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Lack of Ring-Fencing Provision Means Guyana Won't Realize Oil Gains Before 2030s, if at All

Loophole Allows ExxonMobil-Led Development Team To Use Profits To Pay for More Oil Exploration in Guyana

Executive Summary

Over the next five years, revenues from Guyana's newly discovered oil reserves being developed by an ExxonMobil-led development team will not be enough to cover Guyana's budget deficit, support new spending and build its wealth. Over the longer term, a declining oil and gas sector is highly unlikely to provide Guyana with the robust revenues promised.

This was the conclusion of the Institute for Energy Economics and Financial Analysis (IEEFA) first report that studied a 2016 agreement between Guyana and the ExxonMobil-led consortium, which also includes the China National Offshore Oil Company (CNOOC) and Hess Corp.

This paper focuses on one provision of the contract that allows the contractor to apply any exploration costs it incurs anywhere on the area under contract and to charge 100% of the costs immediately against the active wells. Right now, this means that the contractor can explore for oil at the Tanager and Redtail sites,[1,2] for example, and charge its expenses against Guyana's oil profits from the Liza 1 site. Guyana's profit drawn from the Liza 1 site is reduced as a result of this loophole. Put another way, Guyana's profit during the 2021 fiscal year will be reduced to pay for oil and gas that may not be extracted until 2030 or later.

Since December 2019, when the Liza Phase One field commenced production, ExxonMobil and the Government of Guyana have announced at least six new oil discoveries on the Stabroek oil development site. They have also announced at least four instances where drilling produced dry holes.

- The discoveries have been celebrated as evidence that future revenues will be robust. The dry holes were met with muted consternation. None of the announcements have been met with an accounting of the exploration costs and discussion of how they will be paid.

[1] Reuters. Exxon says its latest discovery offshore of Guyana is not financially viable. November 17, 2020.
[2] ExxonMobil. ExxonMobil announces Redtail discovery offshore Guyana. September 8, 2020.

- Receipt of hundreds of millions, if not billions of dollars due to Guyana will be held back well into the 2030s because the government failed to protect itself from front-loaded costs in its oil and gas contract. The International Monetary Fund has issued a warning and IHS Markit, a global oil and gas services company, has concluded that Guyana is receiving a below-average take from the contract.

- The government of Guyana gave away important protections when it agreed in the contract to postpone payments of its profits to encourage more exploration of oil. It failed to include a "ring-fencing" provision. In effect, the lack of such a provision means the contractor is able to charge Guyana for the cost of new wells before they start producing oil.

- From December 2019 through April 2021, Guyana has received $344 million from oil production and royalties under the consortium contract. Under the current contract, IEEFA estimates that at $50 per barrel, Guyana could receive as much as $6 billion in 2028.

- As events are unfolding, however, it is unlikely that Guyana would receive annual payments in the $6 billion range until well into the 2030s, if at all.

- The contract is front-loaded, which means the contractors receive more than Guyana in the early years of the contract.

- The absence of ring-fencing provisions acts as a subsidy. The cost of exploration for new sites is paid by reducing the annual profit to Guyana. The costs of new discoveries and dry holes should be made public.

- The absence of ring-fencing could be a legitimate incentive to encourage more exploration. This contract, however, has many other contract provisions that already favor the contractor. The ring fence provision is just another benefit for the contractor without a clear, transparent benefit for Guyana.

- Postponed payments may never be recovered. Finance Minister Ashni Singh acknowledged this year that the opportunity for Guyana to profit from oil extraction was finite due to competitive economic forces. Guyana's long-term scenario to secure robust profits is risky, and the risk is intensified by this contract provision.

This paper is the first in a series of reports to explore in detail the many ways that the oil share agreement limits the revenue coming to Guyana. Taken alone, the absence of a ring fence front loads the contract with expenses that must be paid before Guyana enjoys an abundant revenue flow. When combined with the other issues, IEEFA will show that the contract is harmful to Guyana's interests. The contract is front-loaded in favor of ExxonMobil, Hess and CNOOC. Declining oil and gas markets significantly increase the risk that in the long run Guyana's oil fields will not produce the revenues promised.

The issues raised in this paper have not been resolved. Many of them will likely be repeated in the upcoming negotiations related to the proposed gas exploration project under discussion.

I. Background

On June 27, 2016, the Government of Guyana entered into an agreement with Esso Exploration and Production Guyana Limited, an affiliate of ExxonMobil (referred to in the contract as "Esso" and "ExxonMobil"); CNOOC Nexen Petroleum Guyana Limited (referred to as "Nexen" and "CNOOC"); and Hess Guyana Exploration Limited (referred to as "Hess"),[3] defined in the contract as "the contractor."

Esso is the operator charged with the day-to-day activities of the contractor.[4] The contract sets forth the terms and conditions of a production-sharing agreement. The agreement details how oil production will take place, how costs are calculated and how "profit oil" is divided among the parties. "Profit oil" is the amount left over after the oil is extracted and sold, and recoverable contract costs have been satisfied.[5]

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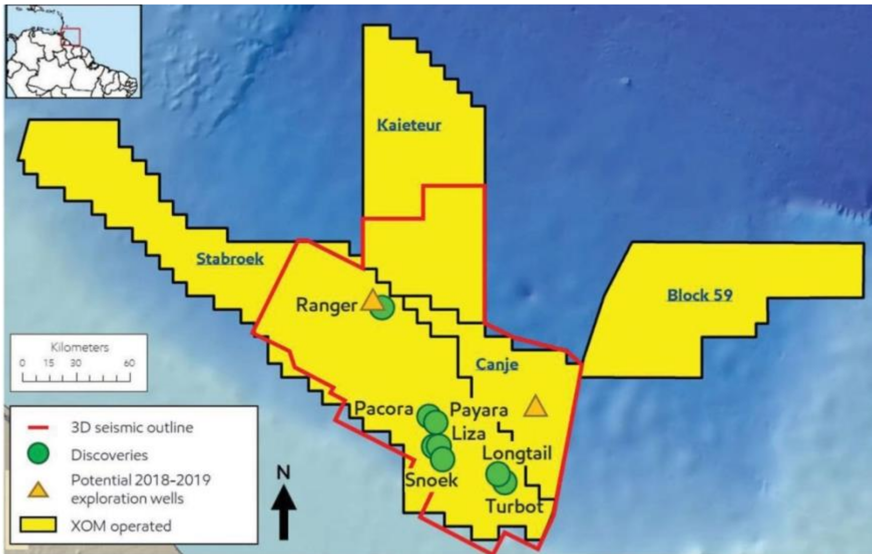
[3] Petroleum Agreement (the "Agreement") Between the Government of the Cooperation of Republic of Guyana and Esso Exploration and Production Guyana Limited (for purposes of this paper, "Esso"), an ExxonMobil affiliate, CNOOC Nexen Petroleum Guyana Limited (China National Offshore Oil Company, for the purposes of this paper, "CNOOC"), and Hess Guyana Exploration Limited (for the purposes of this paper, "Hess"). They are identified individually in the contract as the "Contractor." (See: The Agreement, Article 1.1, Definitions). The contractor also will be referred to as "ENH" for the purposes of this paper. The companies will be identified individually as they are in the contract when being discussed individually. The Guyanese government and the three companies will be referred to as "the parties" to the agreement.
[4] Agreement, Liabilities and Indemnities, Article 2.2 (a).
[5] Agreement, Cost Recovery and Production Sharing, Article 11.4.

Figure 1: Guyana's Identified Oil Reserves



Source: Stabroek News. Oil reserves now at 3.7 billion barrels in Guyana basin. June 21, 2018.

The contract area is 26,800 square kilometers and extends over 300 kilometers in width, from the border with Venezuela to the border with Suriname.[6] This is a contract area of extraordinary size. For example: As of 2019, there were 159 million acres under lease in 2,451 leases, which equates to 53,000 acres each, or 214 square kilometers for each block in the U.S. federal waters in the Outer Continental Shelf of the Gulf of Mexico.[7] Comparing that to the ExxonMobil acreage in Stabroek of 26,800 square kilometers for one lease, it means the Guyana lease is more than 100 times the size of the average U.S. Gulf of Mexico lease.

A. General Terms and Conditions

The agreement is effective as long as the contractor holds a petroleum prospecting license or a petroleum production license. Each petroleum production license is granted for 20 years. The agreement comes to an end when the last petroleum production license expires. The basic formula is:

Table I: Contract Formula to Establish Level of Profit Oil from Development

Oil Price x Gross Production[8] (barrels of oil) = Gross Revenue – Total Recoverable Costs = Profit Oil

The contractor and Guyana share "profit oil" on the basis of a 50-50 split (The contractor further divides the contractors' shares, allocating 45% to ExxonMobil,

[6] ExxonMobil. ExxonMobil announces Redtail discovery offshore Guyana. September 8, 2020.
[7] U.S. Bureau of Ocean Energy Management. BOEM Gulf of Mexico OCS Region Blocks and Active Leases by Planning Area, September 2020.
[8] Agreement, Cost Recovery and Production Sharing, Article 11.9 – gross production is minus any oil used by the operator for project needs which are determined by the operator.

30% to Hess and 25% to CNOOC). Payments are made monthly to Guyana. The country also receives a 2% royalty on gross production and sales.[9]

Recoverable costs include 100% of all exploration and development costs,[10] pre-contract costs, operating expenses, estimated cost of future abandonment, interest and parent company expenses. Annual recoverable costs are capped at 75% of revenues, and any balance in recoverable costs is carried over until the next month.[11] Since recoverable costs include 100% of all development costs (initially $33 billion over the first five years),[12] the project carries a substantial balance that accrues to the contractor through at least 2028. The substantial balance of outstanding development costs could take even longer to satisfy since new investments, pre-contract costs, operational delays and volatile oil prices can disrupt financial plans. Repayment of the development and other recoverable costs diminishes the size of Guyana's annual cash receipts from profit oil. Lower cash payments delay the country's ability to benefit from the expected full annual revenue.

The provision of the contract that creates this significant liability allows the contractor to charge Guyana for any development costs it incurs for new wells and to charge those costs against any active field that is producing oil and revenues.[13] Since late 2019, ExxonMobil has made six new well discoveries at Yellowtail, Longtail, Uaru, Redtail, Mako and Tripletail. In addition, the company has hit several dry wells.[14] This means exploration costs in search of new discoveries in a completely separate part of the block can be recovered from production in another part of the block with revenue-producing oil wells (see Map). It also means the costs of developing discoveries in new fields (like the as-yet-undeveloped Payara field) can be charged against revenues from the Liza Field, which is the first, and to date, only field with revenue-producing wells. The Guyanese government is aware that this contract provision holds up the flow of revenue to Guyana. The International Monetary Fund identified the issue in its recent report:

> "The rapid appraisal and development of multiple oil fields could affect the timing and amount of profit oil to be shared with the government from a producing oil field by allocating costs from various fields under development to the producing field."[15]

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[9] Agreement, Taxation and Royalty, Article 15.6. The focus of this paper is on Guyana's profit oil and does not discuss the royalty payment in any depth. The Royalty payment will be the subject of future IEEFA commentary.
[10] Also referred to as "pre-contract costs."
[11] Agreement, Cost Recovery and Production Sharing, Article 11.3.
[12] Appendix I: The $33 billion comprises the total Pre-Effective Date Costs, Exploration Cost and Total Development Costs (Pre-2020 through 2024) identified on the spreadsheet.
[13] Agreement, Cost Recovery and Production Sharing, Section 11.5.
[14] See: ExxonMobil, News Releases. For a discussion of the dry wells see: Argus Media. ExxonMobil hits third dry hole offshore Guyana. March 4, 2021. Also see: Guyana Chronicle. Jabilo-1 well in Canje Block comes up dry. July 6, 2021.
[15] International Monetary Fund. Guyana: Staff Report for the 2019 Article IV Consultation – Key Issues/Authorities Views. September 17, 2019, p. 12.

In addition, IHS Markit, a global oil and gas services company that is also auditing the contract, stated in March 2021 that Guyana was receiving a below-average take from the contract.[16]

This provision means that as the contractor continues to explore for new wells, it is able to pass along those exploration costs to the active Liza wells. Even if the contractor hits dry wells—as has recently been the case—the costs are passed on.[17]

IEEFA has identified existing contract provisions that require the contractor to maintain timely accounting of development costs to the Guyanese government.[18] So far, the government has not disclosed the information.

Another unique provision of the contract requires Guyana to pay the income taxes that are owed to the government by the three companies. The contractor, as individual companies doing business in Guyana, owes taxes under the country's law. The Guyanese government has agreed to pay the tax liability. The companies receive confirmation that they paid Guyana's income tax and thus derive a benefit. The government of Guyana, on the other hand, foregoes a direct cash payment from the contractor. The government effectively diverts a portion of its share of profit oil to cover the contractor's tax liability.

Another provision prohibits Guyana from unilaterally renegotiating, amending or modifying the agreement.

It also requires Guyana to compensate the contractor if any governmental action impairs the economic benefits accruing.[19]

This paper focuses on one provision of the contract that allows the contractor to apply any exploration costs it incurs anywhere on the area under contract (Stabroek Block) and to charge 100% of the costs immediately against the active wells. Right now, this means that the contractor can explore for oil at the Tanager and Redtail,[20,21] for example, and charge its expenses against Guyana's oil profits from the Liza 1 site. Guyana's profit drawn from the Liza 1 site is reduced as a result of this loophole. Put another way, Guyana's FY 2021 profit will be reduced to pay for oil and gas that may not be extracted until 2030.

[16] IEEFA. IEEFA: Guyana's oil future relies on lower-than-average governmental take.' March 10, 2021.
[17] IEEFA. IEEFA: Does Guyana pay when ExxonMobil drills a dry well? November 30, 2020.
[18] IEEFA. IEEFA: Guyana's oil future relies on lower-than average governmental take.' March 10, 2021.
[19] Agreement, Stability of Agreement, Section 32.1,2,3.
[20] Reuters. Exxon says its latest discovery offshore of Guyana is not financially viable. November 17, 2020.
[21] ExxonMobil. ExxonMobil announces Redtail discovery offshore Guyana. September 8, 2020.

II. Ring Fencing and Guyana's Profits

A. Contract Provision

The contract requires the contractor to pay 100% of all costs necessary to produce the oil. It is then reimbursed for 100% of costs over time and according to the following accounting treatment.

The contractor is limited to reimbursement for the recoverable costs to 75% of revenue obtained from the sale of the oil. If revenue from the produced oil exceeds costs after the 75% cap is applied, then the contractor and government of Guyana split the profit.[22] If there is an unrecovered cost left at the end of any given month, the balance is carried over to the next month.[23]

The contractor is granted wide latitude to manage total recoverable costs. The contractor is permitted to use revenues obtained from an active well to pay for exploration or development costs incurred at the sites that are not producing oil revenue:

> "The quantity of Cost Oil and/or Cost Gas actually utilized in satisfying the Recoverable Contract Costs may be allocated by the Contractor to production from any Field or Fields."[24]

B. Purpose of the Provision

The agreement allows the contractor to apply past and future costs incurred for exploration against revenues from wells that are actively producing oil. The agreement lacks a ring-fencing provision that would carefully regulate how expenses incurred and revenues generated by each block/field factors into the total recoverable cost factor.[25]

The contract generally allows the contractor to satisfy the recovery of costs incurred under the contract by using revenue from production of any field or fields, including costs incurred to identify new drilling sites within the contract area. Although the area covered by the contract is extraordinarily large, the contractor is given wide latitude to expend resources at any site in the contract area. The agreement then

[22] Agreement, Section 11.4.
[23] Agreement, Section 11.3.
[24] Agreement, Section 11.5. For an illustration of how this accounting treatment is applied see Appendix I.
[25] For a more complete discussion of "ring fencing" in oil production sharing agreements see: Chartered Institute of Taxation, Upstream Oil and Gas Options, Module 3.04, June 2019. The discussion offers a general description of the ring fence as utilized in this paper: A ring fence "… may require contractors or concessionaries to restrict cost recovery and or deductions associated with a given area, block or license (or sometimes even a specific field) to that project. This means that all costs associated with a particular block or licence must be recovered from revenues generated within that same block."

allows the contractor to immediately charge 100% of these expenses to total recoverable costs.[26]

This provision serves as an incentive to the contractor to continue exploring for new drilling sites even as it produces and sells oil from active sites. The contractor is guaranteed to recover costs from existing oil production—even if the new site exploration activities do not produce commercially usable oil.[27]

C. Revenue Implications

The contract caps repayment of eligible costs at 75% of total gross production (gross revenues) each year.[28] The remainder (25% of gross revenue) becomes profit oil. This amount is split for each party. The cap ensures that in any given year, Guyana will receive 14.5% of revenues (12.5% of gross revenue plus a 2% royalty).

As all of the total development and pre-contract costs are paid off, Guyana's profit calculation will, in theory, change from 12.5% of production (gross revenue) to more than 40% of production (See Appendix I). In theory, once development costs are satisfied, the outstanding liability for past development costs are extinguished and Guyana's profit oil increases exponentially.

At this point in the contract, Guyana must pay back substantial amounts for past development costs incurred before the contract was signed. The amounts include billions in development costs signed since the contract went into effect, plus operating costs related to the day-to-day operations of extraction and shipping. Total development and pre-contract costs include all past (estimated to be at least $460 million) and current development costs (almost $33 billion).[29] The contract states that Guyana has agreed to pay $460 million, plus additional costs to be decided. Although there has been no additional amount settled, published reports suggest that more than $1 billion additionally may be owed from costs incurred prior to the signing of the contract.[30]

The total recoverable costs are currently far in excess of annual gross revenue from production. A portion of gross revenue goes to retire development costs in addition to paying for operations and profit. The remaining unrecovered balance is carried over each year. It is generally assumed that as each year passes, new wells (Liza Phase 2 and Payara) could be added and revenues grown commensurately. Based on currently available public information, IEEFA estimates that the total development costs will be paid off in full (see Year 2027 and 2028 in Appendix I). As noted above, the contractor has announced on a fairly regular basis that it has made new discoveries. How the cost of these discoveries is factored into the overall

[26] The government and contractor have not made public how this type of cost is folded into total recoverable costs.
[27] IEEFA. IEEFA: Does Guyana pay when ExxonMobil drills a dry well? November 30, 2020.
[28] The contract is written to allow for monthly reconciliations, Section 11.3. For the purposes of this paper, we use an annual measure as the unit of time.
[29] The contract states that Guyana has agreed to $460 million plus additional costs to be decided. Although there has been no additional amount settled, published reports suggest that more than $1 billion may also be owed from costs incurred prior to the signing of the contract.
[30] Stabroek News. GRA begins audit of US$460M pre-oil costs. September 9, 2018.

project accounting is not publicly available, but Guyana will need to approve these costs for reimbursement.

At the point when all of these costs are satisfied, Guyana's gross profit oil is equal to 50% of gross revenue after expenses. If oil is $50/barrel on average, Guyana's take could rise to $6.1 billion annually by 2028. This is an increase of significant proportions when compared to the first 15 months of production, which have generated $344.1 million for the country.[31] It is at this point—when all development costs are satisfied—that the project could produce sufficient revenue so Guyana could begin to close its deficit, reduce debt, increase spending and invest in a sovereign wealth fund.

This model assumes that only the Liza and part of the Payara phase are developed between now and 2028. The actual development plan is to make more investments. In fact, additional costs are already being incurred for more exploration.[32] These additional development costs will be added to the total development costs and push back the date when the country will receive payments in the $6 billion per year range.[33] Robust annual revenue payments to Guyana will be delayed as additional development costs are added to the cumulative unrecovered balance. The actual number of years until Guyana receives more robust profit oil payments is uncertain. For Guyana, actual total development costs are unknown. The contractor has not disclosed the total development costs for Payara or the total development costs needed to reach the maximum amount of extractable oil. In addition, there has been no mutually agreed-upon, publicly available oil price projections, a key factor in estimating the rate and level of cost recovery.

The Guyanese government has decided to accumulate the oil payments. They have stated that as of April 13, the country had collected $344 million. How the government plans to use the proceeds remains to be seen.

D. No Ring Fencing in Context

The lack of a ring-fencing provision could be considered a legitimate incentive to encourage the contractor to continue exploration efforts even while it drills and produces oil at existing fields. Currently, the Liza Phase of the plan is producing oil, and various other exploratory efforts are under way. The lack of the ring-fencing provision provides certainty for the contractor as it continues to explore for new discoveries.

Governments typically utilize ring-fencing provisions to prevent oil companies from using losses incurred on one site from sheltering the profits from other, more lucrative investments.[34] For example, by setting up one company for one field as the

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[31] GYEITI. Government receives payment for sixth oil lift. June 11, 2021.
[32] Budget Speech, p. 20
[33] There also appears to remain outstanding the status of a $460 million liability for pre contract costs. The exact amount appears to be under audit. See: Stabroek News. Audit of Exxon pre-contract costs stalled by mix-up. February 11, 2021.
[34] United Nations. Update of the Handbook on Selected Issues for Taxation of the Extractive Industries by Developing Countries. May 31, 2020.

taxable entity, the revenue and expenses from the one site creates a clearly defined universe of profits and loss. Losses experienced at other locations would not be used to decrease profits from a productive oil field.

Unfortunately, Guyana has granted the contractor a blank check with regard to future development. The result is that the contractor has a powerful incentive to continue to add costs to the project. The net effect is to push back the point at which Guyana maximizes its cash benefit.

E. Risks to Future Development

In this year's budget speech, Senior Minister Ashni Singh acknowledged that the country's opportunity to rely on fossil fuel development was "finite" due in part to worldwide growth in renewable energy.[35,36] He also expressed the need to move forward aggressively with additional exploration and expressed optimism that future extracted gas can be a power source for Guyana.[37] The minister also acknowledged that mechanical problems caused the Liza site to produce 74,300 barrels per day, less than three-fourths of the originally expected amount.[38]

The combination of market forces and policy choices moving away from fossil fuels increases the risk that aggressive new exploration for more oil may now not be profitable.[39] Guyana is relying on a long-term perspective to support its belief that it will receive substantial annual revenues for the contract. The longer-term projections of enhanced revenue for Guyana are critical to the country's fiscal goals. The acknowledged "pressure"[40] on Guyana's long-term scenario makes the issue of when and how much profit the country receives of utmost importance.

Guyana's long-term scenario faces considerable risks.

First, the oil and gas industry faces challenges that will diminish oil demand growth estimates, not only from renewable energy, but also from the transport and petrochemical sectors. Even in years where oil prices rise, the risk to the industry is that demand will be destroyed from lower-cost alternatives now available on the market. In May 2021, the International Energy Agency has published a new scenario that said the world cannot have any new oilfield if it wants to achieve climate goals by 2050.[41]

Second, Guyana's leaders want to move aggressively on exploration efforts, but some dry wells have turned up. Companies that include ExxonMobil and Hess are

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[35] Ashni K. Singh. Budget Speech. February 12, 2021. ("Budget Speech")
[36] Budget Speech, p. 20.
[37] Budget Speech, p. 35.
[38] Budget Speech, pp. 9, 68. By the end of 2020 ExxonMobil announced that it had achieved its goal of 120,000 barrels per day. Also see: Stabroek News. ExxonMobil says has reached full capacity of 120,000 barrels per day. December 20, 2020. The Minister stated that Guyana's expectation was for 109,000 barrels of oil per day during 2021.
[39] IEEFA. Guyana's Oil Deal: Promise of Quick Cash Will Leave Country Shortchanged. October 2020.
[40] Budget Speech, p. 20.
[41] IEA, Net Zero by 2050, May 2021.

reducing their capital budgets and concentrating on high-quality discoveries because future demand and profits are uncertain.

Third, renewable energy and other green alternatives are receiving support as many oil and gas majors shift capital allocations away from oil and gas. ExxonMobil has announced its continuation of

long-term support for oil and gas investments, but recent efforts to prompt changes on its board may augur a strategic change.[42]

Fourth, although ExxonMobil is a company with deep technical and engineering resources, the issue of flaring is posing a strong challenge and regulatory concerns are growing.[43] How the company handles the Guyana situation will have broad ramifications.

Conclusion

The lack of a ring-fencing provision substantially slows the pace of revenue that will flow to Guyana. Guyana has ceded control over how much revenue it will receive, and over the scope and pace of future development. The government of Guyana and the contractor have formed a long-term partnership. A corrective action plan that is more equitable would serve the interests of both parties in the long run.

[42] The Motley Fool. Under Activist Pressure ExxonMobil Mulling Changes to Its Board, Further Push Into Renewables. January 27, 2020.
[43] See: Guyana Chronicle, Guyana to receive U.S. $1.3 million from Exxon for Excessive Flaring, May 23, 2021. Bloomberg. Texas Oil Regulator Signals Flaring Crackdown After Backlash. February 9, 2021.

Appendix I: IEEFA Profit Oil Projections for Guyana 2020-2024

		pre-2020	2020	2021	2022	2023	2024	
Gross Production	MM Bbls.	3	40	44	79	157	233	555
Price	$/Bbl.	50.00	44.00	43.00	46.00	48.00	48.00	
Gross Revenues	$Millions	152	1,767	1,883	3,613	7,544	11,167	26,126
								-
Recoverable Costs:								-
Annual Operating Expense	$Millions	18	241	263	471	943	1,396	3,332
Pre-Effective Date Costs to Recover	$Millions	460	-	-				460
Exploration Costs: Eff. Date to 2019	$Millions	4,100	1,000	800	800	700	200	7,600
Amortized Abandonment Costs	$Millions	1	16	18	32	64	95	227
Total Development Costs	$Millions	3,400	2,200	2,800	4,000	4,700	7,600	24,700
Interest on Loans	$Millions	143	229	336	488	661	946	2,803
Parent Company Overhead (PCO)	$Millions	76	35	39	53	64	93	360
Total Recoverable Costs	$Millions	8,198	3,721	4,256	5,845	7,132	10,329	39,482
								-
		pre-2020	**2020**	**2021**	**2022**	**2023**	**2024**	
Cost Recovery Cap	$Millions	114	1,325	1,413	2,710	5,658	8,375	
Current Year Costs Recovered	$Millions	114	1,325	1,413	2,710	5,658	8,375	
Unrecovered from Current Yr	$Millions	8,084	2,396	2,844	3,135	1,474	1,954	
Total Cost Recovery	$Millions	114	1,325	1,413	2,710	5,658	8,375	
Cumulative Unrecovered Costs	$Millions	8,107	10,503	13,347	16,482	17,956	19,911	
								-
Profit Oil	$Millions	38	442	471	903	1,886	2,792	6,531
Government Share	$Millions	19	221	235	452	943	1,396	3,266
Contractor Share	$Millions	19	221	235	452	943	1,396	3,266
								-
Royalty	$Millions	3	35	38	72	151	223	523
Income Taxes Owed by Contractor	$Millions	4	44	47	90	189	279	653
(assumes 20% of Profit Oil)								-
		pre-2020	**2020**	**2021**	**2022**	**2023**	**2024**	
Government Share	$Millions	22	256	273	524	1,094	1,619	3,788
Minus taxes pd by Guyana		4	44	47	90	189	279	653
Total Available Revenue to Guyana		18	212	226	434	905	1,340	3,135
Shares of Gross Revenue								
Government % of Gross	Percentage	14.50%	14.50%	14.50%	14.50%	14.50%	14.50%	
Contractor % of Gross	Percentage	85.50%	85.50%	85.50%	85.50%	85.50%	85.50%	

Notes to IEEFA Profit Oil Projections

Item	Source
Gross Production	https://corporate.exxonmobil.com/News/Newsroom/News-releases/2019/1220_ExxonMobil-begins-oil-production-in-Guyana
Price	IEEFA Estimate: EIA, CME Group, ExxonMobil, World Bank, IMF.
Annual Operating Expenses	Best Estimate
Pre-Effective Date Costs Recovered	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Annex C, Section 3.1 (k)
Exploration Costs from Effective Date to	https://www.rystadenergy.com/newsevents/news/press-releases/guyana-suriname-basin-poised-for-upgrade-while-oil-firms-prep-to-splurge-billions-on-stabroek/
Amortized Abandonment Costs	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Article 11.3.
Total Development Costs	https://www.rystadenergy.com/newsevents/news/press-releases/guyana-suriname-basin-poised-for-upgrade-while-oil-firms-prep-to-splurge-billions-on-stabroek/ and https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf Annex C, Article 2.2.
Interest on Loans	**Best Estimate**
Cost Recovery Cap	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Article 11.2.
Profit Oil	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Article 11.
PCO Threshold	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Annex C, Section 2.5
Royalty	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Article15.
Income Tax	https://nre.gov.gy/wp-content/uploads/2017/12/Petroleum-Agreement-Oct-7-2016.pdf, Article 15.

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Tom Sanzillo, director of financial analysis for IEEFA, is the author of numerous studies on the oil, gas, petrochemical and coal sectors in the U.S. and internationally, including company and credit analyses, facility development, oil and gas reserves, stock and commodity market analysis and public and private financial structures. Sanzillo has experience in public policy and has testified as an expert witness, taught energy industry finance and is quoted frequently in the media. He has 17 years of experience with the City and the State of New York in senior financial and policy management positions. As the first deputy comptroller for the State of New York Sanzillo oversaw the finances of 1,300 units of local government, the annual management of 44,000 government contracts, and over $200 billion in state and local municipal bond programs as well as a$156 billion global pension fund.

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