

## NOTICE TO POTENTIAL BIDDERS

### No. NL20-CFB01 (Eastern Newfoundland)

For Immediate Release  
August 20, 2020

#### RE: Amendment to Terms and Conditions - Allowable Expenditure Calculations and Credit

In accordance with the provision for amendment to a Call for Bids as provided in paragraph 3.2 (g) of [Call for Bids No. NL20-CFB01 \(Eastern Region\)](#), please be advised the *Accord Acts'* Ministers have approved Fundamental Decisions of the Board to amend the terms and conditions of any resulting licences issued from this Call for Bids.

#### 1) Revisions regarding drilling-related overhead costs

These amendments will provide greater certainty with regard to drilling-related overhead costs and create administrative efficiencies for the submission and review of applications for allowable expenditure credit received from interest owners. More specifically, the following subsections of the Exploration Licence and sample Significant Discovery Licence are amended and replaced as follows (revisions are indicated in bold type):

#### 8. ALLOWABLE EXPENDITURES

- (1) Allowable Expenditures may be claimed for those permitted expenses more particularly described in paragraphs 8(2)(**iv**), (**v**) and (**vii**) incurred from the date of the announcement of the Call for Nominations NL18-CFN01 (Areas of Interest) up to and including the effective date of this Licence.
- (2) The Allowable Expenditures for any given year shall be the total calculated expenditures for that year (i.e. monies actually spent) based upon the following rates:
  - (i) Drilling costs, as may be more particularly described in guidance, shall be claimed "at cost" when carried out by a party at arm's length from the operator. Drilling costs are subject to Board approval **based** on the following conditions:
    - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
    - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(2)(i)(a) above; and,
    - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.
  - (ii) Drilling costs, as may be more particularly described in guidance, in a non-arm's length transaction shall be the lesser of cost or fair market value as established by an independent third party expert. **Non-arm's length Drilling costs are subject to Board approval based on the following conditions:**

- (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
- (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(2)(ii)(a) above; and,
- (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

**(iii) Overheads – Drilling Costs**

**The lesser of \$25,000,000 or 10% of the total Allowable Expenditures as described in paragraphs 8(2)(i) and/or 8(2)(ii) may be claimed as overhead on a per well basis. Any costs claimed under this paragraph 8(2)(iii) cannot double count costs claimed under paragraphs 8(2)(i) and/or 8(2)(ii).**

- (iv) Seismic, Well-Site or Electromagnetic Survey costs shall be claimed “at cost” when carried out by a party at arm’s length from the operator. Seismic, Well-Site or Electromagnetic Survey costs are subject to Board approval **based on** the following conditions:
  - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
  - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(2)(iv)(a) above; and
  - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.
- (v) Seismic, Well-Site or Electromagnetic Survey costs in a non-arm’s length transaction shall be the lesser of cost or fair market value as established by an independent third party expert consistent with:
  - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
  - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with subparagraph 8(2)(v)(a) above; and,
  - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.
- (vi) For the purposes of subparagraphs 8(2)(i), 8(2)(ii), 8(2)(iv) and 8(2)(v), persons are not dealing at arm’s length if they are not dealing at arm’s length for the purposes of the *Income Tax Act*, section 251.
- (vii) Seabed & Other Surveys/Studies
  - (a) Environmental field studies when they are required to obtain an authorization for work or activity. At cost.
  - (b) Any other survey/study at a rate agreed to by the Board prior to the program commencement.

**(viii) Overheads – Non-Drilling**

10% of the Allowable Expenditures as described in paragraph 8(1) or paragraphs 8(2)(iv), 8(2)(v), and 8(2)(vii).

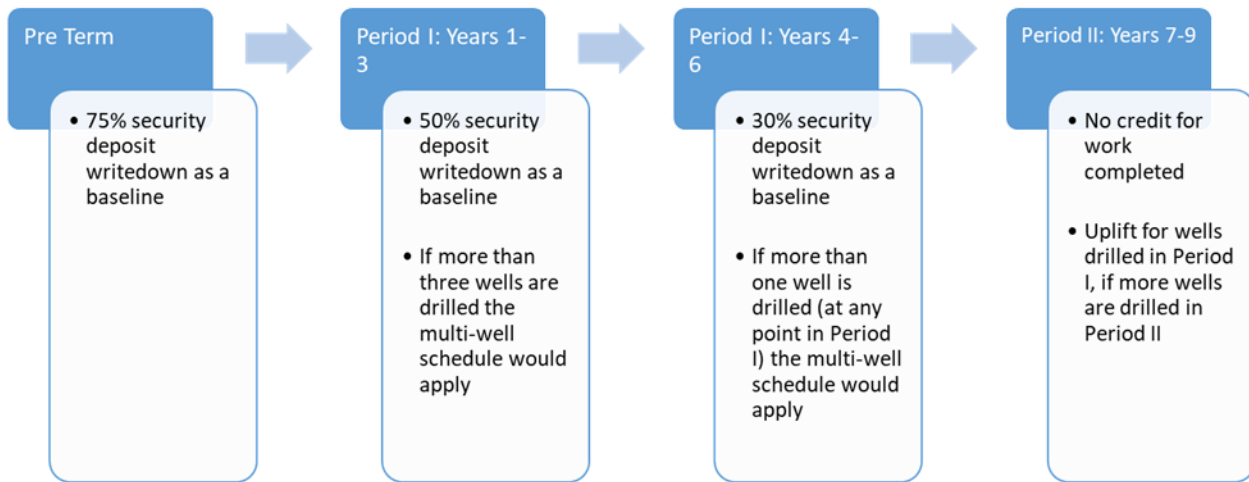
**(ix) Research & Development/Education & Training**

- (a) An Interest Owner will be permitted to apply for a maximum of 5% of the Expenditure Bid as an Allowable Expenditure during Period I for these purposes;
- (b) Any Allowable Expenditure made in relation to research and development/education and training and applied for as a credit against the Security Deposit, must be approved by the Board;

2) Revisions regarding refunding of security deposits

Ministers have also approved a separate Fundamental Decision of the Board related to an uplift on any approved allowable expenditure credit directly correlated to the number of wells drilled.

The Board decided to create a security deposit model for this and future Calls for Bids to support both early-term drilling and multi-well programs as summarized in the graphic below:



Percentages that can be used against security deposits following the multi-well schedule are outlined below:

Well #	1	2	3	4	5
1	30%				
2	40%	40%			
3	50%	50%	50%		
4	75%	75%	75%	75%	
5	100%	100%	100%	100%	100%

To implement this new model, section 6 of the sample Exploration Licence is amended and replaced as follows:

6. SECURITY DEPOSIT

- (1) As a condition of the issuance of this Licence, the Interest Owner has posted a security deposit with the Board in the amount of \$\_\_\_\_\_ CAD equal to 25% of its Work Commitment (the "Security Deposit").
- (2) The Security Deposit will be refunded to the extent of approved allowable expenditures calculated in accordance with section 8 of this Licence and this section 6.
- (3) For allowable expenditures incurred prior to the issuance of the Licence, the Security Deposit will be refunded to the extent of 75% of such approved allowable expenditures.
- (4) With the exception of allowable expenditures calculated in accordance with 6(3) herein, for any other allowable expenditures approved in accordance with section 8 of this Licence, the percentage of credit claimed against any outstanding Security Deposit shall be calculated in accordance with the timing and number of wells drilled in Period I:
  - (a) During the first three years of the Licence, the Security Deposit will be refunded to the extent of 50% of the allowable expenditures approved in accordance with section 8 of this Licence, including those related to the first validating well;
  - (b) If during the first three years of the Licence more than three wells are drilled on this Licence and evaluated in accordance with the Board's 'Approval to Drill a Well' process, the Security Deposit will be refunded by an additional 25% for the fourth and each additional well thereafter to the upper extent of 100% of the allowable expenditures approved in accordance with section 8 of this Licence, with the additional incremental 25% credit granted in relation to previously approved allowable expenditures credited in relation to prior wells drilled;
  - (c) If no wells are drilled in the first three years of the Licence, the Security Deposit for allowable expenditures approved and incurred during the remainder of Period I will be refunded as follows:
    - i. the Security Deposit will be refunded to the extent of 30% of the allowable expenditures approved in accordance with section 8 of this Licence including those related to a validating well during the remainder of Period I;
    - ii. If during the remainder of Period I, a second well is drilled on this Licence and evaluated in accordance with the Board's 'Approval to Drill a Well' process, the Security Deposit will be refunded to the extent of 40% of the allowable expenditures approved in accordance with section 8 of this Licence, with an additional 10% credit granted in relation to previously approved allowable expenditures credited in accordance with subparagraph 6(4)(c)(i);

- iii. If during the remainder of Period I, a third well is drilled on this Licence and evaluated in accordance with the Board's 'Approval to Drill a Well' process, the Security Deposit will be refunded to the extent of 50% of the allowable expenditures approved in accordance with section 8 of this Licence, with an additional 10% credit granted in relation to previously approved allowable expenditures credited in accordance with subparagraph 6(4)(c)(ii);
  - iv. If during the remainder of Period I, a fourth well is drilled on this Licence and evaluated in accordance with the Board's 'Approval to Drill a Well' process, the Security Deposit will be refunded to the extent of 75% of the allowable expenditures approved in accordance with section 8 of this Licence, with an additional 25% credit granted in relation to previously approved allowable expenditures credited in accordance with subparagraph 6(4)(c)(iii);
  - v. If during the remainder of Period I, five or more wells are drilled on this Licence and evaluated in accordance with the Board's 'Approval to Drill a Well' process, the Security Deposit will be refunded to the extent of 100% of the allowable expenditures approved in accordance with section 8 of this Licence, with an additional 25% credit granted in relation to previously approved allowable expenditures credited in accordance with subparagraph 6(4)(c)(iv).
  - vi. For the purpose of this subsection 6(4), to be considered an additional well, the well must target a separate geological feature for the purposes of obtaining the additional credit percentage.
- (5) No later than thirty days after the end of Period I, any unclaimed allowable expenditures described in section 8 and calculated in accordance with section 6 must be submitted to the Board.
- (6) Allowable expenditures which are expended in Period II shall not be credited against the Security Deposit. No interest will be paid on the Security Deposit.
- (7) The Interest Owner is not obligated to perform work under this Licence. However, if the Interest Owner does not meet its Work Commitment during Period I:
- (a) the non-credited remaining balance of the Security Deposit will be forfeited to the Receiver General for Canada upon the termination of Period I, or
  - (b) the Interest Owner may extend the term of the Security Deposit beyond Period I in order to receive the benefit of any incremental percentage increase for the calculation of allowable expenditures related to the drilling of additional well(s) in Period II as described in 6(4) herein. Any non-credited remaining balance of the Security Deposit upon expiry of the Licence will otherwise be forfeited to the Receiver General for Canada. For greater certainty, allowable expenditures incurred in Period II are not available to reduce the Security Deposit.

All other terms and conditions of the Call for Bids NL20-CFB01 remain unchanged.

Further detailed information about scheduled land tenure is available [here](#).

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