three months notice to the Minister to this effect, surrender the OPL or OML in respect of any particular part of the licensed or leased area (a procedure known as "relinquishment"). In this case, as is customary in the industry, the shape and size of the area to be relinquished must be approved by the Minister.

In either case, no rental payments already made may be refunded and termination does not relieve affect the holder of obligations or liabilities that have accrued before the date of termination.

3.7 Revocation of OPL and OML (PA Sch.1, 23)

The Minister may revoke an OPL or OML if in his opinion the holder:

(i) is not conducting operations continuously and in a vigorous and businesslike manner and in accordance with good oilfield practice;

(ii) is failing to comply with the Petroleum Act, regulations thereunder or the terms of his OPL or OML;

(iii) fails to pay the prescribed rental fees or royalties whether or not demanded by the Minister;

(iv) fails to submit the operational reports prescribed by the Minister.

Again, it is to be noted that the phrase "in a vigorous and businesslike manner" is more subjective than the other criteria set out in the Act. Otherwise, this provision reflects international petroleum practice.

In addition the Minister has the power to revoke an OPL or OML if the holder becomes controlled directly or indirectly by a national of, or company incorporated in, any country which is:

(a) a country other than the holder's country of origin; and

(b) a country the laws of which do not permit Nigerian nationals or companies to acquire and operate petroleum concessions on conditions which, in the Minister's opinion, are reasonably comparable.

3.8 OML: Extension of Lease Period

The holder of an OML may, not less than 12 months before the expiration of the lease, apply to the Minister for the renewal of either all or part of the leased area. Such renewal must be granted provided the lease holder has paid all due rent and royalties and fulfilled his obligation under the lease (cf. extensions granted by the DTI in the United Kingdom: see section A2.6)

3.9 Interpretation & Implementation of the Petroleum Act

The Petroleum Act contains relatively straightforward provisions with respect to the transfer, revocation, termination and extension of licence/lease rights. Subject to the comments below, IOC's interviewed expressed general satisfaction with the legislation and regulations. Most of the issues arising stemmed from the age of the Act and the broad brush manner in which the legislation is drafted.

The main focus of the Act, a direct result of the state of the petroleum sector in Nigeria at the time it was drafted, is oil rather than gas. As a result there is no provision in the Act[1] for the conversion of an OPL to an OML when gas alone, unaccompanied by oil, is discovered. Nor do PSC's resolve the matter as they typically provide that when gas is discovered the licensee will have "the right to participate" in the development of the discovery, without specifying what form such participation may take.

[1] DPR comment: Conversion is implied in the Act, as on OML can only be given to a holder of an OPL.

The Act does not reflect the current policy of the allocation of licences by way of competitive bidding and leaves open the possibility of a return to the discretionary allocation of blocks.

The Act does not reflect the current move towards the use of PSC's as the form of contractual instrument favoured by the DPR.

The provisions of the Act with respect to assignment could be clarified further. The Act provides for the assignment of rights and interests in OPL's and OML's without defining what constitutes an "interest".

Relinquishment of acreage is another area of uncertainty. It is unclear whether a lease owner, when relinquishing the statutory 50% of the area of an OPL, is obliged to relinquish areas where there are producible quantities of oil.

There appears to be no settled procedure, guidelines or standardised documentation for the conversion of an OPL to an OML[2] (see, however, section 3.5 for the practice that appears to have been adopted by most companies). Much is at the discretion of the Minister and has been described by one company as "a shifting tableau". One company commented that the process of conversion is so slow that it is not unknown for production to continue for up to a year without a valid OML and only by virtue of the PSC[3].

For recommendation with respect to these issues see section 6.1 below.

[2] DPR commented that companies have been informed that they should apply for an OML one year before the OPL is due to expire.
[3] DPR commented that this is not possible, as no company, other than NNPC, may produce from an OPL.

4 LICENCE BIDDING ROUNDS

4.1 Pre-2005 Bidding Rounds

A number of rounds had been held prior to the 2005 Bidding Round. These included:

- Discretionary Allocations (sole risk)
- 1990 Licensing Round
- 1993 Licensing Round
- 2000 Round
- 2002 mini-bid Round
- 2001 Marginal fields round (indigenous)
- 2003-2004 PSC Back-in Rights (not a round, but a regulation)

4.2 2005 Bidding Round

The 2005 Nigerian Oil Block Bid Round was announced in January 2005. The Director of Petroleum Resources, addressing a NEITI Workshop in Lagos following completion of the 2005 Bid Round, stated that one of its objectives was to reinforce Nigeria's commitment to transparency and the principles of NEITI by modelling transparency in the Block award process on well-considered international models such as Brazil, the United Kingdom and Norway. To this may be added the 2004 Libyan Round EPSA IV, which was well received with respect to the integrity of the bidding process and successful from the standpoint of the host government.

4.3 2005 Licensing Round Schedule

Bidding Documentation (Guidelines etc) was issued in January, 2005. A website and roadshows were initiated in March/April (scheduled February/March). Technical qualification of bidders took place in June/July (scheduled May/June). The advertisement of Local Content Vehicles (see below) and Strategic Downstream Partners to bidders took place in July/August (scheduled June/July). The Bidding Conference took place in August. The posting of performance bonds, finalisation of contracts and the payment of signature bonuses took place between September 2005 and February 2006 (scheduled August to mid-November 2005).

Although there was some slippage, the schedule is broadly in line with that employed in the EPSA IV and Brazil Round 7. Divergence mainly occurs in the period between award and signature of the

Refer to Appendix 1 for 2004 Libyan Round EPSA IV and Brazil's 2005 Round 7.

4.4 2005 Guidance Information

The document entitled "Guidance Information for Prospective Bidders of the Year 2005 Licensing Round" established the main parameters of the Round.

The State would allocate acreage (licences) to operators in any such areas deemed to have potential for petroleum accumulations at the discretion of the Minister of

Petroleum Resources. The allocations would be based on a set of criteria made known to qualified and deserving companies at the time such blocks are open for bidding.

Concessions would be allocated to Operators based on an open and competitive bidding process. This represented a significant departure from previous practice in Nigeria. Companies that participated in the Rounds listed in section 3.9 above did not view them as fully competitive and transparent.

Concessions or licences would be granted only to a company incorporated in Nigeria under the Petroleum Act or any corresponding law without prejudice and the company must be registered solely for activity in the petroleum business.

The Minister of Petroleum Resources retained the right to decide if the State were to participate in petroleum activities through its agents in any block in accordance with the provisions of the Petroleum Act and the Deep Water block allocation to Companies (Back-in-Rights) Regulations 2003.

Any one of the following may, at the Minister's sole discretion, be selected and employed as the appropriate contractual instrument upon final award:

1. Concession (sole risk) agreement.
2. Joint venture agreement.
3. Service contract.
4. Joint operating shareholding agreement (between investors)
5. Production Sharing Contract.

Of the above the only the fifth is currently in use. The Information Guidelines stated that it was the preference to award all blocks under production sharing contracts. Consequently, it is expected that over a period of time the remaining forms of contract will in effect "wither on the vine" through disuse.

Evaluation of the bids consisted of the examination of all documentation relating to the legal and financial details of the bidder, and the technical and commercial evaluations.

Technical Evaluation

This was intended to analyse and weight the technical capacity and competence of the bidder. A bidder could qualify as either operator, non-operator or both, and as an operator in some zones and a non-operator in others.

Operators fell into one of three categories: a Class A operator, Class B operator or Class C operator. Class A operators were those qualified to operate in the in the deep offshore and frontier inland basins. Class B operators were those qualified to operate in the shallow water areas of the Niger Delta, the inland basin and onshore. Class C operators were those qualified to operate the shallow water areas of the Niger Delta and onshore only.

Commercial Evaluation

According to the 2005 Guidance Information only technically pre-qualified operators were entitled to be designated operator on the basis of their commercial submission. The commercial submission consisted of four elements: signature bonus, work programme, local content and the cost oil recovery ceiling.

(1) Signature bonus: this had to equal or exceed a prescribed minimum. The weighting ascribed to this bid element was forty percent, achieved by bids of twice or more than the prescribed minimum.

(ii) Work programme commitment: this was expressed both as a quantity and value of seismic and drilling activity, had to equal or exceed a prescribed minimum. This bid element was ascribed a weighting of twenty percent.

(iii) Cost oil recovery ceiling: this was evaluated on the basis of bids of eighty percent or less, the maximum being scored by bids of seventy percent or less. This bid element was ascribed a weighting of twenty percent.

(iv) Local content element: this was evaluated on the basis that bidders should reserve to LCV's ten percent of work commitment activity in the case of the deep offshore blocks and thirty percent of work in the case of the Niger Delta and Inland Basins. Bids were ranked according to the percentage of work commitment pro rated below the prescribed maximum.

5 LICENSING AND BID ROUND ISSUES

5.1 Criteria for New Licensees

The Nigerian Petroleum Act sets out in very general terms the criteria that licensees are required to meet. However, it does so only in the context of a licence assignment, not an initial award, although logically the two should be identical. The assignee must be "of good reputation" (capable of a high degree of subjective interpretation). There must be likely to be available to the proposed assignee itself or affiliated companies "sufficient technical knowledge and experience and sufficient financial resources to enable him effectively carry out a programme satisfactory to the Minister in respect of licence or lease operations." Finally, the proposed assignee must be "in all other respects acceptable to the Federal Government" (again, somewhat subjective but probably a necessary final means of control for the State.)

This can be contrasted with Norway and the UK. The websites run by the DTI and the NPD are comprehensive and leave the potential licensee in no doubt as to what is required.

Norway

For the Norwegian Petroleum Directorate the key requirement for new licensees is that they are able to contribute to the creation of value on the Norwegian Continental Shelf. The licensees' expertise need not be equally good in all relevant technical fields, but they must be able to help create value through their own special expertise.

Potential licensees must possess a minimum level of expertise in all relevant fields in order to be able to evaluate, understand and follow up the activities of the operator in the production licence.

Potential licensees must also have sufficient in-house capacity and expertise to satisfy the prevailing requirements with regard to health, environment and safety (HSE). Operators must have sufficient resources and personnel to manage and carry out relevant operations and activities in accordance with prevailing regulations. In addition, the company must document its ability to meet financial requirements for the activities that are planned and expected.

United Kingdom

The emphasis is on the use of licences to improve the geological database of the United Kingdom and, where possible, increase oil and gas production levels. Companies assuming the operatorship of licences must demonstrate a high level of expertise, non-operators less so. The DTI must also been satisfied that a potential licensee is solvent and likely to remain so and will not impede future work on a licence by an inability to pay cash calls. (See section A2.4 of Appendix 2 below).

The nearest to the above in Nigerian documentation is to be found in the 2005 Guidance Information pre-qualification criteria which is described in section 5.3, below. This would preclude companies, of which there were many during the 2005 Licensing Round, with no expertise or background in the oil and gas industry.

For recommendations with respect to the above see section 6.1 below.

5.2 Pre-qualification

The intention of the pre-qualification process, as stated in the 2005 Guidance Information, was that it should be interactive as between the bidders and the Bid Committee, involving the qualification of operators and non-operators at the same time and allowing for the formation of consortia of bidders. Bidders could make written requests for clarification. It was also intended, as part of the process, that common agreement would be reached on the bid parameters for the LCV's. At the end of the pre-qualification process the Bid Committee was to publish a full list of all qualified operators and non-operators and, in the case of non-operators, the Blocks in which they were entitled to participate and their permitted percentage participation.

During the 2005 Bid Round more than 250 companies were pre-qualified, 136 to act as operators. This compares with, e.g., 70 in the Libyan EPSA IV Round. The resources of the DPR were thus stretched to the limit. The presence of numerous indigenous companies wishing to qualify as LCV's placed a particular strain on those resources.

A number of concerns have been subsequently raised by bidders with respect to 2005 Licensing Round pre-qualification.

(1) Whilst it was reasonable to require pre-qualification for every zone in which a company wished to participate, pre-qualification on a Block by Block basis within a zone furnished no new information, contributed nothing to the pre-qualification process and proved an unnecessary administrative burden on bidders.

(2) Obligations with respect to pre-qualification applied equally to companies already established and having substantial operations in Nigeria and to entities that were entirely new to Nigeria.

It is perhaps useful to distinguish between pre-qualification with respect to LCV's and pre-qualification of potential bidders other than LCV's. Pre-qualification of LCV's poses certain special problems and is dealt with in section 6.4 below.

To a greater or lesser extent bidders other than LCV's had some form of track record in the Nigerian petroleum industry. The task of pre-qualifying them was therefore simpler and posed fewer problems for the overall bidding schedule. It does not seem unreasonable, therefore, to continue to include them as part of the post bid round announcement process, as has been the case in previous Rounds in Nigeria (also the practice in Libyan EPSA IV and the Brazilian Rounds 6 and 7).

The very large number of companies that were pre-qualified also led to forced marriages between the IOC's and LCV's, with the participating percentage originally allocated for a single LCV within the joint venture being shared between more than one. This countered the policy of bidders ranking LCV's for selection (itself unpopular with IOC's) and exacerbated the difficulties encountered by IOC's in performing due diligence.

For recommendations with respect to the above matters see section 6.4 below

5.3 Transparency in Bidding Criteria

The commercial biding criteria set out in the Information Guidelines was considered by IOC's to make it difficult to replicate in advance the precise terms and structure of a bid with sufficient accuracy. The perceived problems were that the Guidelines were capable of different interpretations and that the choice of four separate, weighted criteria (signature bonus, work programme, cost oil ceiling and local content) proved over complex[4].

Of four comparator countries, Brazil, Norway, the United Kingdom and the U.S.A., the Federal lease auctions, based on an open and purely cash bid, is the most transparent. The transparency of the processes in the remaining three countries cannot be accepted without qualification. Brazil has an openly competitive bidding process but applies three of the four criteria used in Nigeria: signature bonus, work programme and the use of local services. In Norway and the United Kingdom, only successful bids are made public. Norway has traditionally shown favour towards state-owned companies at the expense of smaller companies. In the United Kingdom qualitative factors such as the technical merits of a bid frequently come into play to compete with financial considerations.

For recommendations with respect to the above matters see section 6.5 below

5.4 Basins and Licensing Rounds

In Nigeria there exist a number of basins which are subject to different perceptions of technical difficulty and cost and thus of risk.

The first is the difference between the frontier area of the Deep Offshore and the mature Niger Delta. The 2005 Licensing Round did not, as a matter of policy, make any attempt to differentiate between the treatment of the different basins other than as part of the pre-qualification procedures (see section 5.3 above). On the contrary, it was the firm intention of the DPR to conduct a bidding round which covered every Nigerian hydrocarbons basin. This may be said, in the eyes of the IOC's at least, to have created a number of difficulties, not least with respect to fiscal terms and the suitability of LCV's.

It is interesting to note the way in which the UK and Norway, both of which can be said to be in a similar stage of the frontier basin/mature basin cycle, have addressed this issue in so far as licensing is concerned. (See sections A2.3 of Appendix 2 and A3.7 of Appendix 3 below).

[4] DPR comment: "This issue was explained at various for a. As such, the IOCs had no excuse to complain, unless they did not ask, because opportunities were provided for explanations and clearances".

5.5 Licensing and Availability of Data

DPR will need to improve its data quality and data management capabilities[5]. This implies a long term vision of the use and benefits of the National Data Repository. The attitude of the United Kingdom and Norwegian regulatory bodies to the retention of data is instructive in this respect. An important element in the efficiency with which bid rounds are conducted, and the ownership of existing licences transferred or adjusted, is provided by effective and easy access to data and information on plays, discoveries and fields. (See sections A2.9 of Appendix 2 and A3.8 of Appendix 3 below.)

For recommendations with respect to the above matters see section 6.6 below.

5.6 The Role of the Model Production Sharing Contract ("PSC")

The publication of the new model PSC as part of the 2005 Bidding Round documentation was well received by the industry in Nigeria. This is not to say that the substantive terms of the PSC found favour in every quarter. The principal issues surrounding the PSC were:

(i) that the "one size fits all" fiscal terms did not sufficiently reflect what was perceived by industry as a wide range of risk profiles across the various basins and as between oil and gas; and

(ii) that the publication of the model PSC as part of the transparency process implied that no changes would be made to the PSA as published following the award of blocks.

Above all the transparency process with respect to the PSC means that whatever the form and content of the PSC that is finally adopted, it must command the confidence of industry. If it does the problem (ii) above will fall away. This can only be achieved if industry is consulted and takes part in the elaboration of the PSA.

For recommendations with respect to the above matters see section 6.7 below

5.7 Signature Bonus & Other Bidding Parameters

Industry has criticised certain elements of the 2005 "Guidance Notes" as being both lacking in sufficient detail and at the same time unnecessarily complex. The bidding evaluation criteria described above were considered to be too numerous and the weighting for local content, which was fixed at 20%, was complicated by being subject to "normalisation"[6]. As a result it was difficult for a bidder to replicate a bid in order to assess how the different elements actually worked together in practice[7].

[5] DPR comment: efforts are already been made to address the data issue.
[6] DPR comment: Normalisation was subject to a maximum value.
[7] DPR comment: the guidance notes were clear on this issue. While the Niger Delta Region attracted relatively high signature bonus, the Inland Basins with higher risk levels attracted lower signature bonuses and longer exploration periods. The roadshows also highlighted the level of activities in the basins and risks in the various basins.

It was felt that two criteria at most, a biddable signature bonus without any prescribed minimum, and local content, were the two criteria that should be retained in the future.

Some bidders also found that the transparency process was compromised by the Question & Answer procedure. Answers to requests for clarification varied according to the identity of the respondent and were not always given on a timely basis. A single point of contact was clearly needed.

For recommendations with respect to the above matters see section 6.8 below.

5.8 Local Content

Statutory Requirements

Paragraph 37 of the Petroleum Act represented the first attempt to adopt a policy with respect to local content within the Nigerian petroleum sector. The paragraph provides that the holder of an OML must, within ten years from the grant of the OML, ensure that the number of Nigerian citizens employed by him in managerial, professional and supervisory grades (or corresponding grades designated by him with the Minister's approval) reaches at least seventy five percent of all persons employed by him in such grades. The number of Nigerian citizens in any one grade must not be less than sixty percent of the total in such grade. Furthermore, all skilled, semi-killed and unskilled workers must be Nigerian citizens.

Local Content Vehicles ("LCV's")

There is a perceived need to encourage indigenous companies to participate in the oil and gas industry in such a way that their presence within the sector will enable a strong and viable Nigerian oil and gas industry to develop. The IOC's interviewed welcomed this process and considered it long overdue.

However, the introduction of LCV's into the 2005 Licensing Round undoubtedly caused many problems, both for the DPR in its capacity as the regulatory authority, and for the bidding companies, the system being swamped by the sheer number of companies applying to be LCV's.

Many, if not most of these, lacked any real technical expertise and consequently were unable to make decisions that were realistic from the financial standpoint. Few, if any, LCV's had the financial capability to fund their share of operations in the Deep Offshore or the mature Niger Delta areas.

The limitation of the number of LCV's to the same as the number of Blocks on offer in any particular zone was felt to be very restrictive and deprived bidders of choice.

There was also a lack of transparency concerning the role of the LCV's in the joint ventures following bid award, as the nature of the relationship between the IOC operator and the LCV remains unclear. Do the IOC operator and the LCV act as co-operators, or does the LCV act as a sub-contractor to the joint venture? The resolution of this question clearly has implications for the ongoing monitoring of the performance of the LCV's which will be an indispensable to the fulfilment of the policy of using LCV's to provide local content.

For recommendations with respect to LCV's see section 6.9.

5.9 Strategically Linked Blocks

Nigeria is a major exporter of crude oil within OPEC but a net importer of petroleum products. To remedy this situation the 2005 Bid Round attempted to kick-start and accelerate the pace of development of downstream projects (LNG, refining, petrochemicals etc) by linking the award of certain strategic blocks to participation in downstream projects.

The need for this policy was understood by the IOC's. However, during the course of the Bid Round strategic deals were entered into granting a right of first refusal over a number of attractive blocks to the national oil companies of Korea in exchange for investment in gas infrastructure and railways, and Taiwan in exchange for investment in hydropower and refineries. These blocks had drawn the attention of a number of IOC's who had invested considerable sums in relevant data and its interpretation.

This undoubtedly led some IOC's to question the transparency of the Bid Round, although not the policy of strategic linkage as such. Had the arrangements with the Korean and Taiwan companies been in the public domain at the outset of the Bid Round the IOC's could have adjusted their bid strategies accordingly.

6 CONCLUSIONS & RECOMMENDATIONS

6.1 The Petroleum Act and Licensing Policy

The Petroleum Act has been in place for almost forty years. It was put in place when the Nigerian hydrocarbons industry was very different to what it is now. A thorough overhaul of the Act has already been discussed by the Federal legislature. Problems raised by IOC's in applying the Act in contemporary circumstances have been discussed above (see section 3.9 above).

Recommendations:

1. More detailed criteria with respect to the suitability of companies as licensees should be given statutory expression:
    - The licensee/lessee or its affiliated companies should possess "sufficient technical knowledge and experience and sufficient financial resources to enable him effectively carry out a programme satisfactory to the Minister in respect of licence or lease operations".
    - The licensee/lessee should possess sufficient capacity to satisfy the prevailing requirements with respect to health, safety and the environment (HSE).
    - The licensee/lessee should possess sufficient technical capacity to improve the geological database of Nigeria.
    - All OPL holders must be able to demonstrate that they possess and will possess in the future sufficient financial resources to satisfy future work programmes for the duration of the licence.
2. Following consultation with industry update and, where applicable consolidate, Nigerian petroleum legislation by addressing, inter alia, the following:
    - the rights of licensees/lessees with respect to gas.
    - the relationship of the model PSC and legislation.
    - the holding of fully competitive bidding rounds[8].
    - the issues raised in section 3.1 above in relation to the assignment and relinquishment of licences and leases and the conversion of OPL's into OML's.

6.2 Lessons of the 2005 Bid Round

The 2005 Bid Round represented a new departure for the Nigerian oil and gas industry and emphasised fully transparent and competitive bidding (see section 4.2). If this signifies the end to the discretionary round system and the placing of a fully transparent and competitive bid procedure at the heart of Nigerian licensing policy it becomes of the utmost importance to learn the lessons of the 2005 Bid Round and to apply them in future rounds. These are discussed in the following sections.

[8] DPR comment: the Act provides that the Minister can allocate licenses on a discretionary basis.

6.3 Adherence to Bid Round Schedule

Although there was some slippage in the original Bid Round schedule between the formal announcement of the Bid Round and the Bidding Conference, it only became severe following the Bid Conference due to factors that were essentially extraneous to the process. Even with slippage the overall time taken to get to the Biding Conference compares not unfavourably with, e.g., the 2004 Libyan EPSA IV Round and 2005 Brazil Round 7. There was also an element of slippage during the Libyan Round but this was in order to give the all the IOC's time to conduct further technical review of the blocks on offer and so can be regarded as favourable.

In the case of the 2005 Bid Round two elements were largely responsible for slippage: the large number of indigenous companies putting themselves forward for the role of LCV (see section 6.4 below for pre-qualification issues and section 6.9 for LCV's generally) and the late introduction of the "strategic blocks". The introduction of blocks into a bidding round after the round has commenced is particularly destructive of transparency since the situation thus created naturally favours established companies with their own databases at the expense of new entrants. It also encourages companies with lax corporate governance to make unrealistic bids based on no technical knowledge and brings the bidding process into disrepute.

<u>Recommendation</u>: No formal initiation of the bidding process should take place before all the necessary elements are completed and in place and the bidding process can be carried through to its scheduled conclusion. The list of blocks announced as available at the beginning of the bid round process should be final.

6.4 Prequalification

It is suggested that no application for pre-qualification should be accepted from companies that are incapable of providing certain minimum corporate and financial information.

In Libya, for example, the EPSA IV Round required bidders to provide audited accounts for the previous two years.

The UK Department of Trade & industry goes further and, even though there is no formal pre-qualification process as such, will in most circumstances expect to receive form a potential licensee the following historical and forecasted information:

(i) The latest annual report and accounts, and, if appropriate, those of the company's ultimate parent.

(ii) Profit and Loss <u>forecasts</u> for the following five years (including projected balance sheets and cash flow statements and any assumptions made in preparing the forecasts), and if appropriate, how any deficit will be met.

(ii) If the company is a subsidiary that will rely on support from its parent, a letter of support from the parent stating that it will ensure that adequate financial and technical resources will be made available to the prospective licensee to meet its share of licence obligations and liabilities. In those circumstances, financial information about the parent will be considered more useful.

In Norway a company can apply to be pre-qualified either as an operator or non-operator. (In Nigeria this would also be on a zone by zone basis depending on the particular company's area of geological interest). The procedure is described in section A3.5 below

The particular problems posed by LCV's have already been noted (see section 5.8).

Recommendations:

1. Post criteria for pre-qualification which will prevent shell companies, companies which otherwise lack financial substance and companies where controlling shareholders cannot be identified from submitting applications for pre-qualification
2. Allow pre-qualification out of Round, both for operators and non-operators, in order to ease the administrative burden on the DPR during bid rounds.
3. Ensure that the pre-qualification process with respect to LCV's is completed before the announcement of a bidding round so as to enable those companies intending to apply as operator to have a minimum period (60 to 90 days) before the formal opening of the bid round to perform due diligence.
4. Maintain a publicly accessible list of those companies that are pre-qualified with details of the zones in which they are entitled to bid and corporate information: share capital, latest annual report and accounts, and details of beneficial share owners and shadow directors (if any).
5. End the procedure whereby bidders are compelled to rank a limited number of LCV's in order of preference and permit bidders to choose freely from amongst pre-qualified companies.
6. Do not permit forced marriages of LCV's merely to satisfy excess demand.

6.5 Transparency in Bidding Criteria

Given the importance of the LCV policy to the development of an indigenous oil sector, it seems that a combination of a market biddable signature bonus plus LCV policy would represent the optimum combination to ensure transparency and not divert funds unnecessarily away from investment in exploration work. It is easy to understand and admits of no ambiguities. (Minimum levels are set for Federal lease auctions but they are assessed by an independent third party to reflect fair market value, and this is possible because of the quality of the existing geological database).

Recommendations:
Reduce the bid award criteria to two, a market biddable bonus with no set minimum, and local content.

6.6 Database Issues

It has been noted that both the United Kingdom and Norway attach considerable importance to the development of a high quality database. Norway has made this a central part of its strategy since the beginning of exploration on the Continental Shelf. A high quality database is essential to the continuing rationalization of the hydrocarbons sector through timely and well informed relinquishment of acreage and the transfer of interests in licences.

Moreover, the existence of such a database open to all interested companies underpins transparency in bidding rounds. IOC's interviewed stressed its importance and how, in its absence, the new entrant to Nigeria, or to a particular zone within Nigeria, is clearly at a disadvantage as against established companies.

<u>Recommendations</u>:

1. Improve data availability and quality by both physical and online data rooms.
2. Encourage "spec" i.e. non-proprietary seismic data acquisition.
3. Ensure that accurate block co-ordinates are available from the commencement of the bidding round.

6.7 Model Production Sharing Contract

IOC's interviewed were unhappy with the substantive fiscal terms contained in the 2005 Bid Round model PSC and, in particular, with the application of one set of fiscal terms to all zones irrespective of their varying degrees of technical prospectivity, cost and risk. The model PSC was also seen as being an important element in the transparency of the bidding process and as such should be in a form that commands the confidence of the industry. By way of comparison it should be noted that during the Libyan EPSA IV Round a PSC was initially by Libyan NOC and bidders early in the Round.

<u>Recommendations:</u>

1. The DPR should consult with industry and the terms of the PSC should be agreed in advance.
2. The terms of the PSC should not be changed following award.

6.8 Signature Bonus

The 2005 Bid Round criteria included a minimum signature bonus for each Block on offer. The setting of a minimum amount proved highly unpopular with bidders, who preferred a market biddable bonus which would better reflect the technical assessment of a Block's geological potential.

In addition, following the award of Blocks the DPR encountered difficulties with a number of companies that were subsequently unable to put up the required signature bonus.

<u>Recommendations:</u>

1. As in Brazil and Libya the DPR should require a bid bond (or equivalent, such as a certified cheque or bank draft) as "earnest money", to be paid over when a bid is made. The amount should be between of 20 to 50 percent of the amount of the signature bonus.
2. A winning bidder who fails to pay his signature bonus in a timely manner and in full forfeits the bond and loses all rights to negotiate a PSC. He is also placed on a blacklist and unable to bid for a period to be defined.

6.9 Local Content Vehicles

The problems for the 2005 Bid Round by the introduction of LCV's has been discussed in section 5.8. The recommendation made in section 6.4 with respect to the pre-qualification of LCV's repeated below for convenience.

<u>Recommendations:</u>

1. Ensure that the pre-qualification process with respect to LCV's is completed before the announcement of a bidding round so as to enable those companies intending to apply as operator to have a minimum period (60 to 90 days) before the formal opening of the bid round to perform due diligence.
2. Following pre-qualification make available to operators relevant corporate, financial and technical information on successful companies.
3. Ensure that local LCV's give specific undertakings with respect to their ability fully to finance their participating interest.
4. Consult with industry to agree criteria for the ongoing monitoring of the role of, and the obligations of operators with respect to, LCV's

6.10 Gas

The Petroleum Act should be updated to reflect the importance of gas.

APPENDICES

1 APPENDIX 1 - LIBYA AND BRAZIL

2004 Libyan Bidding Round EPSA IV

This Round was the response of the Libyan National Oil Corporation ("NOC") to the relaxation of US sanctions. It involved the introduction of new and simplified fiscal terms in the form of the exploration and production sharing agreement EPSA IV, and will continue with regular future Rounds.

The Round was launched in August, 2004. The bid process schedule was as follows:

- Applications to bid and pre-qualifying documentation 28 September 2004
- Evaluation of bid applications by NOC and notification 19 October 2004
- Data room sessions in Tripoli 20-29 October 2004
- Bidders' clarification meetings with NOC as requested 6-24 November 2004
- Final bids due 10 January 2005
- Opening of sealed bids and declaration of winners 30 January 2005

Over 120 companies registered, of which 70 successfully pre-qualified. More than 100 bids were received from 60 companies for 15 blocks on offer

The Round was completed close to the above timetable, with a minor extension to allow companies to continue their evaluation of the acreage on offer. NOC was regarded as having managed the process in an efficient, professional manner.

NOC received $133 million in signature bonuses. The Round proved moderately successful in diversifying the number of companies operating upstream in Libya, bringing in 9 new entrants.

Brazilian Rounds 6 (2004) and 7 (2005)

The qualification process begins with an expression of interest, consisting of letter of presentation, power of attorney and confidentiality agreement. Upon payment of participation fees ANP will provide data and information packages of the basins of interest to applicants. In order to participate in the bidding process, a company must qualify individually by submitting documents that establish its technical, financial and legal qualifications.

As a result of changes introduced for Round 6, companies may be disqualified if the applicant's change of control is not clearly established.

To guarantee a winning bidder's obligations each company must submit bid bonds for each block on which it intends to bid. If a company has already used a bond to guarantee a winning bid on any block it may deliver additional bid bonds for any other block it intends to pursue, provided that it is delivered at least one hour before bidding opens for the block in question so that the adequacy of the bond may be verified.

The schedule for the 2005 Bid Round was as follows:

- Announcement of areas under evaluation — January 2005
- Announcement of areas to be offered — mid-April 2005
- Publication of Initial Tender Protocol — mid-May 2005
- Publication of draft Concession Agreement — mid-May 2005
- Data packages available — mid-May 2005
- Data room — July 2005
- Part A of Final Tender Protocol/Concession Agreement — mid-August 2005
- Part B of Final Tender Protocol/Concession Agreement — end August 2005
- Deadline for presentation of pre-qualification documents — mid-September 2005
- Bidding conference — mid-October 2005
- Signature of Concession Agreements — mid-January 2006

2 APPENDIX 2 - UNITED KINGDOM OIL & GAS REGIME

A2.1 Legal Basis of the Licensing System

The legal basis for the hydrocarbons licensing system of the United Kingdom is the Petroleum Act 1998. This Act vests all rights to the United Kingdom's petroleum resources in the Crown, and confers upon the Secretary of State for Trade and Industry authority for the granting of permits and licences. On the day to day basis the Department of Trade and Industry (the "DTI") acts as the de facto regulatory authority.

Licences can be held by a single company or by several working together, but in legal terms there is only ever a single Licensee, however many companies it may include. All the companies on a Licence share joint and several liability for operations conducted under it. Each Licence takes the form of a Deed which binds the Licensee to obey the licence conditions regardless of whether or not s/he is using the Licence at any given moment.

The licensing system covers oil and gas within Great Britain, its territorial sea and on the United Kingdom Continental Shelf (UKCS). The area of the UKCS has been refined over the years by a series of designations under the Continental Shelf Act 1964 following the conclusion of boundary agreements with neighbouring states.

A2.2 The Licences: General Considerations

The two principal licences are the Seaward Production Licence and the Petroleum Exploration and Development Licence (onshore), which are valid for a sequence of periods known as Terms. The Terms are intended to follow the typical lifecycle of a field: exploration, appraisal and production. A Licence expires automatically at the end of each Term, unless the Licensee has made enough progress to have earned the right to move into the next Term.

The Initial Term carries a work programme of exploration activity that the DTI and the Licensee will have agreed as part of the application process. The Licence will only have the right to proceed to the next term if the Licensee has completed the Work Programme. At that time the Licensee must also relinquish a fixed amount of acreage (usually 50%). The purpose of relinquishment is to ensure that the Licensee has identified those parts of the Licence area that have real geological potential.

The Second Term is intended for appraisal and development. The Licence expires at the end of the Second Term unless a commercial discovery has been made and the Secretary of State has approved a Development Plan. The qualifying criteria to continue into the next Term are minimal. No maximum rate of progress is specified.

Licensees are, unless the Licence is still in its Initial Term and the Work Programme has not been completed, entitled to surrender a Licence, or part of the acreage covered by it, at any time. The DTI actively encourages the surrender of acreage unless the Licensee actually intends to work it. As has been noted above a minimum relinquishment of acreage at the end of the Initial Term is actually a condition of most Licences.

As is normal in all developed petroleum legislation, partial surrenders of acreage are subject to restrictions intended to prevent the creation in unlicensed areas of shapes so irregular that they would prove unattractive to other companies.

Petroleum Exploration & Development Licences (Onshore)

For Petroleum Exploration and Development Licences the initial term is of six years duration, the second term is of five. The Third Term is intended for production and is of 20 years duration. The Secretary of State has the discretion to extend it if production is continuing, but DTI reserves the right to reconsider the provisions of the Licence before doing so, especially the acreage and rentals.

Seaward Production Licences

For Seaward Production Licences the initial term is normally four years, although it can be longer for 'frontier' Licences (see below). The second term is also four years. The Third Term is intended for production and is of 18 years duration. The Secretary of State has the discretion to extend the Licence if production is continuing, but the DTI reserves the right to reconsider the provisions of the Licence before doing so, especially the acreage and rentals.

A2.3 Licences: Special Situations

The above is the normal template. With the passage of time the U.K. Continental Shelf has developed into a mature oil province in certain areas whilst remaining a frontier area in others. As in Norway, the licensing policy of the DTI has acquired more flexibility to accommodate this development. In addition to the normal template for Seaward Production Licences described above, two specialised variants have emerged: Promote Licences and Frontier Licences. It should be emphasized that these variants retain the essential legal nature of the Seaward Production Licence but their terms and options with respect to work obligations reflect the special situations they are attempting address.

Promote Licences

The DTI has recognised a demand for new Seaward Production Licences from companies that would not be able to compete in traditional Licensing Rounds. In the 21st Round, held in 2002, the DTI introduced the concept of the 'Promote' Licence application.

Each Promote Licence carries a "drill-or-drop" Initial Term Work Programme. The Licensee is given two years after award (the promote period) to attract a co-venturer possessing the necessary technical environmental expertise and financial capacity to complete the agreed Work Programme. The Licence will expire at the end of the promote period if the Licensee has not made a firm commitment to complete the Work Programme by the drilling of a well. The Licensee must also, at the expiry of the promote period, have satisfied DTI of its technical, environmental and financial capacity to do so. In effect this represents a deferment, though not a waiver, of the DTI's financial, technical and environmental checks until the expiry of the promote period. The promote Licensees will not be allowed to carry out operations until they have met the appropriate criteria.

Assuming the Licence continues into Years 3 and 4, the Work Programme must be carried out before the end of the Initial term (i.e. within four years).

Frontier Licences

Certain areas of the United Kingdom Continental Shelf, like the deep waters west of the Shetlands, are particularly challenging areas to operate in. Recognising this, the DTI offers Production Licences on 'frontier' terms intended to reflect these conditions. The objective is to allow companies to screen large areas for a brief period in order to identify a wider range of prospects.

A Frontier Licence is unusual in that what would be the four year Initial Term of a traditional Licence is split into two periods of two years each, constituting the Initial Term and the Second term of the Licence. This means that the Frontier Licence has four terms instead of three. The first two Terms together last for six years (2+4) and is the period in which the Work Programme must be completed if the Licence is to continue further. There is no requirement to have completed the Work Programme, or any part of it, during the Initial Term. The Work Programme will contain at least a drill-or-drop commitment.

It is possible to view the two-year Initial Term as an additional term designed for preliminary evaluation. The rental rates in these two years are low and do not create an undue financial burden even when the License area is extensive. However, at the end of the Initial Term, seventy five percent of the Licence area must be relinquished and rentals increase to the levels of a traditional Licence. At the end of the Second Term, which falls four years later (i.e. when the Licence is six years old), the Work Programme must have been completed and there is another mandatory relinquishment, this time of fifty percent of the License area at the time, leaving one eighth of the original licensed area.

The DTI recognises that two years is by no means a lengthy period even for preliminary evaluation work and is prepared to be flexible to deal with exceptional circumstances that may arise. Thus it may, at its discretion, consider requests to grant extra time on the Initial Term where, for example, weather delays seismic acquisition scheduled for the first year of the programme or accept only a fifty percent relinquishment where demonstrable prospectivity covers more than twenty five percent of the Licence area and would be prejudiced by the normal seventy five percent relinquishment),.

It is also important to note that rentals in the third year will be at the full Year 3 rate, and that the second relinquishment would have to make up for any allowances granted on the first one - that is, the second relinquishment will still have to bring the area down to one-eighth of its original value and complete the Work Programme in six years.

A2.4 Criteria for Award of Licences

The DTI expects companies to use their licences so as to improve the geological data base of the United Kingdom and, where possible, to increase oil and gas production levels. There are number of particular considerations which are outlined below.

Technical Capacity

Non-operators will not be required to demonstrate as high a level of technical expertise as the operator, the Operating Committee is expected to be able to exercise responsible oversight. As a result the DTI will not expect a significant vote to be exercised by a company without the appropriate level of technical expertise.

Financial Capacity

The DTI must be satisfied that a Licensee (a) is solvent and is likely to remain so; and (b) will not impede future work on a Licence because it cannot afford to pay its share of cash calls. The Financial Resource Management Directorate of the DTI analyses financial information on behalf of the Oil & Gas Directorate. The precise information that will be required by the DTI will vary from case to case and depends on the company and the transaction. It usually includes the following:

Two copies of the latest annual report and accounts, and, if appropriate, those of the company's ultimate parent.

Trading Profit and Loss forecasts for the next five years (including projected balance sheets and cash flow statements and any assumptions made in preparing the forecasts), and if appropriate, how any deficit will be met.

If the company is a subsidiary that will rely on support from its parent, the DTI will need a letter of support from the parent stating that it will ensure that adequate financial and technical resources will be made available to the prospective licensee to meet its share of licence obligations and liabilities. In those circumstances, the DTI will usually find it more useful to see financial information about the parent.

Residence

There are different levels of residence requirement, depending on what a company proposes to do.

To be a Licensee a company must have a place of business within the UK. That means either (a) a staffed presence in the UK, (b) registration of a UK company at Companies House, or (c) registration of a UK branch of a foreign company at Companies House. This requirement exists both for any company applying for a new licence and for any company seeking to join an existing licence by assignment. It applies to all licences and to all companies, whether operator or not.

To be a party to a Licence that covers a producing field, a company must either (a) be registered at Companies House as a UK company, or (b) control its activities through a fixed place in the UK (or both, of course). In this situation, registration as a UK branch by itself is not acceptable. This requirement exists for tax reasons.

To be an operator there may be additional practical requirements. DTI will generally consider proximity and ease of communications as factors in an operator's ability to manage operations properly. {For example, DTI may consider that a particular field in the Southern North Sea might be operated equally satisfactorily from either side of the North Sea, but not from the other end either of Britain or of Europe.} Such issues will be considered on a case-by-case basis.

A2.5 Transfer of Licences (Licence Assignments)

A licensee may wish to sell either a part or all of its participating interest in a Licence to another. Licence Assignments require the consent of the Secretary of State. Any attempt to assign an Licence interest without such prior consent constitutes grounds for immediate revocation of the licence under the terms of the Model Clauses attached to the Licence. This restriction applies just as much to assignments between affiliated companies as to assignments between unrelated companies. It also applies to the withdrawal of a company from a Licence as this entails the assignment of its rights to the remaining companies.

The DTI is of the opinion that good volume of licence assignments is valuable since it reflects over time a sharper sense of focus by licence holders. The DTI does not, however, regard licences as assets to be traded. Companies are expected to acquire licence interests with a view to exploiting them.

The rules governing the transfer of Licences are dealt with in the Model Clauses to the Licences. A licensee is prohibited from assigning or otherwise parting with any of the rights granted by the licence in relation to the whole or any part of the exploration area or from granting a sub-licence in respect of any such rights.

The assignment of a licence will raise a number of issues.

<u>Technical and financial capacity of the Licensee:</u> DTI will need to be satisfied that the proposed new company is suitable to be on the licence. That means checking its capacity to participate fully in licence operations and to discharge its licence obligations (see also Suitability of licensees).

<u>Decommissioning costs</u>: Financial capacity will be an even greater concern if significant decommissioning costs are likely to be incurred by Licensees in the near future. There is a dedicated Decommissioning Unit based in Aberdeen with the task of ensuring that future decommissioning liabilities are covered.

<u>New entrants to the UK</u>: DTI will always take a company's track record into account. If the company is new to the UK, we will try to take account of a track record gained overseas. Where the proposed licensee is a subsidiary of a foreign parent, DTI will generally require an undertaking from the parent to support the licensee in its licence operations (see also Suitability of licensees).

<u>Effect on operatorship arrangements</u>: DTI will not approve any assignment if it would result in a licence having no approved operator. So when an operator seeks to leave a licence, it will need to ensure that its remaining partners have agreed a replacement operator and that DTI is ready to approve their choice. This is especially important during the production phase. The approval of an operator may therefore take time, especially a production operator with no previous track record of operating on the UKCS.

<u>Licence alignment:</u> This is not usually a concern for DTI, but we might feel the need to look carefully at a case where one company gains a completely dominant position on a Licence, or a case where one company has such a small interest that it is not motivated to participate fully in the exploitation of a Licence and yet is in a position to block it. In general, this is more likely to be a concern where a field or a prospect near to development is affected.

<u>Intragroup assignments:</u> DTI has no objection in principle to assignments to a sister company, but if they are made specifically for the purpose of a subsequent disposal of the Licence interests via a corporate sale, then DTI will generally want to know who the

buyer is before we approve it. Where the reason for the assignment is tax-related, we recommend discussing it with the Oil Taxation Office first.

Fragmentation of Licence interests: In some circumstances, the creation of very small Licence interests may be of questionable advantage to the UKCS. It may, for instance, prejudice the Licence group's attempts to agree on new work by introducing new voices. On the other hand, any such drawbacks may be outweighed by a new Licensee's expertise or experience. As a general rule, we suggest that any Licensee seeking to create small Licence interests (under 5%) should justify the transaction in "Extra information" on the application form.

Infrastructure Again, this is a conceivable rather than a routine issue, but DTI might be concerned if, for instance, it seemed that an infrastructure owner was seeking to enter a licence group to influence tariffing negotiations.

Procedures

The DTI now operates an email-based procedure, involving a checklist of relevant information as set out in the relevant Application Form. This represents a significant reduction in regulation over earlier systems.

Previously, applicants were required to submit pre-execution drafts of all relevant legal documentation, including deeds of assignment and novations of relevant agreements, all of which had to be examined by the DTI's legal department. The DTI no longer requires copies of all executed documentation following completion and only requires notification.

Consent

The Secretary of State's assignment consent(s) and operator approval(s) will be valid for three months after the predicted execution/handover date(s). If any completions are delayed longer than that, you will require an extension, which we will generally be able to consider on receipt of a revised Completion Date, and confirmation that the information contained in the original application is still valid.

Use of the consent to execute the assignment is conditional on the assignee's notification to us within two weeks.

A2.6 Change of Control

The Model Clauses to the Licence do not require the Secretary of State to give his approval to a change of control of licensee (e.g. where the company in question, or its parent, has been the subject of an amalgamation, merger or take-over). However, in such circumstances the Secretary of State has the power to revoke the licence. He will exercise the power where, for example, a licensee has failed to comply with an instruction from the DTI to effect a further change of control.

A2.7 Revocation of Licences

The Secretary of State for Trade and Industry retains at all time the power to revoke any licence:

(a) for non-payment of annual rentals for more that two months;

(b) for breach or non-observance of the terms of the licence;

(c) for the bankruptcy of the licensee;

(d) if the licensee makes any arrangement or composition with his creditors;

(e) if in the case of a corporate licensee a receiver is appointed or the licensee goes into compulsory or voluntary liquidation;

(f) if in the case of a corporate licensee it ceases to have its central management and control in the United Kingdom.

A2.7 Extension of the Licence

There exists no general right of extension. However, where it appears likely that the life of a field will extend beyond the full term of a production licence the Secretary of State may exercise his discretion to extend the licence.

The decision whether to extend or not will only be taken when expiry of the licence is imminent. The DTI will consider requests for an earlier indication (up to ten years before the licence expiry date) as to the likelihood of such an extension being granted. Such requests are often made in order to provide information to regulatory bodies concerning a company's booked reserves. Any indication made by the DTI will be subject to continuing satisfactory performance of licence obligations by the licensee and the DTI's right to review the terms of the licence (particularly rentals) at the time of the extension.

A2.9 National Database

In 2002 it was decided by an oil and gas industry working group that Government and industry needed to examine the availability of geoscience data, identify ways to reduce costs, improve efficiency and facilitate investment in the UKCS. As a result key oil and gas industry contacts have been working hard on enhancing availability and access to North Sea data. The working group was charged with developing a data access and storage model for all UKCS-derived data that minimised cost while maximising accessibility and the opportunity to add value. Participants represented all stakeholders, including the DTI, the UK Offshore Operators Association, the British Geological Survey, consultants and service companies.

The main features of the proposed model are:

- A central data registry of UKCS licence data.
- Plans for Operators to hold all active licence data across networked data repositories in which data is shared.
- Licence data will be subject to four year release (currently five years).
- The British Geological Survey will maintain a National Archive for a defined subset of licence data.
- Upon archiving data Licensees will be relieved from the obligation to keep such licence data in perpetuity.

3 APPENDIX 3 - NORWEGIAN OIL & GAS REGIME

A3.1 Introduction

The Norwegian Continental Shelf comprises three petroleum provinces of varying maturity. The licensing system has begun to reflect and accommodate this situation. Large parts of the shelf are considered to be frontier areas, untouched as yet by exploration activity and where geological potential is largely unknown. In mature areas with marginal reserves the licensing system was modified in 2003 to provide increased incentives for continued exploration.

A3.2 Legal Basis of the Licensing System

The legal basis for the Norwegian licensing system is Act No: 72 of 29 November 1996 relating to Petroleum Activities, known as "the Petroleum Act". This Act, together with the regulations put into effect under the Act, constitute the authority for the granting of permits and licences. The Ministry of Petroleum and Energy ("the Ministry") is responsible for all matters relating to licensing policy and the Norwegian Petroleum Directorate acts as the regulatory authority.

A3.3 The Licences

A. Exploration Licence

Section 2 of the Petroleum Act provides for the grant of a non-exclusive exploration licence which does not confer any preferential right to a production licence in the event of a discovery of hydrocarbons. This non-exclusive licence fulfils a similar function to the Nigerian Exploration Licence described in 4.3 below.

B. Production Licence

Section 3.3 of the Petroleum Act provides for the grant of a production licence conferring on the licensees an exclusive right to explore for and produce petroleum within a specific area. The Ministry appoints or approves an operator for the area concerned (Section 3.7) determines work obligations and decides the duration of the initial period of the licence up to a maximum of 10 years.

A3.4 Criteria for Award of Licences

It is the stated policy of the Norwegian petroleum authorities that production licences will be awarded on the basis of objective, non-discriminatory and published criteria. There is no signature fee, nor are there other expenses except a handling fee of 60,000 Kroner (less than US$9000) which is intended to cover the cost of processing the application for a production licence. The policy has been, and remains, that the system should be as transparent and efficient as possible.

A3.5 Requirements for New Licensees

The key requirement for new licensees is that they are able to contribute to the creation of value on the Continental Shelf. The licensees' expertise need not be equally good in all relevant technical fields, but they must be able to help create value through their own special expertise. Participants must possess a minimum level of expertise in all relevant fields in order to be able to evaluate, understand and follow up the activities of the operator in the production licence. The participants must also have sufficient in-house capacity and expertise to satisfy the prevailing requirements with regard to health, environment and safety (HSE). Operators must have sufficient resources and personnel to manage and carry out relevant operations and activities in accordance with prevailing regulations. In addition, the company must document its ability to meet financial requirements for the activities that are planned and expected.

A3.6 Pre-qualification of Licensees and Operators

The Norwegian authorities have a well established procedure for pre-qualifying licensees and operators and is intended to enable companies to assess their ability to participate effectively in operations on the Norwegian Continental Shelf before they invest resources on the evaluation of specific business opportunities. The procedure is also used if a licensee who is a participant wishes to qualify as an operator.

The pre-qualification is an evaluation of the competence and capacity of the company with respect to subsurface, production and development technologies and HSE. The Petroleum Directorate evaluates the company on issues relating to resource management, and the Petroleum Safety Authority evaluates those relating to HSE.

The procedure is as follows. A company seeking pre-qualification makes initial contact with the Ministry. The Ministry subsequently notifies the Petroleum Directorate and the Ministry of Labour and Social Affairs (“MLSA”) who, in turn, notifies the Petroleum Safety Authority “PSA”). The Petroleum Directorate and the PSA together co-ordinate the process with the company. At the completion of the evaluation of the company the Petroleum Directorate and the PSA report to the Ministry and the MLSA. The Ministry evaluates the company's financial position and issues the formal pre-qualification.

A3.6 Transfer of Participating Interests

The Petroleum Directorate has a clear idea of the value of the continued rationalisation of portfolios by companies. Companies that waive pre-emption rights in their joint operating agreements qualify for a reduced annual rental fee. Consequently there are few barriers in Norway to the transfer of a licence or participating interest in a licence. Transfers are subject to the approval of the Ministry and the Ministry of Finance (MoF).

An approval from the Ministry under Section 10-12 of the Petroleum Act is based on an assessment of the buyer's technical competence and financial strength. Given that the buyer is qualified or pre-qualified as a licensee it may be assumed that the requirements regarding competence are fulfilled. If a company enters the Norwegian Continental Shelf through an acquisition of a participating interest, the Ministry's approval will form part of the pre-qualification process.

The MoF must approve a transfer of participating interest under Section 10 of the Petroleum Tax Act. This approval is intended to ensure that transactions are not entered into for tax purposes. If an assignment involves a production licence under which operations are still in the exploration stage, i.e. an approved plan for development and operation does not exist, Section 10 of the Petroleum Tax Act does not apply.

If a transaction results in a change of operator, the Ministry needs to approve the new operator under Section 3-7 of the Petroleum Act. This process involves an assessment of HSE matters undertaken by the Petroleum Safety Authority, which reports to the Ministry of Labour and Social Affairs. However, the Ministry coordinates the process and approves the new operator. An operator has to document higher technical competence than is required of a licensee (see the Pre-qualification fact sheet). If a company is qualified or pre-qualified as an operator, it may be assumed that the requirements regarding technical competence are fulfilled. If an assignment requires approval under both Section 3s-7 (change of operator) and Sections 10-12 (transfer of participating interest) of the Petroleum Act, the Ministry will, for practical reasons, prefer to consider both approvals jointly.

A3.7 Licensed Areas: The Importance of Differentiation

The Norwegian Continental Shelf now falls into two distinct areas, mature and frontier, a fact now reflected in the Petroleum Directorate's licensing policy.

Licensing Rounds in Mature Areas

In the mature areas of the Norwegian Continental Shelf infrastructure is well developed and field production is in decline. The average size of new discoveries is also declining. Financial incentives are therefore needed to encourage continuing exploration for such areas.

As a result of a comprehensive review of the licensing system as it applied to mature areas the Petroleum Directorate made it a priority to render mature areas more attractive for companies to explore for and bring into production smaller resources. This translated into two key recommendations: (a) application procedures should be simplified; and (b) attempts should be made to attract new companies to the mature areas. The result is the current procedure for awarding production licences in mature areas, known as “Awards in Predefined Areas” (“APA”), was therefore introduced in 2003.

In 2003, the Ministry predefined an area where production licences would be awarded annually. The intention was that companies would find this more predictable and easier to deal with. The predefined area is extensive, and will be extended to include new areas as they become mature. New licences awarded under this system will include conditions that encourage rapid and efficient exploration. This in turn will increase the turnover of acreage in mature areas.

The procedure is as follows. Applications for production licences may be submitted to the Ministry during the nine month period from January to the end of September. At the beginning of October the Ministry will process the applications received. During the period between October and January the Ministry processes applications, considers possible extensions of the predefined area and makes necessary changes to the framework conditions.

The first awards under the APA procedure, 19 production licences to a total of 13 companies, were made in December 2003. The second round, APA 2004, covering a greater area than APA 2003, was characterised by large increases both in the number of production licenses awarded and the number of companies that were awarded licenses (21 companies being awarded 28 production licenses). In APA 2004 the Ministry decided to make public the work obligations in the awarded production licences in order to increase the companies' access to information at the time they submit future applications. APA 2005 included a further extension of the APA area.

Licensing Rounds in Frontier Areas

Parts of the Barents Sea and the North Sea and most of the Norwegian Sea are ranked as frontier areas. So far, 18 numbered licensing rounds and one additional round in the Barents Sea have been completed in frontier areas. The current policy is to carry out a licensing round in frontier areas every second year.

A licensing round in a frontier area that has been opened for petroleum activity starts with the Ministry inviting the companies to nominate blocks that they wish to be included in the round. On the basis of the nominations and analyses performed by the Ministry and the Petroleum Directorate, the Government decides which blocks are to be included in the round. The announcement that follows sets out which blocks are included and specifies the terms and conditions on which awards will be based. The announcement is published on the web sites of the Ministry and the Petroleum Directorate, in the European Journal and through letters to all licensees and pre-qualified companies on the Norwegian Continental Shelf. After the announcement, the companies have three months to prepare their applications. These may be submitted in groups or individually, and are assessed on, among others, the following criteria: relevant technical expertise, satisfactory financial capacity, geological understanding of the area in question and general experience.

The Petroleum Directorate carries out the technical and geological evaluation of the applications. The Ministry is in close dialogue with the Petroleum Directorate throughout the process.

The Ministry also conducts negotiations with the applicants. These meetings take up the extent of the work obligations, the duration of the initial period and the extent and time schedule for the relinquishment of acreage.

Before a production licence is awarded, a letter is sent to each company giving details of the interests being offered, the terms which will apply and the possibility of having joint operators. The companies are typically allowed one week to accept or decline the offer.

A3.8 National Database

An important element in the efficiency with which bid rounds are conducted, and the ownership of existing licences transferred or adjusted, is provided by effective and easy access to data and information on plays, discoveries and fields. From the outset of petroleum operations on the Continental Shelf Norwegian authorities have always followed a policy of giving interested parties as much free access to data as possible.

When petroleum exploration in Norway started, the Norwegian Petroleum Act, and subsequently the Resource Management Regulations, required the Petroleum Directorate to be supplied with one copy of all resource data, e.g. seismic data, results from wells, logs and interpretations. Half of each core (longitudinal section) from exploration wells, a representative sample from development wells, cuttings taken at regular intervals and oil samples must also be sent to the Petroleum Directorate. All data can be easily retrieved and it is claimed that time spent on finding data and facts is significantly reduced compared to other petroleum provinces in the world.

The companies that supply the Petroleum Directorate with data, and those that use the data, are mainly the holders of licences. The data are owned by the companies that have acquired them. The rights of both owners and users of data can be purchased or traded. Owners may make data public at any time.

All seismic data which the Petroleum Directorate receives from the Norwegian Continental Shelf are now available in the *Diskos* database. The *Diskos* project is a joint initiative with the petroleum industry to store all seismic data, well data and monthly production data from the Norwegian Continental Shelf in a single database. The Petroleum Directorate and the majority of the oil companies are members of *Diskos*.

Diskos members have direct online access to the database. Non-members can purchase data on media (tape cassettes). There is strict control of all access rights to data in the database.

The Petroleum Directorate uses the data when performing its advisory and regulatory role on the Continental Shelf. In addition, the aim is to ensure that data from the Continental Shelf are made available to the industry and are stored safely for the future.

Data provided to the Petroleum Directorate are kept confidential by the authorities for two, five or ten years depending on their specific nature: two years for raw data (non-interpreted) from production licences, ten years for data that are "commercially available" and five years for other data.

There is a confidentiality period of 20 years for all interpreted data. Digital data from relinquished areas are no longer confidential.

Raw data from wells, together with Petroleum Directorate `s interpretations of the geological formations, are published on the Petroleum Directorate's "Fact Pages" and can be downloaded free of charge. Data such as well logs and seismic are made available by the Petroleum Directorate through the *Diskos* database. Interpreted data, such as final well reports, are scanned and made available on the Petroleum Directorate fact pages when the period of confidentiality has elapsed. The Fact Pages contain more description of the types and volumes of data, publications and how to proceed to access the data if they are not available on the Petroleum Directorate web site.

4 APPENDIX 4 - INVENTORY OF NIGERIAN LICENSING ACTIVITY 1999 – 2004

LICENSING ACTIVITY IN THE PERIOD 1999 - 2004

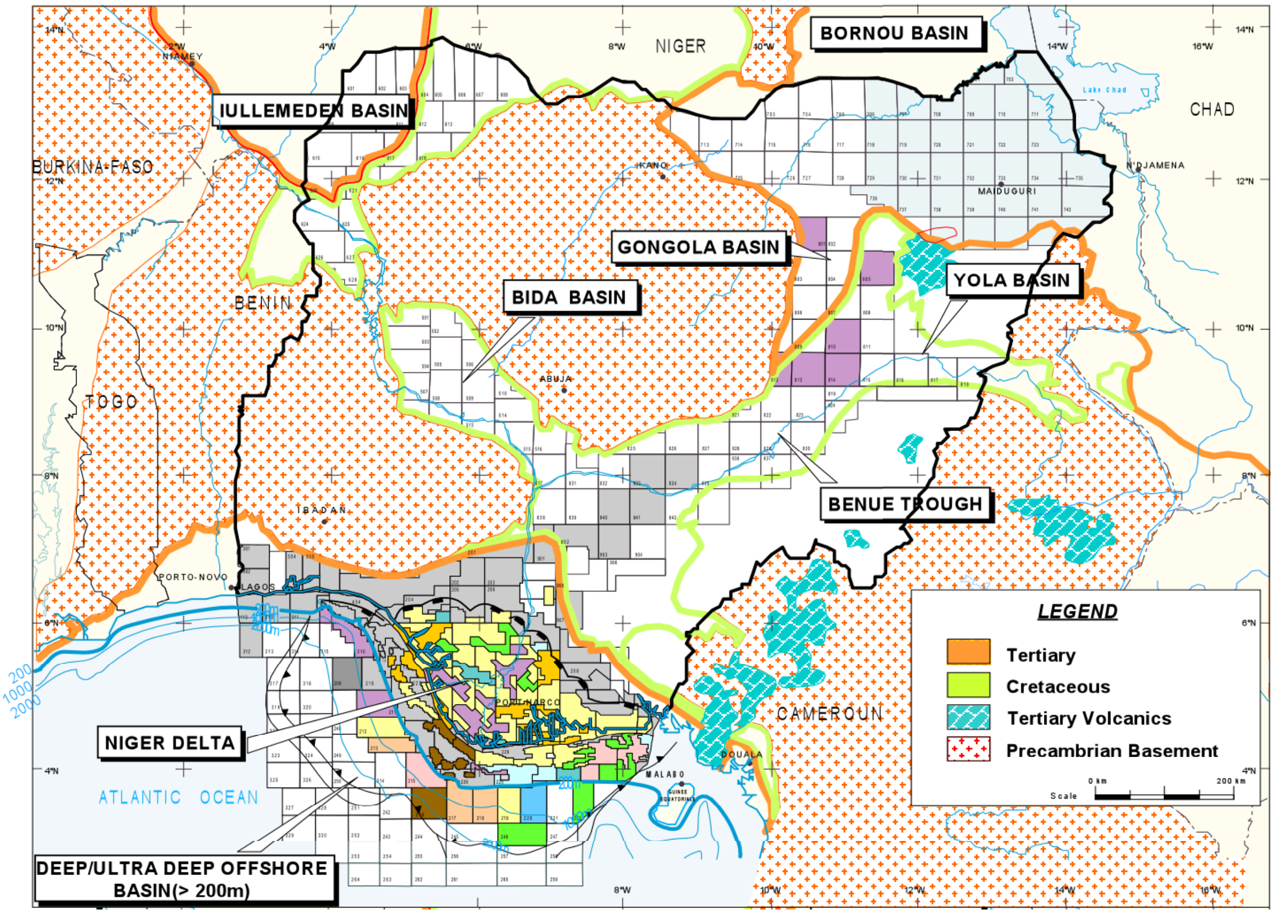
LEASE IDENTIFICATION				LEASE TERMS		BIDDING METHOD			CONVERSION TERMS		
SNo	Name of Leasee	Type of Lease	Lease Area	Date of Award	Expiration Date	Discretionary	Selective Bidding	Open Bidding	Bonus paid	Fees	Royalty Rate
1	Allied Energy Resources Nig. Ltd	OML 120	910.05	27/02/01	27/02/2021					$500,000	
2	Allied Energy Resources Nig. Ltd	OML121	884.95	27/02/01	27/02/2021					$500,000	
3	AMNI International Pet.Ltd	OML 117	51.12	June-99	6/8/2019					$500,000	
4	Chevron Ultra Deep Nig. Ltd	OPL 250	2441.237	28/11/01	27/11/11			YES	$75,000,000		
5	Dajo Oil Ltd	OPL 322	1789.44	30/03/04	29/03/14			YES			
6	Elf Petroleum Nigeria Ltd	OPL 221	2461	19/11/03	18/11/13			YES	$5,000,000		
7	Emerald Energy Resources Ltd	OPL 229	1356.663	October-01	9/8/2006			YES	$20,000,000		
8	ESSO E& P LTD	OPL 214	2585.878	13/06/01	12/6/2011			YES	$22,000,000		
9	HERITAGE	OPL 247	1224	June-04	5/5/2014			YES	$20,000,000		
10	Moni Polu Ltd	OML 114	464	March, 1999	March, 2019					N 100,000	
11	Nigeria Agip Exploration	OML 125	1218.64	June-05	2022					$500,000	
12	Nigeria Agip Exploration	OPL 244	1692.336	20/12/01	19/12.11			YES			
13	NNPC/Agip Energy & Natural Res.	OML 116	360	June-99	6/8/2019					N 100,000	
14	NNPC/ADDAX Pet. Dev. Co.	OML 123	400.897	February-02	1/7/2022					$500,000	
15	NNPC/ADDAX Pet. Dev. Co.	OML 124	299.827	February-02	1/2/2022					$500,000	
16	Nig.Pet. Dev. Co Ltd (NPDC)	OML 119	715.38	31/10/2000	30/10.2020					N100,000	
17	Oil and Gas Nig. Ltd	OPL 249	2440.21	June-03	5/5/2013			YES	$20,000,000		
18	Oriental Energy Nig. LTD	OML 115	309.8	20/05/99	19/05/2019					N100,000	
19	Oranto Petroleum Ltd	OPL 320	1789.443	March, 2002	March, 2012			YES	$7,000,000		
20	Ocean Energy Nig. LTD	OPL 256	2553.117	December-02	11/11/2012			YES			
21	Ocean Energy Nig. LTD	OPL 242	2283	19/03/04	18/03/14			YES	$12,800,000		
22	Peak Pet Industries Nig. Ltd	OML 122	1295	17/05/2001	16/05/2021					N100,000	
23	Petroleo Brasileiro Nig Ltd	OPL 324	1905.983	20/12/2001	19/12/2011			YES	$20,000,000		
24	Phillips Exploration Nig. Ltd	OPL 318	2530	13/06/2002	12/6/2012			YES	$30,000,000		
25	Shell Nig Expl. & Prod. Co. Ltd	OML 118	1633.58	December-00	11/2/2020					N100000	
26	Shell Nig Ultra Deep Ltd.	OPL 245	1958.31	22/12/2003	21/12/2013			YES	$210,000,000		
27	Texaco Outer Shelf Nig. Ltd	OPL 213	1607.9	May, 1999	May, 2009			YES			
28	Zebbra Energy Ltd	OPL 248	2447.61	June-04	5/4/2014			YES	$20,000,000		
29	SOUTH ATLANTIC PET. LTD	OPL 246	2250	23/02/98	23/02/2008			YES	$25,000,000		

5 APPENDIX 5 – GEOLOGICAL BACKGROUND

Nigeria comprises seven basins:-

- Anambra Basin
- Benue Basin
- Bida Basin
- Chad Basin
- Dahomey Embayment/Benin Basin
- Sokoto Basin
- Niger Delta Basin (Onshore & Offshore)

NIGERIA SEDIMENTARY BASINS AND LEASES



6 APPENDIX 6 – DPR ORGANISATIONAL STRUCTURE

DPR has organised three separate activites relevant to the licensing of areas. Basinal and Lease Assessment Administration Branch is the units responsible for concession activities in DPR. The unit is made up of the following sections.

- Basinal Assessment
- Lease Administration
- Mapping and Production Attribution

The functions of the sections are:

Basinal Assessment Section

- Assess the sedimentary basins of Nigeria with respect to their Geology, Resource potentials and Reserves.
- Set up regional data base in seismic and geologic acquisition programme
- Update the standardization of Geological nomenclature for the oil industry in Nigeria as the need arises.

Lease Administration Section

- Monitor all Geophysical and Geological activities and keep records of each of them on concession basis
- Ensure that companies pay the statutory revenues due to the Federal Government in respect of licences/leases.
- Review and update concession maps.
- Process applications for open acreage
- Conversion of OPLs to OMLs as at when due
- Assignments of interests and relinquishments.

Mapping and Production Attribution Section

- Collates the Nations Oil and Gas production and verify the oil wells/fields to the appropriate state in Nigeria where the wells/fields are located.
- Determine state boundaries and straddling of reservoirs into states.
- Resolve disputes on oil wells positioning among states
- Verification of Oil wells positioning and statistical calculation of oil due to each producing states.

7 APPENDIX 6 - INTERVIEWEES

We endeavoured to interview a number of companies about their experience of working with the licensing arrangements. The following table summarises those companies.

COMPANY	REPRESENTATIVE	CONTACT/NOT CONTACT
Anadarko Petroleum Corpn.	E. O'Callaghan	No response
AGIP Nigeria	F. Damola	Response by e-mail
British Gas	J. Field	Interviewed by telephone
CENTRICA	P.Cole/J.Shears	No response
Chevron Nigeria	J. Prior/S. Udoma	Interviewed in Lagos
CONOIL Producing Limited	E. Omatsola	No response
ELF Petroleum Nigeria	A. De Leebeeck	Interviewed in Lagos
Esso E & P Nigeria	I.A. Fischer/C. Odu	Interviewed in Lagos
Global Energy Company	P. Obot	Interviewed in Lagos
Heritage Oil & Gas	B. Smith	No response
Hudson Petroleum Limited	O. Otudeko	No response
Jevkon Oil & Gas Limited	O. Onyung	No response
Maine Oil & Gas Limited	F. Lawal	No response
Moni Pulo Limited	M. Alabrada/S. Ekong	No response
Petroleo Brasileiro Nigeria	R. Ferreira	No response
Sahara Energy Fields Limited	T. Cole	No response
SNEPCO (Shell)	H. Doody	Interviewed by telephone
Statoil Nigeria	C. Horst	Response by e-mail

CONCESSIONS SITUATION AS AT DECEMBER 31, 2005

S/N	NAME OF COMPANY	CONCESSION HELD	DATE GRANTED	EXPIRATION DATE	CONTRACT SIGNED	AREA (SQ. KM)	REMARKS
1	ALFRED JAMES NIG. LTD.	OPL 302	26.05.91	25.06.01	SR	1639.46	Yet to pay re-allocation Signature Bonus
2	ALLIED ENERGY RESOURCES NIG. LTD.	OML 120	27.02.2001	27.02.2021	SR	910.05	Converted on 27.02.2001
		OML 121	27.02.2001	27.02.2021	SR	884.95	
3	AMNI INTERNATIONAL PET. LTD.	OML 112	12.2.98	11.2.2018	SR	437.62	Converted on 12.02.98
		OML 117	6.8.99	5.8.2019	SR	51.12	Converted on 06.08.99
4	ATLAS PETROLEUM INT. NIG. LTD.	OML 109	27.5.96	26.5.2016	SR	772.4	Converted on 27.05.96
5	STATOIL	OML 128	28.12.04	27.12.24	PSC	1197.45	Converted on 28.12.04
		OML 129	28.12.04	27.12.24	PSC	1023.02	
6	CAVENDISH PETROLEUM NIG. LTD.	OML 110	7.8.96	6.8.2016	SR	966.44	Converted on 7.8.96
7	CHEVRON ULTRA DEEP.NIG. LTD	OPL 250	28.11.01	27.11.11	PSC	2441.237	Granted on 28.11.01
8	CHEVRON NIG. LIMITED	OML 49	JUNE'1997	14.06.27	JVC	1725.98	Renewed in JUNE 1997
		OML 51	JUNE'1997	14.06.27	JVC	145	
		OML 52	JUNE'1997	14.06.27	JVC	246.75	
		OML 53	JUNE'1997	14.06.27	JVC	1562.27	
		OML 54	JUNE'1997	14.06.27	JVC	1320.99	
		OML 55	JUNE'1997	14.06.27	JVC	849.28	
		OML 89	DEC.'1968	01.12.08	JVC	364	Renewed in DEC. 1968
		OML 90	DEC.'1968	01.12.08	JVC	653	
		OML 91	DEC.'1968	01.12.08	JVC	157	
		OML 95	DEC.'1968	01.12.08	JVC	1217	
9	CONOCOPHILLIPS	OML 131	24.04.05	23.04.25	PSC	1210	Converted on 24.04.05
10	CONSOLIDATED OIL LIMITED	OML 103	2.6.93	1.6.2013	SR	914	Converted on 02.06.93
		OPL 458	1998	2003	SR	1583.06	CONVERSION BEING PROCESSED
11	CONTINENTAL OIL & GAS CO. LTD.	OML 59	6.6.98	5.6.2028	SR	835.45	Assigned on 06.06.98
12	DAJO OIL LIMITED	OPL 322	30.03.04	29.03.14	PSC	1789.44	Granted on 30.03.04
13	DUBRI OIL CO. (NIG.) LIMITED	OML 96	6.8.87	5.8.2007	SR	221	Assigned on 06.08.87
14	ELF PETROLEUM NIG. LTD.	OPL 221	19.11.03	18.11.13	PSC	2451	Granted on 19.11.03
		OPL 222	23.4.93	22.4.2003	JVC	1312.85	Granted on 23.04.93
		OPL 223	29.04.03	28.04.13	PSC	744.47	Granted on 29.04.03
		OML 99	7.1.91	11.04.2011	JVC	654.774	Converted on 07.01.91
		OML 100	7.1.91	11.04.2011	JVC	717.575	
		OML 102	7.1.91	11.04.2011	JVC	795.615	

Source: DPR

INVENTORY OF LICENCES AS AT 31ST DECEMBER 2005

S/N	NAME OF COMPANY	CONCESSION HELD	DATE GRANTED	EXPIRATION DATE	CONTRACT SIGNED	AREA (SQ. KM)	REMARKS
14		OML 57	14.6.97	04.06.2027	JVC	427.79	Renewed on 14.6.97
		OML 58	14.6.97	04.06.2027	JVC	518.02	
15	EMERALD ENERGY RES. LTD	OPL 229	10.08.01	09.08.06	SR	1356.663	Granted on 10.08.01
16	ESSO E & P. LTD	OML 133	8.2.06	7.2.26	PSC	425.7	Converted on 08.02.06
		OPL 214	13.06.01	12.06.11	PSC	2585.878	Granted on 13.06.01
17	EXPRESS PETROLEUM AND GAS CO. LTD	OML 108	1.11.95	31.10.2015	SR	759.07	Converted on 01.11.95
18	HERITAGE OIL AND GAS CO. LTD	OPL 247	06.04.04	05.04.14	PSC	1224	Granted on 06.04.04
19	NNPC/STAR DEEP/FAMFA	OML 127	25.11.04	24.11.24	PSC	1280.8	Converted on 25.11.04
20	MOBIL PRODUCING NIG. UNLIMITED	OML104	8.8.94	7.8.14	JVC	675.04	Converted on 08.08.94
		OML 67	DEC'1968	DEC.2008	JVC	118.89	Renewed in DEC'1968
		OML 68	DEC'1968	DEC.2008	JVC	119.27	
		OML 69	DEC'1968	DEC.2008	JVC	40.89	
		OML 70	DEC'1968	DEC.2008	JVC	1250.02	
21	MONI PULO LTD.	OML 114	MAR, 99	MARCH, 2019	SR	464	Converted in March, 99
22	NIGERIA AGIP EXPLORATION	OPL 211	5.7.93	4.7.2003	PSC	2263.7	Conversion in progress
		OML 125	21.01.03	20.01.23	PSC	1218.64	Converted on 21.01.03
		OPL 244	20.12.01	19.12.11	PSC	1692.336	Granted on 20.12.01
23	NIGERIA AGIP OIL CO.LTD	OML 60	14.6.97	13.6.27	JVC	375	Renewed on 14.06.97
		OML 61	14.6.97	13.6.27	JVC	1499.6	
		OML 62	14.6.97	13.6.27	JVC	1210.6	
		OML 63	14.6.97	13.6.27	JVC	2246.6	
24	NNPC/AENR	OML 116	6.8.99	5.8.2019	SC	360	Converted on 06.08.99
25	NNPC/ADDAX PET. DEV. CO.	OML 126	25.11.04	24.11.24	PSC	704.5	Converted on 25.11.04
		OPL 225	2000	2005	PSC	1987.3	Granted in 2000
		OML 123	14.8.02	13.8.22	PSC	400.897	Converted on 14.8.02
		OML 124	14.8.02	13.8.22	PSC	299.827	
26	NNPC/FES	OPL 702	JUNE'1967	Not applicable	SR	2573.5	Granted in JUNE'1967
		OPL 703	JUNE'1967	due to Section 20	SR	2772.1	
		OPL 705	JUNE'1967	of NNPC Act Cap	SR	2547.1	
		OPL 707	JUNE'1967	320 of LFN 1990	SR	2581.7	

2

Source: DPR

INVENTORY OF LICENCES AS AT 31ST DECEMBER 2005

S/N	NAME OF COMPANY	CONCESSION HELD	DATE GRANTED	EXPIRATION DATE	CONTRACT SIGNED	AREA (SQ. KM)	REMARKS
27	NIGERIA PET. DEV. CO. (NPDC)	OML 119	31.10.00	30.10.2020	SR	715.38	Converted on 31.10.00
		OML 111	1996	Not applicable	SR	460.76	Converted in 1996
		OML 64	SEPT. '89	due to Section 20	SR	278.3	Assigned in SEPT. '89
		OML 65	SEPT. '89	of NNPC Act Cap	SR	665.93	
		OML 66	SEPT. '89	320 of LFN 1990	SR	204.09	
28	NOREAST PET. NIG. LTD.	OPL 215	24.05.05	23.05.15	SR	2586.2	Granted on 24.05.05
29	OIL AND GAS NIG. LTD	OPL 249	06.05.03	05.05. 13	SR	2440.21	Granted on 06.05.03
30	OPTIMUM PET. DEV. LTD.	OPL 310	3.2.92	2.2.2002	SR	1934.51	Re-allocation yet to be approved
31	ORIENTAL ENERGY	OML 115	20.5.99	19.5.2019	SR	309.8	Converted on 20.05.99
32	ORANTO PETROLEUM LTD	OPL 320	March, 02	march, 2012	PSC	1789.443	Granted in March, 02
33	OCEAN ENERGY NIG. LIMITED	OPL 256	12.11.02	11.11.12	PSC	2553.117	Granted on 12.11.02
		OPL 242	19.03.04	18.03.14	PSC	2283	Granted on 19.03.04
34	PAN OCEAN OIL CORPORATION	OML 98	JUNE'1976	7.7.2018	JVC	522.86	Renewed in JUNE'1976
35	PEAK PETROLEUM INDUSTRIES LTD	OML 122	17.5.2001	16.5.2021	SR	1295	Converted on 17.05.2001
36	PETROLEO BRASILEIRO NIG. LTD	OPL 324	20.12.01	19.12.2011	PSC	1905.983	Granted on 20.12.01
37	PHILLIPS EXPL. (NIG) LTD	OPL 318	13.06.02	12.02.12	PSC	2530	Granted on 13.06.02
38	SHELL NIG.EXP & PROD. CO. LTD	OML 118	28.11.05	27.11.25	PSC	1166.62	Converted on 28.11.05
		OPL 219	20.11.91	19.11.2001	PSC	1851.46	Granted on 20.11.91
39	SHELL NIG.ULTRA DEEP LTD	OPL 245	22.12.2003	21.12.2013	PSC	1958.31	Granted on 22.12.2003
40	SHELL PET. DEV. CO.LTD	OML 4	01.07.89	30.6.19	JVC	267	Renewed on 01.07.89
		OML 11	01.07.89	30.6.19		3096.9	
		OML 13	01.07.89	30.6.19		1988.2	
		OML 16	01.07.89	30.6.19		103.007	
		OML 17	01.07.89	30.6.19		1301.25	
		OML 18	01.07.89	30.6.19		1034.992	
		OML 20	01.07.89	30.6.19		405.302	
		OML 21	01.07.89	30.6.19		372.97	
		OML 22	01.07.89	30.6.19		721.721	
		OML 23	01.07.89	30.6.19		482.57	
		OML 24	01.07.89	30.6.19		162.266	
		OML 25	01.07.89	30.6.19		429.119	

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Source: DPR

INVENTORY OF LICENCES AS AT 31ST DECEMBER 2005

S/N	NAME OF COMPANY	CONCESSION HELD	DATE GRANTED	EXPIRATION DATE	CONTRACT SIGNED	AREA (SQ. KM)	REMARKS
40	SHELL PET. DEV. CO. LTD (CONTD)	OML 26	01.07.89	30.6.19	JVC	480.38	Renewed on 01.07.89
		OML 27	01.07.89	30.6.19	JVC	164.634	
		OML 28	01.07.89	30.6.19	JVC	936.229	
		OML 29	01.07.89	30.6.19	JVC	982.955	
		OML 30	01.07.89	30.6.19	JVC	1097.066	
		OML 32	01.07.89	30.6.19	JVC	565.372	
		OML 33	01.07.89	30.6.19	JVC	336.402	
		OML 34	01.07.89	30.6.19	JVC	949.625	
		OML 35	01.07.89	30.6.19	JVC	1144.43	
		OML 36	01.07.89	30.6.19	JVC	337.713	
		OML 38	01.07.89	30.6.19	JVC	2152.321	
		OML 40	01.07.89	30.6.19	JVC	497.719	
		OML 41	01.07.89	30.6.19	JVC	291.052	
		OML 42	01.07.89	30.6.19	JVC	813.375	
		OML 43	01.07.89	30.6.19	JVC	766.799	
		OML 45	01.07.89	30.6.19	JVC	76.426	
		OML 46	01.07.89	30.6.19	JVC	1080.171	
		OML 72	01.12.88	30.11.2008	JVC	1129.2	
		OML 79	01.12.88	30.11.2008	JVC	970	
41	SOLGAS NIG. LTD.	OPL 226	27.2.91	26.2.96	SR	1553.32	Re-allocation not yet approved
42	SOUTH ATLANTIC PET. LTD	OML 130	25.04.05	24.04.25	SR	1295	Converted on 25.04.05
43	SUMMIT OIL INT.	OPL 205	20.01.04	19.01.2009	SR	2094.92	Granted on 20.01.04
44	SUNLINK PETROLEUM LTD.	OPL 238	31.03.05	20.03.15	SR	95.64	RE-ALLOCATED
		OPL 311	21.01.93	20.01.2003	SR	2036.55	YET TO BE RE-ALLOCATED
45	TEXACO OVERSEAS NIG. LTD.	OML 83	DEC'1968	DEC.2008	JVC	109.3	Renewed in DEC'1968
		OML 85	DEC'1968	DEC.2008	JVC	514.9	
		OML 86	DEC'1968	DEC.2008	JVC	498.3	
		OML 88	DEC'1968	DEC.2008	JVC	772.8	
46	TEXACO OUTER SHELF NIG. LTD	OML 132	22.12.05	21.12.25	PSC	804.07	Converted on 22.12.05
47	YINKA FOLAWIYO PET.	OML 113	11.6.98	10.6.2018	SR	1669.96	Converted on 11.6.98
48	ZEBBRA ENERGY LIMITED	OPL 248	06.04.04	05.04.14	SR	2447.61	Granted on 06.04.04

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Source: DPR