

OFFSHORE EXPLORATION INITIATIVE

APPLICANT'S GUIDE TO SUBMIT A PROJECT PROPOSAL



DEPARTMENT OF INDUSTRY, ENERGY AND TECHNOLOGY

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PURPOSE OF THIS GUIDE

This Guide was developed for the sole purpose of assisting Applicants in their submissions to the Offshore Exploration Initiative (the “**Initiative**”). The Guide outlines Application requirements, including eligibility criteria and mandatory documentation, and provides instructions for preparing and submitting an Application. **A completed Application, successful execution of an Agreement between the Applicant and the Department of Industry, Energy and Technology (the “Department of IET” or “IET”) and a letter from the Operator requesting reimbursement are all required before reimbursement under the Initiative is approved.**

The Guide has been developed to align with the typical stages of the Initiative, with the relevant sections as per the table below:

Stage	Description	Relevant Sections
Commencement	Roll-out of the Initiative	n/a
Application	Operator submits Application, and reviewed by IET	SECTION 2: INITIATIVE ELIGIBILITY SECTION 3: APPLICATION & DUE DILIGENCE
Agreement	Signed Agreement between IET and Operator	SECTION 4: AGREEMENT
Execution	Operator carries out agreed Statement of Work and is accepted by IET	3.3 Due Diligence
Reimbursement	Operator is reimbursed based on funding available	SECTION 5: REIMBURSEMENT

The Initiative will be administered by IET.

Please read this Guide carefully and direct any questions you may have to the Offshore Exploration Initiative email: OEI@gov.nl.ca. Incomplete Applications will not be accepted.

Please note that information or data provided within this Guide or in response to any questions received is provided by the Department of IET solely for the Applicant’s information and it is provided without warranty, guarantee, or responsibility of any kind, either express or implied.

The Government of Newfoundland and Labrador (GNL), including but not limited to the Department of IET and its employees, will not be liable for any loss or damages of any nature, either direct or indirect, arising from the use of this Guide or the information herein, including but not limited to an application under the Initiative.

DEFINITIONS/ ACRONYMS

“Accord Acts” means the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act, SC 1987, c. 3, as amended; and the Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act, RSNL 1990, c. C-2, as amended*

“ADW” – Approval to Drill a Well issued by the CNLOPB in accordance with the Accord Acts.

“Agreement” means an agreement between the Operator and IET detailing an agreed drilling project and the terms and conditions applicable under the Initiative, to be executed prior IET providing any reimbursement to an applicable Operator.

“Allowable Expenditure” means what can be claimed as defined by CNLOPB.

“Applicant” means the Operator of the EL who has submitted or is going to submit an Application under the Initiative

“Application” means an application form together with all supporting materials submitted by the Operator to IET

“ATIPPA” means the Access to Information and Protection of Privacy Act, 2015, SNL2015 c A-1.2, as amended.

“CNLOPB” means the Canada-Newfoundland and Labrador Offshore Petroleum Board.

“Commencement” means the date when IET begins to accept Applications under the Initiative.

“Completed Well” means to plug off the well with cement plugs and remove (or plan to remove at a later date) all recoverable equipment.

“Dues” means the amount of reimbursement that the Operator is owed and can carry-over into future years if there are insufficient funds to fully reimburse in any year.

“EL” means an Exploration Licence issued by the CNLOPB in accordance with the Accord Acts.

“Eligibility Period” means from the date of “Commencement” to the relevant expiration date in accordance with the criteria outlined in Section 6.

“Exploration Well” means a well drilled to test for hydrocarbon presence within the area where Geological Targets were not previously tested by drilling, and does not include delineation and sidetrack wells, which are not eligible under the Initiative.

“Forfeitures” means Work Expenditure Bid defaults.

“Geological Target” is a geological formation that is defined and approved by IET.

“Legacy Well” means a previously drilled well on an EL during its current tenure. A legacy well can count to satisfy the first well requirement.

“NL” means the province of Newfoundland and Labrador.

“Offshore Area” has the same meaning as the term is defined in the Accord Acts.

“Operator” means the holder of an authorization to conduct petroleum activities in the Offshore Area.

“PL” means a Production Licence issued by the CNLOPB in accordance with the Accord Acts.

“Reimbursement” means the rebate an operator receives from the Initiative pursuant to an executed Agreement.

“Review Date” means the date at which the Initiative is scheduled to be reviewed by GNL, which is currently anticipated to be September 1, 2024.

“SDL” means Significant Discovery Licence issued by the CNLOPB in accordance with the Accord Acts.

“Security Deposit” means the amount of the security deposit posted by an Operator with the CNLOPB equal to twenty-five (25) percent of the Work Commitment required by an EL.

“Spud Date” means the day on which the main drill bit begins drilling a well.

“WEB” means Work Expenditure Bid

“Work Commitment” means the amount the Operator has successfully bid and committed to spend on exploration of the lands and on research and development in accordance with the terms and conditions of an EL.

SECTION 1: OFFSHORE EXPLORATION INITIATIVE OVERVIEW

1.1 Background

On September 24th, 2020 GNL announced the establishment of a new Initiative to provide companies with the incentive to drill more wells. This Initiative will allow all future Forfeitures to be reinvested, resulting in an injection of potentially hundreds of millions of dollars in support of growth in the offshore petroleum industry. The purpose is to support near term drilling activity and employment, enhance global competitiveness at a critical time, and position the province to realize its significant resource potential.

The demand for oil is forecast to increase through to 2040, the global outlook for energy is changing and a greening of fossil fuels is anticipated. With that change comes opportunity. Offshore NL projects are already among some of the lowest carbon intensity emitting oilfields in the world and global energy companies focused on environmental sustainability are increasingly interested in our low greenhouse gas production.

Annually, the C-NLOPB issues calls for bids for ELs in the province's offshore. The sole criterion for selecting a winning bid is the total amount of money the bidder commits to spend on exploration of the parcel or WEB.

A successful bidder for an EL must post a Security Deposit in the amount of twenty-five (25) per cent of its WEB that was submitted in response to a call for bids. The licence owner/s may over time recover its Security Deposit, in whole or in part, by filing Allowable Expenditure claims with C-NLOPB.

The full amount of the Security Deposit will be refunded if the total approved Allowable Expenditure amount equals or exceeds the WEB amount. Otherwise, the amount of the Security Deposit that is refunded would be calculated on a proportional basis, and the remainder would be forfeited.

There is currently a WEB default liability of \$682 million to Jan 15, 2024. Since 1988, Operators have forfeited 37 per cent of Security Deposits. Based on this historic trend, **more than \$250 million could potentially be available to fund the Initiative over the next 4 years.**

1.2 Initiative Benefits

Exploration drilling is of highest importance to unlocking the hydrocarbon potential of offshore NL. To encourage and promote increased exploration drilling, the province is implementing the Initiative in the Canada-Newfoundland and Labrador (C-NL) Offshore Area.

The Initiative will help facilitate investment and industry growth required to position NL globally as a preferred location for oil and gas development.

Key benefits include:

- 1 Attract investment and promote increased exploration drilling
- 2 Improve NL oil and gas industry competitiveness by reducing costs related to exploration
- 3 Contribute to short and long-term job creation and economic growth in NL

SECTION 2: INITIATIVE ELIGIBILITY

2.1 Jurisdiction

The Initiative will be relevant to ELs located in the Canada-NL Offshore Area. Applications will be accepted from two adjoining ELs from a single Operator with a maximum of 1600 sections. Any Agreement resulting from this Initiative will not prejudice the regulatory approval process as administered by the C-NLOPB.

2.2 Period

The Eligibility Period is dependent on the effective date of Commencement of the EL as follows:

- 1 Existing ELs until December 31, 2022
- 2 ELs awarded in 2020 until December 31, 2023
- 3 ELs awarded in 2021 until December 31, 2024

2.3 Criteria

To be eligible for reimbursement the well must meet the following conditions:

- 1 Meet the definition of an Exploration Well as agreed by IET
- 2 Spud Date on or before the expiration date of the Eligibility Period as per section 2.2
- 3 Intersect the planned Geological Target(s) as agreed with IET
- 4 Completed well within one (1) year from Spud Date

2.4 Wells

Reimbursement parameters for eligible wells are defined as follows:

- Well 1 – no reimbursement;
- Well 2 –\$30M CAD;
- Well 3 –\$50M CAD; and
- Well 4 and beyond – no reimbursement.

SECTION 3: APPLICATION & DUE DILIGENCE

3.1 Process

Operators must submit one Application per well. In order to provide time to process the Application and ensure an executed Agreement is in place, the Application must be submitted at least 30 days in advance of planned Spud Date. Information and documentation for the Initiative will be available as finalized. Please check back for regular updates.

Completed Applications to be forwarded to:

Minister of Industry, Energy, and Technology
Natural Resources Building
50 Elizabeth Avenue

P.O. Box 8700
St. John's, NL A1B 4J6
Attention: Offshore Exploration Initiative

Forms may be submitted electronically to OEI@gov.nl.ca

Note: the maximum size of email attachments to IET is 10MB. If the submission exceeds the maximum, the Applicant may forward their files in a series of emails with the same subject line. IET is not responsible for the security of the files during transmission. The Department of IET on behalf of the Initiative will send you a confirmation email when the Application form and mandatory supporting documentation has been received.

Submission of an Application does not guarantee Operators will receive reimbursement under the Initiative.

Approval will be conditional upon the execution of a signed Agreement between IET and the Operator. Until a written Agreement is signed by both parties, no commitment or obligation of any kind exists on the part of GNL and/or IET under the Initiative.

3.2 Form

The Application form and supporting materials will be used by the Initiative as the basis to evaluate projects for eligibility for reimbursement based on available funds as described in **SECTION 6: RE-IMBURSEMENT**.

The Initiative reserves the right to share the information provided by Applicants in the sections that are clearly marked for public disclosure. All other information will be considered confidential. The Initiative aims to safeguard the confidential information provided as part of the Application process. Please see 6.1 Confidentiality and Security of Information for more information.

3.3 Due Diligence

Projects will need to meet the eligibility criteria outlined in **SECTION 3: APPLICATION & DUE DILIGENCE** and be fully assessed and verified from a technical perspective by IET. Further clarification or additional information may be requested by IET during the review process.

Compliance against the Agreement will be performed by IET technical staff through monitoring of the daily drilling reports.

SECTION 4: AGREEMENT

Following approval, an Agreement will be signed by the successful Applicant and IET. The Applicant will then be eligible for reimbursement as detailed in **SECTION 5: REIMBURSEMENT** and will be required to meet the obligations as outlined in the Agreement.

The Agreement template will be available on the Department of IET website when details are finalized. The Agreement is to be between IET and the Operator only. It is the Operators responsibility to communicate all aspects of any Application to their interest holders, including reimbursement distributions.

SECTION 5: REIMBURSEMENT

5.1 Reimbursement Model

The Initiative will reimburse eligible amounts by May 31 of the following calendar year to the Operators of Agreements completed. Once the Agreement is completed the Operator must request in writing to IET their amount for reimbursement by March 31 in the same calendar year as it is due.

Any unpaid Dues or portion thereof, will be paid out when funds are available in future. Reimbursement will be on an **annual pro-rata basis** with any unpaid portion paid out in full prior to future reimbursements from Applicants in subsequent years.

Priority is based on the year that the Agreements are completed, i.e. Dues in 2022 for the 2021 pool year with take priority over Dues in 2023.

5.2 Worked Example

The following example is used to illustrate the reimbursement process and timeframes. Assume that four Operators "A", "B", "C" and "D" have executed successfully eight (8) Agreements for eight (8) Exploration wells on existing ELs (Expiry December 2022).

Forfeitures are based on applying the historical default rate (37 per cent) against the future WEBs. All figures are \$mm CAD. Operator reimbursements as below.

Operator	Well		Dues		Reimbursement			Total	%
	#2	#3	2022	2023	2022	2023	2024		
"A"	2021	2021	80	0	54 ¹	2022 Dues = 26	Fully Reimbursed	80	100%
"B"	2021	2021	80	0	54 ²	2022 Dues = 26	Fully Reimbursed	80	100%
"C"	2022	2022	0	80	n/a	38 ³	1.3 ⁴	39.3	49.1%
"D"	2021	2022	30	50	20 ⁵	34 ⁶	0.7 ⁷	54.7	68.4%
		Total	190	130	128	124	2	253	

¹ (Operator "A" Dues divided by Total annual Dues) multiplied by available funds = (80/190)*128= \$54mm

² (Operator "B" Dues divided by Total annual Dues) multiplied by available funds = (80/190)*128= \$54mm

³ (Operator "C" Dues divided by Total annual Dues) multiplied by available funds = (80/130)*128= \$54mm

⁴ (Operator "C" Dues divided by Total annual Dues) multiplied by available funds = (42.5/68)*2= \$1.3mm

⁵ (Operator "D" Dues divided by Total annual Dues) multiplied by available funds = (30/190)*128= \$20mm

⁶ Carried over 2022 Dues plus (Operator "D" Dues divided by Total annual Dues) multiplied by available funds = 10 + (50/130)*62= \$34mm

⁷ (Operator "D" Dues divided by Total annual Dues) multiplied by available funds = (26/68)*2= \$0.7mm

Note that the 2022 Dues get prioritization for reimbursement over 2023 Dues. Earlier activity ensures best chance of a full reimbursement. The flows are illustrated below.

In this example all forfeitures are fully reimbursed to the Operators.

Year	Forfeitures	Balance	Prior Dues	New Dues	Reimbursements
2021	17	17	0	0	0
2022	111	128	0	190	128 (62 shortfall)
2023	123	123	62	130	124 (68 shortfall)
2024	2	2	68	0	2 (66 shortfall)
Closing		0	66		

SECTION 6: OTHER TERMS AND CONDITIONS

6.1 Confidentiality and Security of Information

Under the authority of the ATIPPA, personal and commercially sensitive information is collected in order to process, manage and issue the Initiative. Personal and commercially sensitive information is kept confidential as required by ATIPPA, but may be released under request in accordance with ATIPPA.

If there are questions pertaining to the collection, use and/or disclosure of this information, please contact the ATIPP Coordinator at (709) 729-0462.

6.2 Diversity and Inclusion Measures

Operators who avail of the Initiative are expected to have benefits plans and are expected to include a diversity plan that includes women, indigenous groups, persons with disabilities and members of visible minorities.

6.3 Credit of Rebate to Acquisition Price

If a commercial discovery results from the execution of an Agreement the associated reimbursement shall be credited towards the province's acquisition price of up to ten (10) per cent of its equity interest. The province's credit is at the cost at the time of reimbursement.

6.4 Initiative Duration

The intended duration of the Initiative is to 2024, i.e. the last Forfeitures relating to Jan 15th 2024. The Initiative will be reported upon annually.

At the Review Date GNL will evaluate the effectiveness of the Initiative and will at its sole discretion decide whether to extend, amend or conclude the Initiative and end all liabilities thereunder. GNL has the right to amend any aspect of this Initiative at any time as deemed appropriate.

All reimbursement available under the Initiative is at all times subject to the sole discretion of GNL and/or IET. GNL and/or IET have the ability, without notice to the Operator, to amend the terms of the Initiative, including but not limited to, amending terms which would have the effect of lessening or eliminating entirely the reimbursement available under the Initiative.

Further, all reimbursement payable in accordance with the Initiative is subject to there being an appropriation for the Initiative for the fiscal year for which reimbursement under the Initiative is due, with reimbursement also subject to the *Financial Administration Act*, RSNL 1990 c. F-8, as amended.

6.5 Audit

Any reimbursement amounts and data to support the claims are subject to audit at the discretion of Department of IET and will expire five (5) years from the date that the reimbursement is provided.