ATTRACTIVE FISCAL TERMS BEING OFFERED BY SOMALIA FOR DEEP WATER BID ROUND

January 27, 2019

Dr. A. Pedro H. van Meurs

SUMMARY

The Federal Government of Somalia will present attractive new fiscal terms for their offshore deep-water PSA's during the London "road show" organized by SPECTRUM, UK, on February 7th.

The overall government take[1] for oil ranges from 54% to 66% depending on assumptions about field sizes, oil prices and costs. The government take for gas ranges from 52% to 59%. The Tender Protocol provides for a transparent bid process based on a single bid parameter: the profit oil/gas share for government. A copy of the PSA will be made public in London.

FISCAL TERMS

The main features of the fiscal terms are the royalty, production sharing and corporate income tax. There is no carried government participation, although the government can participate on fully commercial terms later in the field development. Following is a summary of the terms.

Bonuses. Most blocks will have a signature bonus of $ 2 million. Some of the most attractive blocks may have a higher bonus. There are no production bonuses.

Surface Fees. Surface fees are $ 100 per square kilometer per year during the exploration and appraisal phases and $ 500 during the development and production phase.

Training and social contributions and administration fees. There are contributions for training and social programs. There are administration fees in order to assist the Federal Government with the financing of the petroleum administration.

---

[1] Undiscounted and in real (constant dollar) terms. The 10% discounted government take for oil in real dollars ranges from 65% to 76% and for gas from 63% to 69%.

Royalties. Royalties are determined for each Development Area in the Contract Area. The royalty rate is based on the sum of the rates based on a daily production scale and a scale based on the value per barrel at the measurement point. For oil (which includes condensates and natural gas liquids) the royalty rate is based on a linear sliding scale, based on daily production, from 5% at and below 20,000 bopd to 20% at and over 200,000 bopd. In royalty rate linear scale based on value ranges from 0% at and below $ 40/barrel to 15% at and over $ 110/barrel. This means the minimum royalty is 5% and the maximum royalty is 35%.

The linear sliding scale for gas starts at 5% at and below 0.5 Bcf/day to 15% at and over 2 Bcf/day. The linear scale for the gas value is from 0% at and below $ 5/MMBtu to 10% at and over $ 15/MMBtu. This means the gas royalty moves from a minimum of 5% to a maximum of 25%.

Production Sharing. Production Sharing is determined for each Development Area in the Contract Area. The Available Oil or Available Gas is the total production less the royalty. The Cost Oil/Gas limit is 70% of the Available Oil/Gas. The Profit Oil/Gas is the Available Oil/Gas less the Cost Oil/Gas. The Profit Oil/Gas is based on an R-factor. The R-factor consist of the Cumulative Contractor Cash Inflows (based on Cost Oil/Gas and the Contractor share of Profit Oil/Gas) divided Cumulative Cash Outflows (recoverable capital and operating costs). The percentage Profit Oil/Gas for Government moves based on a linear scale from 10% to 30% (which means the Contractor share moves from 90% to 70%). During the bid process the bidder can offer an additional percentage for the Profit Oil/Gas share to Government.

Corporate Income Tax. The Corporate Income Tax is levied on the Contractor share of Profit Oil/Gas based on the generally applicable tax rate, which is currently 30%.

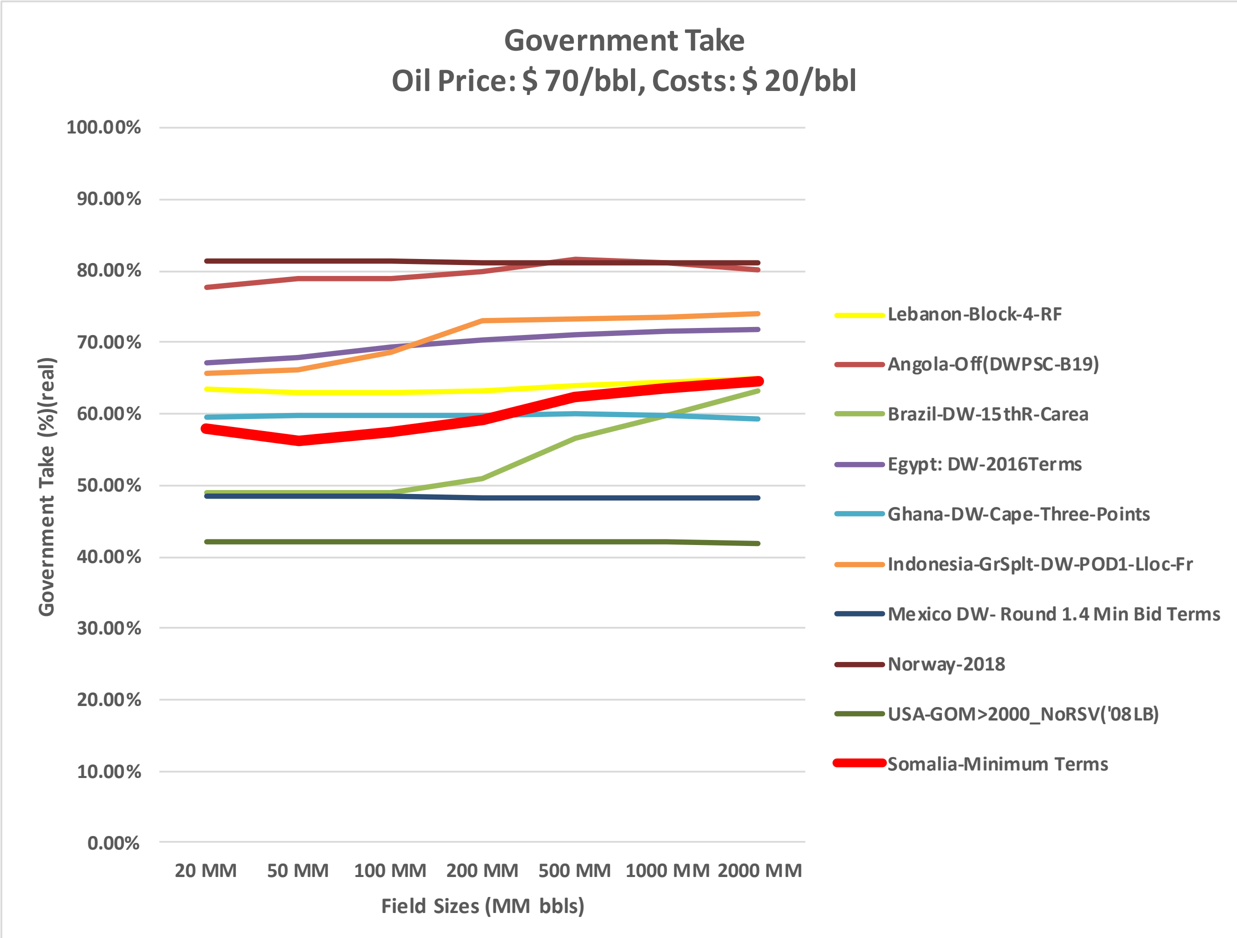
Other taxes. The Contractor also needs to pay some minor other generally applicable taxes at generally applicable rates.

FISCAL STABILITY

The PSA includes a fiscal stability provision.

ANALYSIS

As part of the design of the fiscal terms an analysis was done comparing the Somali terms with other deep-water terms. The following chart provides the overview of the results of the analysis for oil.



The chart shows the government take for an oil price of $ 70/barrel and costs (capital and operating) at $ 20/bbl for oil fields ranging from 50 to 2000 million barrels on an un-risked basis. Under these conditions the government take of the Somali PSA moves from 56% to 64%. The overall government take is well below that of Norway, Angola, Indonesia and Egypt with respect to deep water terms. It is also (for oil) below the terms that were bid in Lebanon. For the large fields the terms are similar to the terms in Ghana and for offshore concessions in Brazil (not the below salt PSAs). The terms are tougher than the minimum bid terms in Mexico, but it should be noted that the terms that were actually obtained during the bids in Mexico were well over the minimum levels.

In general, the Somali terms are therefore highly competitive and given the attractive geology should result in considerable interest from the petroleum industry.