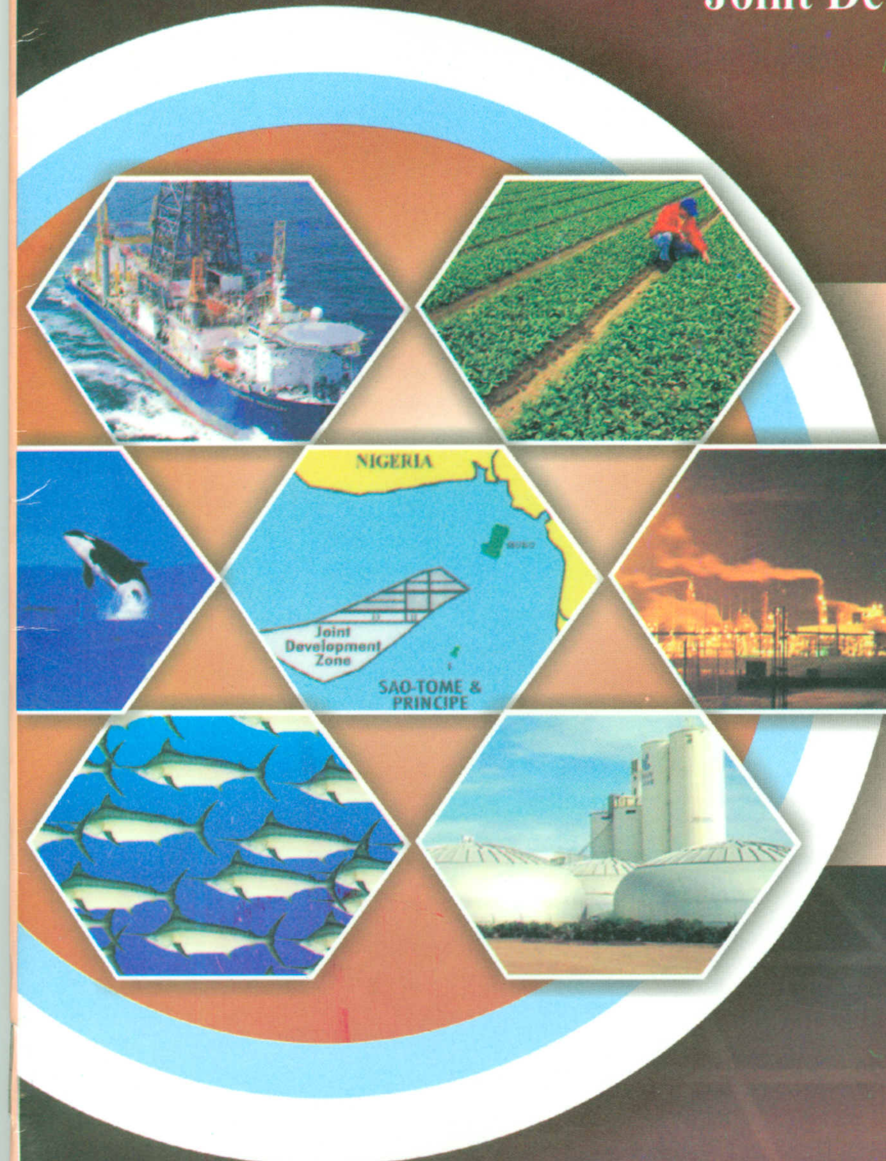
28

Nigerian Sao Tome & Principe
Joint Development Authority



JDA

THE Journey SO FAR

B R I E F

ON THE

ACTIVITIES
OF THE
NIGERIA-SAO TOME AND PRINCIPE
JOINT DEVELOPMENT AUTHORITY (JDA)

THE
Journey
SO FAR

MARCH 2006

His Excellency, Chief Olusegun Obasanjo GCFR

President and Commander-In-Chief of the Armed Forces,
Federal Republic of Nigeria

His Excellency, Fradique De Menezes

President of the Democratic Republic of Sao Tome and Principe

PREAMBLE -

The Nigeria-Sao Tome and Principe Joint Development Zone (JDZ) is a product of extensive negotiations and consultations between the Governments of the Federal Republic of Nigeria and the Democratic Republic of Sao Tome and Principe (DRSTP).

In what started as a maritime boundary dispute after claims and counter claims, the two countries were able to arrive at a consensus to jointly pursue the exploitation of natural resources and development of the area of overlapping maritime boundary claims.

BACKGROUND -

The DRSTP passed the "Official Maritime Law" in March 1998 and deposited it with the United Nations. This Law established the limit of DRSTP's maritime claim at the median line with Nigeria. On the other hand, the Nigerian Exclusive Economic Zone (EEZ) Laws of 1978 recognized median lines as a basis of delimiting maritime boundaries with other countries. This Law was modified by Decree No.41 of 1998, which removed the reference to median lines and replaced it by "Negotiated Settlement."

Based on this, there was a considerable overlap between the maritime boundaries of the two countries situated in the Gulf of Guinea. President Olusegun Obasanjo of Nigeria and former President Miguel Trovoada of DRSTP met in Abuja in November 1999 to find ways and means of resolving the issue. Consequently, the two Presidents mandated a Joint Ministerial committee to further discuss and come up with an amicable solution to the problem (i.e. a single maritime boundary).

Maritime boundary talks between the two countries commenced on the 17th December 1999. Six months into the talks, there was no convergence on a maritime boundary, thus, by August 2000, the Heads of State decided on a Joint Development Zone (JDZ) and mandated the Technical Committee made up of representatives from both countries, to negotiate the JDZ Treaty.

The extensive negotiations culminated in the signing of the Treaty, which formally established the JDZ in the area of overlapping maritime boundary claims on 21st February 2001. The Treaty, which has been deposited in the United Nations, has been ratified by the Parliaments of the two countries.

THE JOINT PLANNING COMMITTEE -

Following the signing of the Treaty, a Joint Planning Committee (JPC) was set up to facilitate the takeoff of the Nigeria-Sao Tome and Principe Joint Development Authority (JDA). This led to the inauguration of the Joint Ministerial Council (JMC) and the Board of the Joint Development Authority on the 16th January 2002, in Abuja, Nigeria, by the Presidents of the two countries.

THE TREATY -

The Treaty establishing the JDZ was signed between the two countries on 21st February 2001 in Abuja. The Treaty derives its legal basis from the provisions of the United Nations Convention on the Laws of the Sea (UNCLOS). Specifically, Article 74(3) of the UNCLOS "encourages States with opposite coast, in a spirit of understanding and cooperation, to make every effort, pending agreement on delimitation, to enter into provisional arrangement of a practical nature, which do not jeopardize or hamper the reaching of a final agreement on the delimitation of their Exclusive Economic Zones."

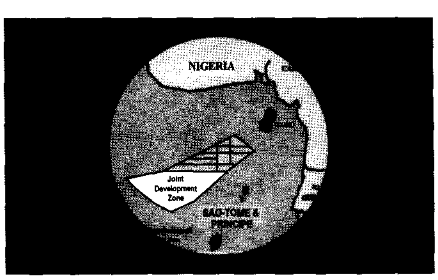
KEY PROVISIONS OF THE TREATY -

The key provisions of the JDZ Treaty include:

* *The establishment of the JDZ in a specific area defined by coordinates;*
* *The establishment of the Joint Development Authority (JDA) to develop and manage the petroleum and other natural resources in the JDZ;*
* *Sharing the proceeds in the proportion of 60 per cent (Nigeria) and 40 per cent (DRSTP);*
* *The Treaty is valid for 45 years subject to a review after 30 years;*
* *There will be no renunciation of claims for the period the Treaty is in force*
* *An independent legal personality for the JDA;*
* *A Joint Ministerial Council (JMC) to have the overall political responsibility and to supervise the JDA.*

THE JDZ -

The JDZ is an area of overlapping maritime boundary claims, which is defined by coordinates. It covers an area of 34,450 sq. km. in the oil-rich Gulf of Guinea.



The Gulf of Guinea is one of the most prolific hydrocarbon provinces of the world. Intensive exploration efforts over the last 35 years in and around the Niger Delta in particular has led to a succession of the significant discoveries, notably the Bonga, Agbami/Ekoli and Akpo discoveries in Nigeria and Zafiro and Alba in Equatorial Guinea. The full potential of the continental slope and rise seaward of the shelf break is becoming apparent, with a number of exploration programmes having resulted in world-class discoveries being made in recent years.

The JDZ, as defined by the Treaty, is to be jointly developed and managed by the JDA on behalf of the two countries and the proceeds shared between them on the agreed formula. The JDZ has become a veritable tool for conflict resolution and economic integration in regional and international politics.

THE JOINT DEVELOPMENT AUTHORITY -

The JDA is, in accordance with the Treaty, charged with the responsibility of managing the activities relating to exploration for and exploitation of the resources in the Zone. The Board of the JDA was inaugurated on 16th January 2002, thus marking the formal commencement of the activities for the development of the resources in the Zone.

Amongst others, the functions of the JDA include:

* *The carving out of the JDZ into contract areas or blocks, the negotiation, tendering for and supervision of contact in respect of such areas;*
* *Collecting and distributing between the two States Parties, the proceeds or products of the Authority's share of production from development contracts;*
* *The establishment of safety and restricted zones, consistent with international law, to ensure the safety of navigation, petroleum and fishing activities;*
* *Regulation of marine and scientific research in the Zone; and*Such other functions as the Joint Ministerial Council may assign to it from time to time.*

The JDA is structured into four Departments each headed by an Executive Director, as follows:

(i) Monitoring and Inspections Department responsible for regulating the exploration and development of the petroleum resources in the Zone;

(i) Commercial and Investments Department responsible for commercial issues, planning and management of investments;

(ii) Non-Hydrocarbon Resources Department responsible for the promotion and development of other natural resources in the JDZ, especially fisheries;

(iii) Finance and Administration Department responsible for finance and accounts, budgets, procurement and human resources.

One of the four Executive Directors is appointed the Chairman of the Board of JDA as stipulated by Article 10.9 of the Treaty.

The Vision and Mission Statements of the JDA are as follows:

*(i) **Vision** -*

The attainment of Regional and African Cooperation and Integration through the development of economic resources.

*(ii) **Mission** -*
To ensure the efficient development of the resources in the Joint Development Zone (JDZ) for the mutual benefit of the two countries. This will help consolidate the existing relations between the governments and peoples of the two nations and serve as an enduring example for other countries of Africa and the world to emulate.

2003 LICENSING ROUND

The Joint Ministerial Council at its Third Meeting in Abuja on the 4th of April 2003 instructed the JDA to create a Licensing Round Committee to supervise and manage the 2003 JDZ Licensing Round. Based on this directive, the Board of the JDA constituted a nine-member Licensing Round Committee at its 7th Meeting, on the 9th of April 2003.

PRE-EVALUATION ACTIVITIES:

The successful launching of the licensing round was predicated on the execution of the following:

i) Data acquisition and sales
ii) Regional Interpretation and Block re-configuration
iii) Review of legislation, PSC and Guidelines
iv) Publicity

LEGAL AND REGULATORY FRAMEWORK:

Prior to the announcement of the tender, the JDA prepared the necessary documentation, which provided the legal and regulatory framework for the 2003 JDZ Licensing Round. These documents included:

i) The Petroleum Regulations
ii) The Tax Regulations
iii) The Model PSC
iv) The Guidelines for Investors

All these documents were presented and approved by Council at its meeting in March/April 2003.

DATA ACQUISITION AND SALES:

Prior to the announcement of the Licensing Round, it was necessary to provide prospective investors with the seismic data necessary to evaluate the blocks and make investment decisions. In line with the agreements reached during the negotiation of the Treaty, contracts for the acquisition of speculative seismic data entered into, by the two countries prior to the creation of the JDZ were maintained. This was however subject to their being brought under the umbrella of the JDA. These contracts included:

i) The Digital/Veritas contract for the acquisition of 2D data
ii) The PGS contract for the acquisition of 3D data
iii) The WesternGeco contract for the acquisition of 2D data

The JDA also entered into a contract for the acquisition of surface geo-chemical cores with Global Energy Resources and TDI Brooks. A coordinated marketing campaign was embarked upon by the JDA and the seismic vendor companies.

ANNOUNCEMENT OF TENDER:

The 2003 JDZ Licensing Round was announced at a press conference held in Abuja on the 22nd of April 2003. A total of nine blocks situated in the northern part of the JDZ were put up for tender to investors. The Round remained open for six months and was brought to a close on 18th October 2003.

In order to effectively publicise the Round, adverts announcing the Tender were placed by the JDA in local and international newspapers and magazines. Presentations were made by the JDA at several international conferences and seminars.

REVENUE:

Revenues totalling US$1,510,769 were generated during the 2003 JDZ Licensing Round. This revenue accrued from the sale of data, bid packages and the collection of processing fees.

i) *Data Sales:*
Royalty from data sales collected was US$535,769. These royalties were collected from data sales by PGS and WesternGeco.

ii) *Bid Package Sales:*
A total of 43 bid packages were sold to 26 companies at the rate of US$15,000 per bid package, out of these a total of 33 bids were submitted upon payment of US$10,000 per bid for the processing. The total amount realised by the JDA from sale of bids and processing fees was US$975,000.00.

POLICY OBJECTIVES:

The proceedings of the Licensing Round were guided by several underlying policy objectives that derived essentially from:

i) *The Treaty*
ii) *The Guidelines and Regulations*
iii) *Professional Standards*
iv) *Principles of Transparency and Accountability*

In line with the aforementioned policy objectives, the need to have a coherent result that was internationally acceptable and that would meet the rigours of scrutiny was prime to the JDA.

The JDA in executing 2003 Round took into consideration the need to ensure the sustainable and optimal development of the hydrocarbon resources of the Joint Development Zone. In this respect, consideration was given to the need for fast track development of the JDZ as stated in the Treaty while paying attention at the same time to efficiency and long term potential.

A balance was maintained between the need to attract new investors and the introduction of non-discriminatory evaluation parameters. Cognisance was taken of the need to promote the transfer of technology and to encourage enhanced economic activity in the States Parties.

Finally, the Round did not lose sight of the inherent peculiarity that characterises the oil industry:- technical and financial expertise. In this regard, the need to have experienced companies that were familiar with the development of oil and gas resources present in the JDZ was prime.

EVALUATION PROCEDURE:

Prior to the commencement of the evaluation of the bids, an evaluation procedure consisting of two components was established as:
(i) Methodology
(ii) Marking Scheme
These were predicated on the Guidelines to Investors for the 2003 JDZ Licensing Round and resolutions reached at meetings of the Licensing Round Committee.

METHODOLOGY:

As indicated in the Guidelines, the evaluation procedure was based on a Technical Evaluation followed by a Commercial Evaluation. Furthermore, only the commercial offers of technically qualified companies that attained a minimum 60% score would be opened. It was also agreed as stated in the Guidelines that once a company qualifies technically, the commercial value of the bid will be the key decision making parameter.

TECHNICAL EVALUATION MARKING SCHEME:

The overall technical evaluation criteria used was as follows:

Criterion	***Weight percent (points)***
Technical capability of company	*27*
Work programme commitment	*20*
Geological Interpretation	*20*
Development Proposals	*15*
Environmental Policies	*10*
Local Content	*8*
Total	*100*

RECOMMENDATIONS:

In taking decisions on each particular block the JDA decided on a cut-off number for which participation will be terminated. This number varied from 3 to 4 and depended on the size of the block, the number of bidders, how close the bids were and technical expertise. The distribution of the percentage stakes was guided by the need to ensure at least one good potential operator in any block.

Based on the results and observations and recommendation of the JDA, the Joint Ministerial Council however approved the award of only block 1 out of the nine blocks offered. The equity structure for the block is as follows:

RECOMMENDATIONS		
BLOCK 1	*Chevron Texaco*	*51%*
	Dangote/Energy Equity Resources	*9%*
	ExxonMobil (Existing Rights)	*40%*

The JMC was unable to approve the award of the rest of the blocks, due to lack of technical and commercial experience of the participating companies.

The Production Sharing Contract (PSC) negotiations between the JDA and the companies that were awarded JDZ Block 1 began on 14th July 2004, this was concluded in January 2005. The PSC was signed on 1st February 2005. The companies have all paid their own share of the US$123 million signature bonus for the block.

Management Committee for Block 1, as specified in Clause 8 of the Production Sharing Contract, has been formed with the responsibility of providing orderly direction of all matters pertaining to the petroleum operations and work programme.

The bona fide high bid (defined as highest bid from a company with both technical and financial capability to operate the block) was approved by the JMC in the 2004 round as follows:

BLOCK 2 - ... ... *$71 million*

BLOCK 3 - ... ... *$40 million*

BLOCK 4 - ... ... *$90 million*

BLOCK 5 - ... ... *$37 million*

BLOCK 6 - ... ... *$45 million*

Also, based on the evaluation results for the 2004 round, exercise of pre-emption rights by ExxonMobil and ERHC, and recommendations of the JDA, the JMC approved the following Equity Structure per block. This Equity Structure was publicly announced by the two heads of Government, of the Federal Republic of Nigeria and Democratic Republic of Sao Tome and Principe in Abuja on 31st May 2005, as shown in the table below:

COMPANY/BLOCK	SIGNATURE BONUS	EQUITY	REMARK
BLOCK 2	$71 million		
Devon/Pioneer/ERHC (including existing Rights)		65	Operator
Equator Exploration/ONGC Videsh		15	
A. & Hartman		10	Nil
Foby Engineering		5	Nil
Momo Oil & Gas		5	Nil
BLOCK 3	$40 million		
Anadarko		51	Operator
Devon/ERHC (including existing rights)		25	Nil
DNO/EER		10	Nil
Equinox		10	Nil
Ophir/Broadlink		4	Nil
BLOCK 4	$90 million		
Noble/ERHC (including existing rights)		60	Operator
Conoil		20	Nil
Hercules		10	Nil
Godsonic Oil and Gas		5	Nil
Overt		5	Nil
BLOCK 5	$37 million		
ICC/OEOC Consortium		75	Operator
ERHC (Existing Rights)		15	Nil
Sahara		10	Nil
BLOCK 6	$45 million		
Filthim-Huzod Oil & Gas		85	Operator
ERHC (Existing Rights)		15	Nil

However, after the awards were announced and negotiation of the PSCs commenced, there were some companies that opted out of some consortia. For example, Pionner/Devon which were originally in Block 2 as Operator withdrew and SINOPEC replaced them as Operator after signing a Memorandum of Understanding (MOU) with ERHC.

Similarly, Noble which was the designated Operator for Block 4 withdrew giving way to Addax Petroleum after signing an MOU with ERHC.

After extensive and exhaustive negotiations, the Production Sharing Contractors for some blocks were signed as follows:

14th March 2006 - Blocks 3 and 4

15th March 2006 - Block 2

The remaining PSCs for Blocks 5 and 6 will be signed very soon.

The Executed PSCs and Equity stake of the blocks are as follows:

NIGERIA-SAO TOME AND PRINCIPE JDZ
EXECUTED PSCs EQUITY STAKE

COMPANY/BLOCK	***SIGNATURE BONUS***	***EQUITY***	***REMARK***
BLOCK 2	*\$71 million*		
ERHC/SINOPEC/ADDAX (including existing rights)		*65*	*SINOPEC - Operator*
EQUATOR EXPLORATION JDZ BLOCK 2 LTD / ONGC NAMARDA LTD		*15*	
A & HATMAN LTD		*10*	
FOBY ENGINEERING LTD		*5*	
MOMO DEEPWATER JDZ LTD		*5*	
BLOCK 3	*\$40 million*		
ANADARKO		*51*	*ANADARKO - Operator*
ERHC/ADDAX (including existing rights)		*25*	
EER EQUINOX DEEPWATER		*10*	
JDZ LIMITED		*10*	
OPHIR ENERGY COMPANY NIGERIA(JDZ) LTD		*4*	

BLOCK 4	*$90 million*		
ERHC/ADDAX		*60*	*ADDAX - Operator*
CONOIL		*20*	
HERCULES/CENTURION		*10*	
GODSONIC OIL AND GAS LTD.		*5*	
OVERT		*5*	

NIGERIA-SAO TOME AND PRINCIPE JDZ PSCs EQUITY STAKE TO BE EXECUTED SOON

COMPANY/BLOCK	***SIGNATURE BONUS***	***EQUITY***	***REMARK***
BLOCK 5	*$37 million*		
ICC/OEOC CONSORTIUM		*75*	*Operator*
ERHC (existing rights)		*15*	
Sahara Energy Fields/Denham Management		*10*	
BLOCK 6	*$45 million*		
FILTHIM-HUZOD OIL & GAS		*85*	*Operator*
ERHC (existing rights)		*15*	

OIL EXPLORATION ACTIVITIY AND OVERVIEW ON JDZ BLOCK 1 OBO-1 WELL

On 14th January 2006, ChevronTexaco commenced drilling the first well in the JDZ.

The operator of JDZ Block 1 (ChevronTexaco) spudded the first well in JDZ Block 1 named "Obo-1" with Transocean "Deepwater Discovery" Drillship.

The reported location information of the well is:

Well	*Obo 1 (Exploratory well)*
Latitude	*002° 55.3261'*
Longitude	*006° 51.5754'*
Water Depth	*1747 metres*

The main objective of the well is to test for the presence of hydrocarbons in the five primary and four secondary reservoir levels. Objective reservoir sands include the Miocene, and Oligocene. The primary objectives are the 7.5, 8.2, 10.5, 13.8 and 16.5 Ma (Ma-Million years ago) sequences. Secondary objectives of the well are the 12.5, upper 13.8, 25.5 and 36.6 Ma sequences. The evaluation of the well results resulted in the well being programmed for well suspension.

The JDZ Block 1 Obo-1 well TD in the Oligocene achieving a TVDSS of 15,379 ft but encountered a stuck pipe and pipe was severed at 15,164 ft. The well is a straight hole and the closest well is the Egina-02 well in Block 246 which is approximately 19 kilometers northwest of the Obo-1 well. A geologic sidetrack will be planned in the event of a successful hydrocarbon appraisal, to further facilitate the development plan of the Obo field.

The Obo prospect area with Obo-1 as one of the prospect, lies on the edge of a fold and thrust belt which formed during the Middle to Late Miocene time. The Geological Evaluation after the drilling operations will shed more light on the stratigraphy. Although, the Obo structure is expected to be minor, and sands are expected to have been deposited over the area where the structure currently exists. The expected reservoirs at the Obo location are fine to medium grained (mean grain size of 0.20mm), moderately sorted, unconsolidated subarkosic sandstones. Excellent porosity and permeability are anticipated. These reservoirs have been proven commercially viable inboard at various other well locations, notably, the Agbami Field.

The Obo structure is large detachment fold that formed as a result of propagation of an Akata level fault from north to south. The Obo-1 well is located in the southern portion of a large east-west trending "megastructure".

The principal top seals are mudstone intervals deposited during sea level highstands over the reservoir targets. These seals have been proven on a regional scale and in nearby wells.

It is expected that any hydrocarbon products found will be oil, with API gravities equivalent to that found in the area.

NON-HYDROCARBON DEPARTMENT

In accordance with the treaty establishing JDA and consequently, the non-hydrocarbon department, efforts are underway in setting up the department to be a fully functional and consistent contributor to the revenue base of the organization.

In the development of a long-term sustainable business, the department's immediate plan as part of our overall strategy is to work in concert with the Monitoring & Inspections Department in sponsoring the baseline study of the resources in the zone as well as obtaining data via satellite. The aim of these studies is to ensure there is a good database of the different kinds of fishes in the zone and seasons when they are found in commercial quantities.

In addition to the soon-to-begin studies, the department has started to engage in discussions with companies that have interest in working with it to explore the potentials of the non-hydrocarbon resources in the zone. Our short-term goal is to concentrate our efforts in getting these badly needed information and work on building the capacity of our current staff whilst aggressively recruiting for other experienced staff in the fisheries sector.

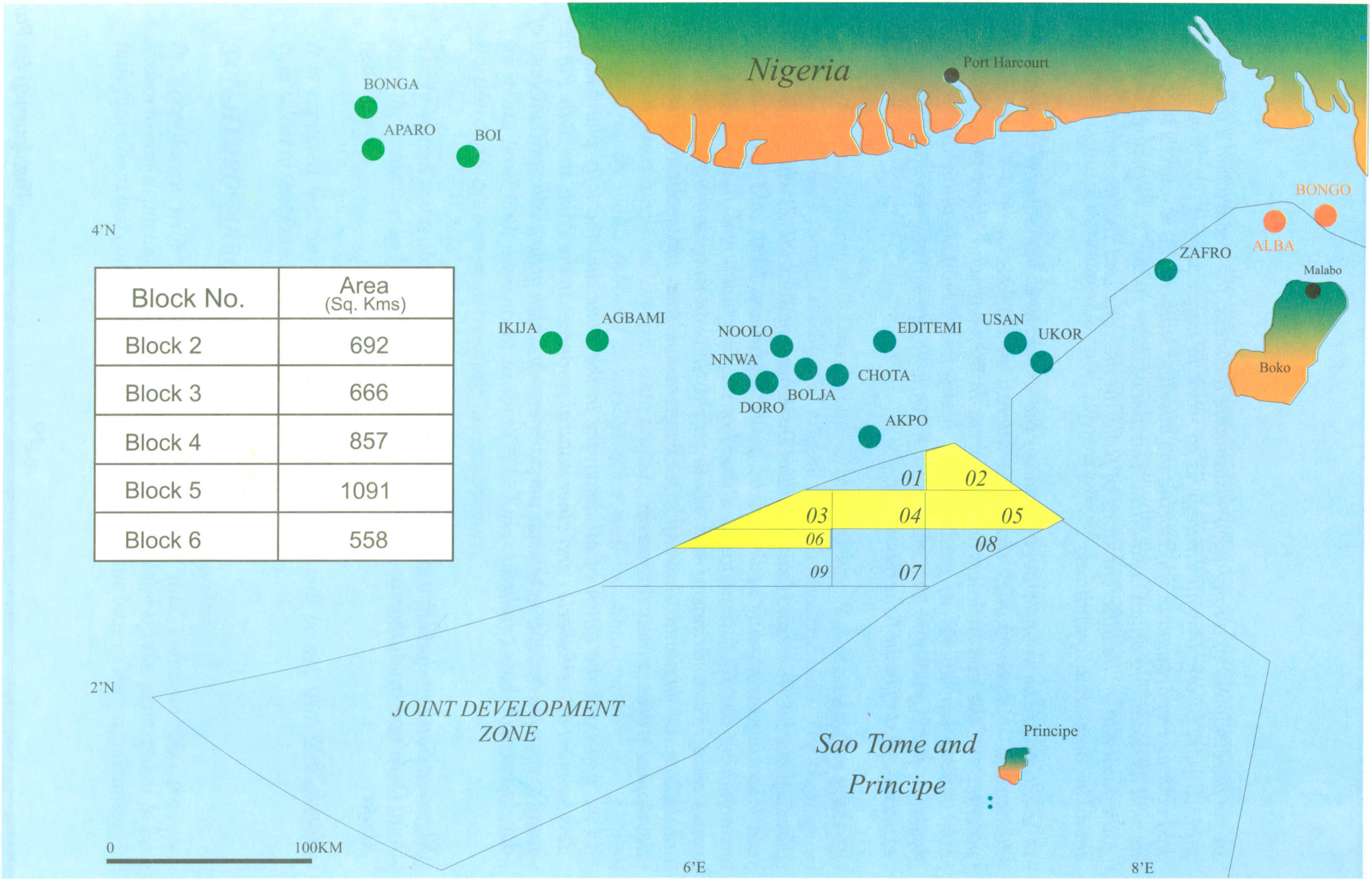
CONCLUSION -

The Nigeria-Sao Tome and Principe Joint Development Zone (JDZ) which is five years old following the signing of the Treaty on 21st February 2001, and four years after establishing the JDA, is undoubtedly one of the few functional Joint Development zones in Africa and indeed the whole world. It is blazing the trail towards the attainment of regional and African cooperation and integration through the development of economic resources.

As we approach the dawn of oil discovery in the Zone and the lofty plans for the development of the fisheries and other natural resources in the Zone, the State Parties stand to reap the benefits of this mutual partnership which in turn will uplift the level of development in those countries.

Nigerian-Sao Tome and Principe
Joint Development Authority
Abuja

March 2006



Block No.	Area (Sq. Kms)
Block 2	692
Block 3	666
Block 4	857
Block 5	1091
Block 6	558