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1.0 PREAMBLE

The Federal Ministry of Petroleum Resources has the mandate for the overall articulation and implementation of policies in the oil and gas sector of the Nigerian economy. In addition to general coordination roles, it carries out administrative coverage across all the departments and agencies.

The Honourable Minister of Petroleum Resources supervises the activities of the Ministry, Departments and Agencies in the sector, government’s interests and investments in the industry, as well as cooperates with other relevant government Ministries and Agencies to ensure sustained value delivery and growth.

The Department of Petroleum Resources (DPR) is the technical arm of the Ministry of Petroleum Resources with broad responsibility for implementing government policies, ensuring regulatory compliance, managing collection of royalties, and licensing of petroleum operations as guided by the Petroleum Act.

The core roles of the DPR include the following:-

i. Advising on policy matters affecting the management of Petroleum Resources.

ii. Initiating petroleum policies.

iii. Ensuring compliance with petroleum laws and regulations.
iv. Regulating and monitoring the activities of companies operating within the oil industry.

2.0 PETROLEUM (AMENDMENT) DECREE NO 23, 1996

A key policy of government is to enhance growth in the exploration and production of petroleum resources. In implementing this policy, government pays particular attention to a number of reported oil and gas discoveries that exist in Nigeria Delta, some of which through time have been left unattended for very many years. In most cases, they have remained unproduced, and only in a few cases partially appraised.

The consequence of the above was the enactment of the Petroleum Decree as amended and cited as Decree No. 23 of 1996 which allowed exploration and production access specifically by indigenous companies to these seemingly un-attended fields.

3.0 EMPOWERMENT

Pursuant to the relevant provision of the Petroleum (Amendment) Decree No. 23, 1996, it is the intention of Government to carry out in collaboration with operating companies, farm-out of unproduced, unappraised, abandoned or producing fields on existing OML to independent leaseholders and indigenous companies on a periodic basis.
Such operations would be regulated by legislation guiding the petroleum industry in Nigeria. These include:

i. Oil Pipeline Act 1956, as amended in 1965


iii. Mineral Oils (Safety) Regulations, 1963


v. Petroleum Act, 1969


4.0 OBJECTIVES OF THE 2013 MARGINAL FIELDS LICENSING ROUND

As in all cases, all bid rounds are guided by clear set of objectives. In the case of the 2013 Marginal Fields awards, the objectives have been prepared pursuant to the provisions of paragraph-16 of the first schedule of the Petroleum Act 1969, and the Petroleum (Amendment) Decree No 23, 1996.

Accordingly, the broad objectives of the 2013 Marginal Fields awards are as follows:
i. Grow production capacity by expanding the scope of participation in Nigeria’s Petroleum sector, through diversification of resources and inflow of investments.

ii. Increase oil and gas reserves base through aggressive exploration and development effort, in particular the deeper hydrocarbon plays.

iii. Provide opportunity for portfolio rationalization.

iv. Promote indigenous participation in the sector thereby fostering technological transfer.

v. Provide opportunity to gainfully engage the pool of high level technically competent Nigerians in the oil & gas sector.

vi. Promote common usage of assets/facilities to ensure optimum utilization of available capacities.

5.0 DEFINITION OF MARGINAL FIELDS

A marginal field is any field that has (oil and gas) reserves booked and reported annually to the Department of Petroleum Resources (DPR) and has remained un-produced for a period of over 10 years.

Specifically, marginal fields shall have some or all of the following characteristics:

i. Fields not considered by license holders for development because of assumed marginal economics under prevailing fiscal and market terms.
ii. Fields with at least one exploration well drilled and have been reported as oil and or gas discovery for more than 10 years with no follow up appraisal or development effort.

iii. Fields with crude oil characteristics different from current streams (such as crude with very high viscosity and low API gravity), which cannot be produced through conventional methods or current technology.

iv. Fields with high gas and low oil reserves.

v. Fields that have been abandoned by the leaseholders for upwards of three years for economic or operational reasons.

vi. Fields that the present leaseholders may consider for farm-out as part of portfolio rationalization programmes.

It should be noted that un-produced discoveries in open leases (blocks) do not qualify for farm-out as they would constitute part of the whole acreage that would be awarded in new license rounds to further encourage exploration activities on the blocks.

6.0 CATEGORISATION AND PREQUALIFICATION

6.1 Categorization of Marginal Fields.

Operating Companies shall carry out field studies, up-date their portfolio of undeveloped fields and report status to the Department of Petroleum Resources (DPR) on a periodic basis. A listing of all fields that could be classified as “Marginal” pursuant to paragraph 5.0 shall be presented and agreed to by DPR.
6.2 The Process

On periodic basis as may be determined and directed by the Minister of Petroleum Resources, the DPR shall carry out allocation of Marginal fields guided by an approved process. The overall programme will begin with formal announcements of the fields available for round, as well as the guidelines which will facilitate the process from start to finish. Engagement opportunity through town hall sessions will be held to clarify the process and guidelines.

Detailed milestones thereafter will include the following steps:-
- Submission of application by interested companies
- Prequalification of interested companies
- Announcement of Pre-qualified companies
- Submission of detailed Technical and Commercial Bids by Prequalified companies
- Evaluation of Technical and Commercial Bids
- Announcement of Winning Bids.

The DPR will manage the process, ensuring compliance to the tenets of the guidelines.

6.3 Announcement to kick off the Programme

The fields on offer shall be publicly announced and companies shall be invited to submit proposals in consonance with approved guidelines. Similar information will also be available in the DPR website.
6.4 Applicable Fees

The application form (for bidding) which will be provided by the Department of Petroleum Resources (DPR) shall attract non-refundable chargeable fees as follows:

- Application fee: \( N=200,000.00 \) (Two Hundred Thousand Naira) per field.
- Data prying fee: \( \$3,000.00 \) (Three Thousand US Dollars) per field. Data prying shall be on appointment.
- Bid Processing Fee: \( N=300,000.00 \) (Three Hundred Thousand Naira) per field.

Application Fee and Bid Processing Fee shall be paid into Consolidated Revenue Fund Account (in Certified Bank Draft) while Data Prying Fee shall be paid into DPR/NDR Account (by Telegraphic transfer). These fees would be required during submission of application by all interested companies.

6.5 Criteria for Evaluation

Interested companies will be expected to submit the following information which will be the basis for the evaluation of all applications.

i. **Company Details.**

   - Mission and Vision
   - Registration (DPR, Company register, etc)
   - Shareholders-

   .
Register & Details of main shareholders

→ Paid up share capital.

• **Directors and Managers**
  → Function, responsibilities
  → Background, education, experience
  → Other Business interests

• **Staff**
  → Functions, responsibilities
  → Education, experience

• **Affiliates & Other Business Interests of the Company**

• **Procedures and systems**
  → Business and Health Safety & Environment (HSE) principles.
  → Recruitment and training policy
  → Organisational chart
  → Business controls

• **Plans if awarded marginal field**
  → Organisational plans; charts and details on new functions if any
  → Recruitment, learning and training plan

• **Financial strength**
  → Company Accounts (Balance sheet, assets, bank balances, liabilities, audit reports)
  → Plans and ability to raise the required funds
ii. Evidence of the Company’s Technical and Managerial Capability

The applicant shall demonstrate ability to fully meet the objective of undertaking expeditious and efficient development of a Marginal Field. Where there is little or no track record of petroleum operations, interested companies would be expected to demonstrate ability to manage or develop in that direction in the short to medium term.

iii. Premium

Company shall confirm willingness to pay a Signature Bonus of $300,000 (Three Hundred Thousand US Dollars) if successful. Such monies will be paid into the CBN/Accountant – General FGN Account by Telegraphic Transfer.

iv. Nigerian Content

Local content in terms of involvement of competent Nigerians in the Management as well as commitment to training and growth of indigenous capability, manpower and local input in the provision of materials and services to the industry shall be indicated.

v. Local Community/State
Consideration for local Community/State participation, as well as commitment to social project and/or proposal aimed at the social-economic development of the populace in the Local Community/State.

vi. Evidence of Payments
This will include payment of the statutory application fee and bidding fees stated in paragraph 6.4 above.

vii. Nature of Company
The indigenous company shall be substantially Nigerian and shall be registered solely for exploration and production business. At the pre-qualification stage, attention shall be paid to the following regarding the promoting team:
- Background and experience with exploration and production at sufficiently high level.
- Niger Delta representation.
- Federal Character representativeness

viii. Fields
The companies shall indicate in their pre-qualification submission which field(s) they wish to be pre-qualified for.
ix  Eligibility to Participate

Pre-qualification will be open to all indigenous companies that are duly registered to carry out petroleum exploration and production operations in Nigeria. In addition, organised local Communities (as Companies) and similarly organized States may participate in the bidding rounds.

6.6  Method of Pre-qualification

i. The pre-qualification exercise shall be done on the basis of objective criteria, guided by rules which will be applied evenly and thoroughly, in addition to the requirements and conditions stated in the notification.

ii. The Department of Petroleum Resources will conduct the pre-qualification exercise and is not obliged to pre-qualify any of the applications received.

iii. No more than five companies shall be pre-qualified per field.

6.7  Time Line

The overall process is not expected to take longer than 6 months, from date of announcement to contract signing with the leaseholders. Adequate time will be allowed for data prying and submission of applications.
7.0 EVALUATION AND SELECTION

Submission requirements for field specific bids shall be made available after the pre-qualification exercise.

Pre-qualified companies shall thereafter be invited to submit a field specific technical and commercial bid based on relevant field data made available by the leaseholder and/or DPR.

7.1 Selection Committee

A selection Committee shall be set up with the following membership: Three (3) representatives from DPR (including chairman), and two (2) others, one each from the NNPC and the Operator.

7.2 Technical proposal

Details of the work programme any company considers will ensure optimal development of the field shall be stated.

7.3 Commercial Proposal

In addition to detailed technical work programmes, careful evaluation of the commercial proposals submitted by bidders will be carried out to understand which field development concepts/plans are optimal, as well as most economically robust. This shall be submitted only at the stage of field specific bid.

7.4 Method of Selection
The 2013 Marginal Fields Licensing Round will be based on competitive participation by interested companies and entities. The application, together with requisite information and documentation will be screened by the Selection Committee prior to making recommendations. Only the companies that submitted bids with the highest scores will be selected for the award of the fields. The overall evaluation and selection process will be guided by the criteria specified in the guidelines, in addition to whatever additional information considered necessary by bidders.

8.0 ANNOUNCEMENT OF SELECTED FARMEE

Following completion of the pre-qualification and selection processes, a recommendation shall be made to the Honourable Minister of Petroleum Resources and subsequently to the President and Commander in Chief of the Armed Forces of Nigeria pursuant to the Petroleum (Amendment) Decree, 1996 for approval. Successful applicants shall thereafter be duly notified by the DPR.

9.0 NEGOTIATION OF AGREEMENT

Where two or more companies decide to participate jointly, the Leaseholder and the Parties shall promptly enter into negotiations regarding the terms and conditions of the Farm-out Agreement. The Parties shall endeavour to reach an agreement within 90 days. However, in the event that the Parties fail to reach an agreement
with respect to any of the terms and conditions, either Party may notify DPR. In such cases, the Minister of Petroleum Resources shall adjudicate in respect of the relevant terms and conditions.

Where two or more companies are awarded one field, the Joint Operating Agreement (JOA) shall be negotiated and agreed/executed prior to signing the Farm out Agreement with the Leaseholder.

10.0 PAYMENT OF SIGNATURE BONUSES AND OTHER FEES

i. On the grant of a Marginal field, the Signature Bonus shall be paid within the period of 90 days from the date of award.

ii. If a company fails to pay the required Signature Bonus at the expiration of the 90 day period, a revocation notice, which shall last 30 days shall be given.

iii. If the company is then unable to pay up within the 30 days of the revocation notice, the allocation shall be revoked without further notice.

11.0 EQUITABLE CONSIDERATION

In reaching an agreement on terms and conditions of the farm-out arrangement, the parties must as of necessity agree on equitable consideration and structure of same. To facilitate such a negotiation, it is important for each party to determine on its own the worth of the farm-out interest on offer (taking into account the status of the field i.e. whether it is in the appraisal or
development phase of its life cycle as such consideration affects
the value and associated risks).

However, in the event that the parties fail to reach an agreement,
the Minister shall then adjudicate in the matter.

12.0 OTHER COMMERCIAL CONSIDERATIONS

Any of the following shall apply:

i. **Over-riding Royalty**: The Farmor will earn an Over-riding
   Royalty interest.

ii. **Tariff for Transportation and/processing**
   Under this scheme, the Farmor receives a negotiated $/bbl as
tariff from the Farmee. Payment could also be in kind; i.e. in
the form of a percentage of the net production.

13.0 ELEMENTS OF FARMOUT AGREEMENTS

i. **Indemnity**

The activities of a Marginal Field entity operating in a license
belonging to multinationals could create serious problems
with respect to all aspects of operation including but not
limited to environmental issues, management of community
issues and abandonment.

These potentially critical issues call for some form of
indemnity between the various parties. Guarantees to back
such indemnity shall include minimum level of insurance
depending on the size of operation and the issue being managed.

ii. **Farm-Out Area**

Fields farmed out shall be ring fenced based on seismic data depicting the extent of the field (“the Farm-Out Area”).

The Farmee shall be fully responsible for the Farm-out Area as set out in Item 14.

iii. **Field Data**

All previous data acquired in the field shall be mandatorily traded and/or handed over to the Farmee and would form part of the negotiation during farm-out negotiation.

iv. **Appraisal and Deep Drilling Rights**

New programmes as well as the use of new technology to enhance production shall be encouraged in the field. If in the course of this appraisal or employment of new technology, new pools are found, they shall be credited to the Farmee.

The terms and conditions for deep drilling shall be part of the Farm-out Agreement.
Abandonment

The equitable share of cost of abandonment shall form part of the negotiation of the Farm-out Agreement.

Farmee shall set aside an agreed percentage of its budget (in an escrow account, trust fund or similar security) or put in place a performance bond to provide security for eventual abandonment.

v. Straddled Fields/Reservoirs
Where a field or reservoir straddles as a non-operated discovery into another block owned by another leaseholder, it shall be operated as a unit under the same agreement entered into with the first leaseholder. A unitisation agreement shall be a condition precedent for the approval of a Farm-out.

vii. Approval
A marginal field farm-out may only come into effect after payment of all bonuses and fees and approval by the President and Commander in Chief of Armed Forces of the Federal Republic of Nigeria.
viii. **Basis of Operation**

The Farmee shall operate on a sole risk basis but with the understanding that Government reserves the right to a participating interest at any time.

ix. **Community Development/Relationship**

The Farmee shall be responsible for community development activities as well as managing interfaces and relationships in the ring fenced area. This shall form an integral part of its field development and operational strategy.

14.0 **OPERATOR**

A Marginal Field Operator shall adhere strictly to the standards set out in the 2013 Marginal Field Guidelines.

Any change of Operator must be approved by the Honourable Minster of Petroleum Resources. An Operator must have an interest in the farm-out and shall cease to be the Operator if such interest terminates or expires.

15.0 **NON PERFORMANCE**

In the event of bankruptcy, or insolvency on the part of the Farmee, the field shall be returned to the marginal field pool of the leaseholder(s) provided; that any obligations or liabilities accrued
to the Farmee prior to the return of the field shall not be affected or be transferred to the Farmor.

16.0 ENCUMBRANCE
Farmee may secure whatever assistance it may require for its performance of obligation under the farmout arrangement and the responsibilities and obligations the Farmee has on the field and the lease pursuant to Section 20 provided such Farmee shall remain liable for all obligations relating to such an arrangement. Under no circumstance shall a Farmee reach an agreement with other parties that encumber the lease or the Farm-out Area.

17.0 TERMINATION
i. If within 60 months of consent to the farm-out agreement, a Farmee fails to show verifiable evidence of efforts made to progress development on the field(s) according to the approved plan, the Honourable Minister of Petroleum Resources shall, on the recommendation of the DPR, withdraw such consent and void the farm-out agreement.

ii. If the farm-out agreement between the Farmee and the Farmor is to be terminated at any time, the Farmee shall be required to give not less than 90 days written notice to the DPR and make a payment of the prescribed fee.
18.0 RENEWAL

If at the end of 60 months of consent to the farm-out agreement, a Farmee shows verifiable evidence of efforts made to progress the work on the fields according to approved plan and the DPR is so satisfied, the farm-out shall be renewed in accordance with the law.

19.0 RIGHTS AND OBLIGATIONS OF FARMEEs

i. The Farmee shall have all the rights of an OML holder in respect of the Farm-out Area containing the field(s) once the farm-out is concluded and all the rights interests and duties of the previous leaseholder shall be transferred to the new leaseholder.

ii. Farmee shall have the right/obligation to deal directly with the DPR and other administrative authorities as the leaseholder.

iii. All rights, interests, obligations and liabilities of the Farmor in respect of Farm-out Area containing the field(s) shall automatically transfer to the Farmee and the Farmor shall be relieved of the same as from the date of the execution of the Farm-out Agreement.
20.0 **END OF PRODUCTION**

The field(s) shall revert back to the marginal field pool of the Farmor 24 calendar months after the end of production operation on the field provided that this does not relieve the Farmee of any obligations and liabilities in respect of such field(s) such as abandonment, environmental restoration and all other obligations in accordance with the law.

21.0 **GAS PRODUCTION**

The Farmee shall have full responsibility for utilisation of all gas production from the Farmed-out Area.

22.0 **SUPERVISING AUTHORITY AND FARM-OUT MODALITIES**

The DPR shall supervise and monitor operations in respect of the Farm-out Area.

23.0 **COMMON USAGE OF FACILITIES**

i. As revenues from small size fields or remote localities do not justify full scale installation of facilities, such as delivery lines and loading terminals, it is not uncommon to find one leaseholder using excess capacity available in the facilities of another leaseholder for treatment, transportation, storage and offloading of produced crude.

ii. Consequently, pursuant to the provisions of Section 17A of the Pipeline Act the Honourable Minster of Petroleum
Resources may compel a facility owner to accept a third party in sharing the usage of its system if there is sufficient evidence and satisfaction as to the availability of the excess capacity.

iii. The identified facility owner and the Farmee shall promptly enter into negotiations regarding the terms and conditions of the common usage Agreement. The parties shall endeavour to reach agreement with 90 days.

iv. In the event that the parties fail to reach an agreement with respect to the equitable ullage fees, either party may give notice and the Minister shall then adjudicate on the matter.

v. In adjudicating, the Minister shall provide to parties its computation of equitable tariff. Such computation shall be based on a procedure guide for setting ullage fees, which shall be agreed with the industry and shall be of general application in the industry.

vi. In principle, the applicable tariff shall not be higher than the upper limit that a third party will be willing to pay in a purely commercial negotiation. The maximum tariff a third party will normally be prepared to pay is dictated by the equivalent cost of building its own.

The tariff generated from the equivalent cost of third party building its own shall be premised on the industry accepted hurdle rate of return in respect of such project and similar transaction.
24.0 TRANSPORTATION

The transportation and lifting of produced crude oil shall be in a manner acceptable to the DPR and in accordance with existing Petroleum Laws and Regulations.

25.0 TERMINAL OPERATIONS

The DPR shall give appropriate directives to ensure that crude oil produced from a particular marginal field is properly accounted for.

26.0 SAFETY AND ENVIRONMENT

Farmee shall provide a safety and environment programme which shall be in accordance with existing regulations, guidelines and standards.

i. Safety

All operations carried out by the Farmee in the Farm-out Area containing the field(s) shall be in accordance with the existing safety regulations applied in the industry. Towards this end, any field development plan proposed for the production of a marginal field shall include provisions that will provide for the safe conduct of all operations.
ii. **Environment**

Prior to the commencement of operation in the Farm-out Area of a marginal field, the Farmee is required to conduct an Environmental Impact Assessment (EIA) that will ensure minimum impact of their operation to the environment.