

## **OVERVIEW**

### ***LAURENTIAN SUB-BASIN LICENCES***

The terms and conditions of the 8 new exploration licences to be issued in the Laurentian Sub-basin generally contain the same terms and conditions that one would expect to find in any licence in the Newfoundland and Labrador Offshore Area. As these are negotiated licences, the interest owners negotiated the following unique terms and conditions to be incorporated into the licences.

#### **A. ConocoPhillips/Murphy – 7 Licences (ELs 1081-1087)**

##### **(a) Block Size**

Traditionally, parcels offered in a competitive bid process are a maximum parcel size of 800 sections (8 grid blocks). The resulting licences are between 800 and 900 sections and comprise a total area of approximately 2.25 million hectares.

##### **(b) Licence Term**

The *Accord Acts* provide that the maximum licence term can be no longer than 9 years. If the federal permits had remained in effect, they could have extended over a 12-year maximum term. The following is a synopsis of the unique terms and conditions contained in these licences:

##### ***Period I (4 years)***

- Work commitment of \$18 million across 7 licences.

##### ***Period II (2 years)***

- If the Period I work commitment is met (on a per licence basis), the interest owner will not have to make any relinquishment of lands but must post \$2.5 million security deposit which is 10% of a notional \$25 million dollar well (average cost for well in offshore area) in order to continue into Period II;
- If the work commitment is not met, the interest owner must relinquish 50% of the contiguous lands within that licence, and post a \$2.5 million security deposit which is 10% of a notional \$25 million dollar well (average cost for well in offshore area) in order to continue into Period II;
- As an incentive for early drilling, the Board will waive the security deposit required for Period II on one additional licence of choice when a well is drilled in Period I;
- Another incentive for early exploration is the ability for an interest owner to apply 50% of expenditures in excess of the \$18 million work commitment against the security deposits; and,
- Any licence can be relinquished prior to entry to Period II.

***Period III (3 years)***

- Cancellation of licence if a well is not drilled on that licence in Period I or II; and,
- Rentals at a rate of \$2.50 per hectare.

**(c) Related Lands**

The permit conversion process and negotiated agreement are governed by section 130 of the federal *Accord Act* and 126(3) of the provincial version. Subsection 130(3) affords the Board the ability to direct issue from crown reserve lands if a reasonable case is put forward by a permit holder for such inclusion in the new licences. The related lands are located within the southern portion of EL 1081 and consist of approximately 48,000 hectares or 14% of EL 1081. In consideration for these related lands, the permit holders have agreed to relinquish 467,010 hectares, i.e., the northern parts.

**(d) Effective Date**

The Board in the normal course issues exploration licences on January 15, 2004. The effective date for these licences will be July 1, 2004.

**(e) International Agreements**

These converted licences extend to the boundary with the French Corridor. As a result, these licences will include a term relating to compliance with any international boundary agreement and will put the interest owner on notice that the Board and the interest owner must adhere to such an agreement.

**(f) EL 1087**

As noted in the *Strategic Environmental Assessment (SEA) for the Laurentian Sub-basin*, a munitions dumpsite has been identified on the eastern boundary of this licence. To give effect to the recommendations in the *SEA*, an additional term for this licence provides the Board with the ability to add conditions or restrictions at the time of issuance of any authorization for activity within this licence

**B. Imperial Licence – EL 1088**

**(a) Block Size**

As with a traditional licence, EL 1088 is comprised of less than 800 sections. It has total acreage of 194,800 hectares over 520 sections.

**(b) Licence Term**

The term for EL 1088 is divided into two periods consistent with the traditional licences as identified in Call for Bids NF03-1. Each period will have the following unique parameters:

***Period I (five years)***

- Work commitment of \$1.5 to be met during Period I of the licence term;
- Security deposit of 25% work commitment (i.e. \$375,000) to be posted at the end of year 2 of Period I; and,
- Period I may be extended by 1 year with the payment of a drilling deposit of \$1 million.

***Period II (4 years)***

- Cancellation of licence if well is not drilled in Period I; and,
- Rentals to be paid on a per hectare basis consistent with Call for Bids NF03-1 (i.e. year 1 - \$2.50; year 2 - \$5.00; years 3 and 4 - \$7.50).

**(c) Related Lands**

The permit conversion process and negotiated agreement are governed by section 130 of the federal *Accord Act* and 126(3) of the provincial version. Subsection 130(3) affords the Board the ability to direct issue from crown reserve lands if a reasonable case is put forward by a permit holder for such inclusion in the new licences. The related lands are located within the southern portion of EL 1088 and consist of approximately 40,989 hectares or 21% of EL 1088. In consideration for these related lands, the permit holder has agreed to relinquish 36,920 hectares.

**(d) Effective Date**

The Board in the normal course issues exploration licences on January 15, 2004. This licence will be issued upon approval by the government and the execution of the negotiated agreement.

**(e) International Agreements**

This licence extends westward to the boundary of the French Corridor. As a result, this licence will include a term relating to compliance with any international boundary agreement and will put the interest owner on notice that the Board and the interest owner must adhere to such an agreement.