



Exploration Licence Consolidation - Principles and Process

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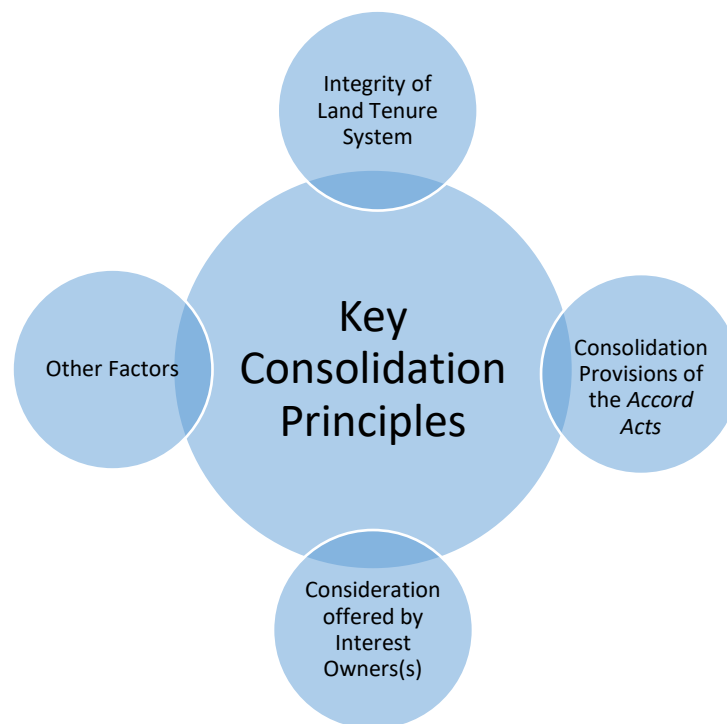
1.0 Introduction

The licence consolidation provisions of the *Accord Acts*¹ provide that the Board may, on the request of the interest owner(s) of two or more exploration licences, consolidate those exploration licences into a single exploration licence, subject to any terms and conditions that may be agreed on by the Board and those interest owners of the respective licences. Such decisions are discretionary, and are fundamental decisions of the Board requiring approval of the respective federal and provincial Ministers responsible for natural resources.

The purpose of this document is to provide general direction and greater certainty surrounding Board expectations for its assessment of requests for consolidation of exploration licences within the Canada-Newfoundland and Labrador Offshore Area, and to assist the representatives of the respective licence interest owners in the preparation of such requests and their understanding of the related process.² C-NLOPB staff endeavor to make the review process for licence consolidation requests, which normally takes several months, as efficient as possible.

2.0 Key Consolidation Principles

When the Board assesses the unique merits of each request for consolidation of exploration licences, the following key principles are normally considered by the Board to ensure such decisions uphold the public interest:



¹ Subsection 68(3) of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act* and subsection 67(3) of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act*, collectively the “*Accord Acts*”. All references in this document are to the federal version.

² While this document seeks to provide guidance with respect to licence consolidation, each request is assessed on its own merits. The Board reserves the right to deviate from this document as is appropriate in the exercise of its statutory discretion.

2.1 Consolidation Provisions of Accord Acts

Consolidation of exploration licences is a discretionary, fundamental decision of the Board. There is no entitlement to consolidation prescribed in subsection 68(3) of the *Accord Acts*. In the normal course, the Board and the interest owners negotiate, and where consensus can be reached, enter into an agreement for the consolidation of licences prior to any fundamental decision being recommended and approved by the Board, the process for which is more particularly described in section 3.0 herein.

2.2 Integrity of Land Tenure System

Altering the licence terms and conditions offered and accepted through a Call for Bids (CFB) could compromise the integrity of the Land Tenure System unless reasonable consideration, satisfactory to the Board, is provided in support of the consolidation request, thereby upholding the public interest. The standard terms and conditions, which will not be departed from without adequate consideration, generally include licence commitments in relation to:

- the number of validating well(s) to be drilled per licence;
- the work commitment bid per licence;
- the nine-year licence term;
- the expiration of Period I; and
- other underlying licence terms and conditions, such as drilling deposits.

2.3 Consideration Offered by Interest Owner(s)

Consideration for deviation from any of the commitments outlined in subsection 2.2 above can include, but is not limited, to the following:

- the surrender of lands;
- increase in drilling deposit(s);
- reduction in licence term or expedited exploration activity;
- conditions precedent (for example commencement or completion of validating well(s)); and
- additional well commitments; or
- a combination of the above.

2.4 Other Factors

Other matters which can be taken into account in the course of consolidation discussions include items such as:

- licence adjacency;
- the adoption of “modern” licence terms commensurate to the most recent CFB which may be incorporated into a consolidated licence;
- the likelihood of exploration activity to be carried out on consolidated lands;
- assessment of prospects based on exploratory work assessed to date and noted in annual Exploration Plans;
- diligence in executing exploration activities on subject licences;
- rig availability and schedules;
- the impact on potential developments; and
- status of other regulatory approval, such as environmental assessments for petroleum-related work or activities.

3.0 Consolidation Process

Step 1 – Informal Discussion	Step 2 – Formal Request	Step 3 – Staff review	Step 4 – Board review	Step 5 – Board Approval	Step 6 – FD Approval
<ul style="list-style-type: none"> • Interest owner(s) engage with Board staff on licence consolidation request and exploration plans • Affords opportunity for constructive feedback on request and identification of challenges, if the request could negatively impact the integrity of the Land Tenure System or the public interest • Applicants are encouraged to seek approval of such plans by all licence interest holders, prior to formal engagement with the Board and submission of the request 	<ul style="list-style-type: none"> • A detailed request which comprehensively addresses the Key Consolidation Principles outlined in Section 2.0, is provided to the Board requesting consolidation • Normally, engagement is led by the licence representative(s) on behalf of all interest holders of licences to be consolidated 	<ul style="list-style-type: none"> • The documentation provided in Step 2 is considered by Board staff • Board staff may also prepare an information note to the Board on any identifiable areas of concern, prior to responding to the Applicant • Updated documentation will be provided and reviewed until satisfactory to Board staff and if applicable, the Board • Memorandum to the Board from Board staff is prepared providing analysis and a recommendation 	<ul style="list-style-type: none"> • The Board will consider the merits of the request and in consideration of the Key Consolidation Principles and terms and conditions for the consolidated licence • The Board may give direction to Board staff to either negotiate terms based on feedback, or commence the drafting of the licence consolidation agreement (which would typically contain as a schedule the new consolidated licence) • Board Staff and the interest owner(s) will prepare a draft consolidation agreement consistent with the terms and conditions agreed by the parties for the consolidated licence 	<ul style="list-style-type: none"> • Once the consolidation agreement has been drafted, the consolidation agreement together with a fundamental decision letter for the consolidation, is presented to the Board for approval • If the Board does not approve, Board staff may be instructed to revisit Step 3, or ultimately the Board may decide not to approve the consolidation 	<ul style="list-style-type: none"> • If the Board approves, the fundamental decision will be sent to governments for approval of the licence consolidation agreement (30 days) • If the fundamental decision is approved, consolidation occurs in accordance with licence consolidation agreement and any applicable conditions precedent

For questions respecting exploration licence consolidation, please contact:

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