

Oil and Gas Corporation of Newfoundland and Labrador

2020 Annual Report

June 2021

Message from the Boards of Directors

Honourable Andrew Parsons
Minister of Industry, Energy and Technology
Government of Newfoundland and Labrador
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister Parsons:

In accordance with the **Oil and Gas Corporation Act** and the **Transparency and Accountability Act**, I am pleased to provide the 2020 Annual Performance Report for Oil and Gas Corporation of Newfoundland and Labrador (OilCo), on behalf of the Board of Directors.

The 2020-2022 Strategic Plan for the corporation outlined the applicable strategic directions of the Government of Newfoundland and Labrador (Government) in relation to the oil and gas energy sector, as communicated by the Minister of Industry, Energy and Technology.

This Annual Report presents performance results and accomplishments for the 2020 calendar year for OilCo and is the first report under the corporation's 2020-2022 Strategic Plan.

As the Board of Directors of OilCo, we are accountable for the preparation of this report and are accountable for the results.

It is with great pride the Board of Directors continues to work with our many valued industry partners to ensure the health of the sector and our economy in the decades ahead.

Heather M. Jacobs, QC



Chair,

Oil and Gas Corporation of Newfoundland and Labrador

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OVERVIEW

Resilient and Focused

Against the backdrop of the global COVID-19 pandemic, and its resulting impact on oil prices, market conditions, restrictions on movements of people and deferments of investment decisions, the Oil and Gas Corporation of Newfoundland and Labrador (OilCo) has remained focused on its key strategic objectives: executing a world-class investment attraction exploration strategy to entice exploration capital and manage the province's equity positions in existing offshore operations.

Under the **Transparency and Accountability Act**, OilCo is a Category 1 public body to further the Government's intention to maximize the shareholder value to the people of the province. OilCo came into existence on January 1, 2020, in accordance with the intentions of the **Oil and Gas Corporation Act (2019)**.

When staff from Nalcor Energy-Oil and Gas Inc. (Nalcor Oil and Gas) and Bull Arm Fabrication Inc. (BAF) transitioned to the new Crown corporation, Brent crude was trading for \$67.05 (USD). Within three months, the price had plunged to \$9.12 (USD) and recovered somewhat to stand at \$50.22 (USD) at the end of 2020. In those 12 months, oil exploration and production company strategies made a pivot from exploration expansion to managing reduced cash flows. Projects were deferred and portfolios reassessed; however, the people of OilCo remained focused knowing that upon recovery, investment decisions would be concentrated on the most-prospective basins. The strategy remains to drive investment decisions through world leading geophysical science that diminishes investment risk and enhances commercial exploration success resulting in mutual success and greater shareholder value for the Government and people of our province.

Equally important is our responsibility for the management of existing equity interests in offshore developments – Hebron, White Rose, and Hibernia Southern Extension. The working interests remain with our legacy company, Nalcor Oil and Gas, but OilCo remains firmly focused with ensuring efficient management of those assets for the public good. Future exploration activities, along with future investments in production developments will now reside with the new Crown corporation, OilCo. In addition, management of BAF also resides within our legislative remit and we are driven to ensure this valuable component of provincial industrial capacity remains capable for future opportunities as well as improving current efficiencies.

*Science builds understanding and knowledge-
Data drives decisions-Leading to Investment.*

Investment means growth dividends for our province. As part of its growth plan for the oil and gas industry, the Government has outlined its commitment to a long-term strategic decision to propel the province into a Class A investment prospect for future oil and gas exploration and development. It is underpinned by confirmed global class-proven reserves and highly-prospective basins.

Our job is to enhance our attractiveness by conducting leading edge geoscience that finds and characterizes Newfoundland and Labrador's undiscovered oil and gas resource potential, reduces investor risk, and raises our standing at the decision tables of leading exploration companies. Investment will lead to economic and societal dividends for the people of Newfoundland and Labrador.

OilCo staff and the industry recognized last year was a period for pause in investment worldwide as exploration firms concentrated on managing reduced cash flows. But the collection of data last year, including three separate multi-client 3D seismic surveys in separate prospective basins, underscore the view investments are made from the best of research over years. While 2020 was a year of pause, 2021 will likely be a year of evaluation for exploration firms as they do the requisite planning for multi-year exploration programs. Our continued emphasis on sifting through prospects and narrowing the most promising, backed by reputable research, puts us in a good position as the constriction of exploration budgets ease.

A Team of Experts-Working for the Betterment of Newfoundland and Labrador

The OilCo team has extensive experience in science, investment attraction, finance and facilities management required to meet the important assignment handed to them by the province. Management of OilCo lead a team with the requisite breadth and depth of industry knowledge in what drives investment decisions, both on the science and finance sides of the equation. They know the industry because they have worked in the upstream sector and the supply chain across continents from North and South America, the Middle East and other areas now competing with Newfoundland and Labrador for capital investment. They speak the language of the industry and as we emerge from the current period of transition, the experience and resilience they bring to their roles is a distinct competitive advantage. Newfoundland and Labrador oil and gas is not just a job for our staff, but a passion. This is their home, and that added passion combined with science and finance skills will be an advantage in preparing actionable business intelligence to put before the decision makers of the upstream sector as the pandemic recedes and the economy realigns.

Since inception, the organization has worked diligently to build strong, collaborative working relationships with current and future operators as well as the broader industry. OilCo is committed to providing investment-grade science and thoughtful leadership and guidance that will support the creation of long-term value and wealth for the province. As a result of this commitment, our staff has enhanced understanding of the offshore resources, landed exploration investments, and are committed to building a strong future for the province and its people.

Lines of Business

OilCo has the following business focus areas.

Facilities Management – Bull Arm

Part of the Crown corporation's strategic approach remains to drive local industrial participation in the sector through supporting current and prospective projects. The Bull Arm Fabrication facility a 120,000 m² facility with its 20,600 m² enclosed fabrication facilities and marine infrastructure is a critical industrial asset for the province to accrue maximum economic activity from future projects despite the cyclical nature of offshore oil and gas, and mining sectors. The 140,000 m² marine facility has been utilized for the stacking of offshore assets during the pandemic induced lull in activity in exploration and production. The Terra Nova FPSO is stored quayside as future investment decisions are made by the owners. The mobile offshore drilling units (MODUs) West Aquarius and Henry Goodrich were stacked there through much of 2020. We continue to explore opportunities to maximize utilization of this facility while working on reducing operating costs.

Sustainability

Both safety and sustainability will remain at the forefront of all we do. Newfoundland and Labrador provides a stable and predictable low-carbon jurisdiction where operators can move projects forward with regulatory confidence. Specific efforts to support global industry best practices as well as improve the carbon advantage of the province's offshore resources through partnerships and technology are being explored.

Renewable Technology Research

We are actively involved in research to make offshore operations even more sustainable. One example is our collaboration with the Newfoundland and Labrador Environmental Industries Association (NEIA) and the Newfoundland and Labrador Oil Industry Association (Noia). OilCo is part of the consortium evaluating the technical and economic feasibility of electrifying offshore production facilities. If the research proves the viability of the process, not only are we further reducing our sector's carbon production, but this province would potentially be advancing a technology of global interest.

Mandate

As per Section 7 of the Oil and Gas Corporation Act, the Objects of the Corporation are:

(1) The corporation is responsible for investing in, engaging in, and carrying out the following activities in the province and elsewhere, in accordance with the priorities of the Government of the province:

- a) the exploration for, development, production, refining, marketing, and transportation of hydrocarbons and products from hydrocarbons; and,
- b) research and development.

(2) Notwithstanding subsection (1), the corporation may invest in and engage in those other activities that the Lieutenant Governor in Council may approve.

Through an Order issued by the Lieutenant-Governor in Council, OC 2019-268, OilCo and its subsidiaries are authorized to invest and engage in activities related to supply chain development opportunities and advancement of oil and gas supply and service business opportunities.

While OilCo has operational autonomy, OilCo receives human resource, financial and other shared services support from core Government which will create savings – in line with Government’s commitment to create a more efficient public sector.

Vision and Values

OilCo came into existence on January 1, 2020, in accordance with the intentions of the **Oil and Gas Corporation Act (2019)**. As the transition continues, our Vision and Values may be further defined.

Vision

A prosperous future full of economic opportunity for generations of Newfoundlanders and Labradorians.

Values

- Transparent
- Innovative

- Resilient
- Courageous
- Collaborative

Primary Clients

Newfoundland and Labrador's offshore industry has attracted the most capable exploration and development companies in the world, with a number of companies having operations here for decades, and an even greater number that have established a presence here in the past six years. We seek firms with the right combination of strategic alliance, technological competence, capital strength and risk profile to explore and eventually develop the wealth beneath the seabed off our coasts. Major industry players with extensive deep-water experience have established operations in our province and OilCo has strong and collaborative working relationships with all of these companies. OilCo has a mix of clients with some being strong local companies, others that operate on a Canada wide and/or international scale.

OilCo's clients are based locally, nationally, and internationally and include:

- **Tier 1 Oil and Gas Exploration and Production Companies**
- **Leading Oil and Gas Supply and Service Companies**

Who We Are

Headquartered in St. John's, OilCo had 29 employees in 2020, with all staff located in St. John's. In 2020, the gender composition of our employee group was 52 per cent female and 48 per cent male.

Our Team

In 2020, our team of 29 consisted of Geoscientists, Engineers, Technologists, Chartered Public Accountants, IT Specialists, Lawyer, Communications and Corporate Service professionals. Achieving gender parity is an important and vital step forward as a progressive and forward-thinking organization. OilCo has a view to the future for setting employment precedence of being a leader in gender equality in the offshore industry.

The OilCo team is high performing and competent, fully trained in the industry, and have a wide range of industry experience. There is extensive global industry experience from eastern/western Canada, Middle East, to offshore Brazil, to deep water south China Sea. Our diverse team is committed to the province and enriching the lives of people living in Newfoundland and Labrador.

Board of Directors

As of December 31, 2020, the OilCo Board of Directors includes members from across the province with a variety of professional backgrounds and extensive experience in executive roles. See biographies for the Board of Directors in Appendix 1.

- **Heather Jacobs (Chair)**
- **Wayne Chipman**
- **Bernard J. Collins**
- **Richard J. Daw**
- **Leslie Grattan**
- **Shelly Leighton**
- **Charles Randell**
- **Pierre Tobin**
- **Jennifer Warren**

OilCo recognizes the work and past service of OilCo's Interim Board members. We thank Ted Lomond, Denise Hanrahan, Roland Strickland and past Chair Sharon Murphy, for their valuable contributions.

2020 Consolidated Revenues and Expenses

In 2020, OilCo had revenues from continuing operations of \$36.5 million. The majority of OilCo's revenues are currently generated from Government contributions (\$30.0M) and a management fee charged to Nalcor Oil and Gas (\$4.2M).

Approximately 79 per cent of OilCo's expenditures from continuing operations relate to operating costs, which are comprised primarily of salaries and wages (\$4.4M), professional services (\$1.7M) and software maintenance (\$1.2M). During the period, OilCo incurred a \$1.9M restructuring cost resulting from the transfer of shares from Nalcor to OilCo.

The following table summarizes the consolidated revenues and expenses of OilCo for the year ended December 31, 2020 (thousands of dollars):

Table 1: OilCo Consolidated Revenue and Expenses 2020

<i>For the period ended December 31, 2020 (in thousands of Canadian Dollars)</i>	\$	%
Continuing operations		
Grant revenue	30,034	82
Other revenue	5,181	14
Lease revenue	1,290	4
Revenue	36,505	
Operating costs	9,963	79
Restructuring cost	1,991	16
Amortization of tangible capital assets	670	5
Amortization of exploration assets	174	1
Exploration expenses	92	1
Net finance expense (income)	(35)	0
Other expense (income)	(238)	-2
Expenses	12,617	
Profit for the year from continuing operations	23,888	
Discontinued operations		
Loss for the year from discontinued operations	-	
Profit for the year	23,888	

The 2020 Annual Audit Consolidated Financial Statements for OilCo are appended to this document (See Appendix 2).

HIGHLIGHTS AND PARTNERSHIPS

OilCo works with a variety of agencies, departments, and commissions to execute its mandate. Working closely with partners and supporting the strategic directions of the Government related to the oil and gas sector, OilCo continually aims to maximize shareholder value. Strategic work with partners brought highlights for 2020 in a range of areas with robust exploration outcomes that look to a promising future.

Bull Arm Fabrication Highlights 2020

- Bull Arm Fabrication executed lease arrangements with DF Barnes which included:
 - Transocean Barents warmstacking (taken to port but kept running in a similar state to as if it were operating);
 - West Aquarius warmstacking;
 - Safe coldstacking (rig is then 'stored' in a harbour, shipyard, or designated area offshore until it needs to be activated) of the Henry Goodrich drill rig
 - Terra Nova Quayside Services
- Replacement of hi-bay lighting with LED lighting, resulting in energy savings of more than 500,000 kilowatt hours per year.

Advancing Exploration: Science Driving Inward Investment

- Completed and released the sixth Independent Resource Assessment on the Eastern Newfoundland Call for bids area NL20-CFB01. P50 Potential Resources 11.1 barrels of oil and 24.5 trillion cubic feet of gas.
- A successful bid was received for Parcel 9 (covering 264,500 hectares) for \$27,000,000 in work commitments from BP Canada Energy Group ULC (100%).
- With partner PGS (Petroleum Geo-Services), acquired three separate Multi Client 3D seismic surveys totaling 8190 km² over prospective frontier basins in offshore Newfoundland and Labrador.
- Continued individual meetings with Exploration & Production (E&P) companies to inform on the potential prospectivity of upcoming bid rounds in the Newfoundland and Labrador offshore. Over 20 companies engaged in 2020.
- Evaluation of hydrocarbon prospectivity of offshore Newfoundland and Labrador's basins including Labrador's Chidley Basin with OilCo's seminal peer reviewed scientific journal publication describing the basin in detail (Interpretation - May 2020) in the paper Definition of the Churchill Delta and its Petroleum Potential, Offshore

Labrador. OilCo has now published over 40 global conference and journal papers in the past decade.

Collaborative Partners

Department of Industry, Energy and Technology (IET)

The Department of Industry, Energy and Technology (formally the Department of Natural Resources) works with OilCo in policy-related areas for the various energy sector activities in which the companies engage and supports the companies' efforts to progress all the strategic issues outlined. Throughout 2020, OilCo worked collaboratively with IET with a view to effectively transitioning relevant areas of business to the new oil and gas corporation while also supporting and facilitating the Newfoundland and Labrador offshore.

Department of Finance

The Department of Finance works with OilCo in relation to addressing requirements related to financial structure, financial forecasts, as well as grant revenue for the company's operating activities.

Other Departments/Public Bodies

OilCo demonstrated its commitment to climate change mitigation strategies through continuous engagement with a variety of aligned entities and participation on a number of climate change focused committees. OilCo, through key staff, participated in the Energy Transition workstream of the Oil and Gas Recovery Task Force where ways to reduce emissions in the offshore oil and gas sector were evaluated. Similarly, OilCo staff participated on a technical advisory committee (drilling and reservoir) for the federally-funded Emissions Reduction Fund which aims to reduce emissions in the offshore oil and gas sector.

OilCo works with a variety of agencies, departments, and commissions to execute its mandate. During 2020, OilCo worked closely with each of these organizations to execute its mandate and in support of the strategic directions of the Government related to the oil and gas sector.

2020-2022 PRIORITIES AND OUTCOMES

- Increased ability to carry-out mandate as a self-sustaining autonomous business entity.
- Execution of a world-class exploration strategy that continues to attract investment in Newfoundland and Labrador.
- Continued value creation for Newfoundland and Labrador through our existing and future equity investment.
- Maximize utilization of the Bull Arm Fabrication Site through new opportunities.
- Continue to partner with key stakeholders on climate change priorities.
- Build ongoing awareness and support for the significant potential for the Newfoundland and Labrador Offshore.

The 2020-2022 Strategic Plan for OilCo highlighted two key focus areas around which goals and objectives were established. For each, the information provided below is reflective of work completed throughout the 2020 planning period in relation to these key areas of focus.

The province's significant oil and gas potential offers great opportunity for the future. As stewards of the resource, OilCo will continue to maximize the value of the province's resources at all stages of exploration, development, and production. Throughout this planning period the corporation will remain focused on attracting new investment, maximizing returns through equity investments by leveraging existing capabilities, and positioning this province as a globally preferred location for oil and gas development. The Bull Arm Fabrication Site will continue to play a key role in supporting operators and retaining offshore assets in the province.

Both safety and sustainability will remain at the forefront of activities. Newfoundland and Labrador provides a stable and predictable low-carbon jurisdiction where operators can advance development projects. Specific efforts to support global industry best practices as well as improve the carbon advantage of the province's offshore resources through partnerships and technology will be further explored.

The chief building block of future success for the offshore industry in Newfoundland and Labrador is OilCo's world-class and award winning exploration strategy. Our team of geoscientists is respected globally for the rigour of their research and utilizes the most advanced methods and technologies in their exploration work.

- **Execution of a world-class exploration strategy that continues to attract investment in Newfoundland and Labrador.**

Our strategy is built around driving investment decisions through advanced geoscience that finds and identifies our resource potential, lowers risk, and enhances commercial exploration success. OilCo research strives to remove many of the unknowns and provide greater clarity for investors so the end result is success for everyone involved. This strategy results in the best value for OilCo, global E&P companies, the Government, and the people of Newfoundland and Labrador.

- **Continued value creation through existing and future equity investment**

OilCo manages several equity stakes in Nalcor Energy's oil producing assets. There is a 4.9 per cent stake in Hebron, a five per cent stake in White Rose Extension Project and a 10 per cent stake in the Hibernia Southern Extension. Any new equity interests, like Bay du Nord for example, will be the sole responsibility of OilCo.

OilCo will continue to manage these equity investments so that the future returns are optimized for Newfoundlanders and Labradorians.

- **Maximize utilization of Bull Arm Fabrication Site through new opportunities**

Bull Arm Fabrication (BAF): This is the premier fabrication facility in Atlantic Canada. It serves as a tremendous asset to both OilCo and the province at large. By owning and operating such a site, many opportunities for large-scale industrial work are available to our province. By having the capacity and availability to do this type of work, utilization of the BAF Site provides opportunities for employment and serves as a focus of economic activity for the region in various cycles of the sector.

Supporting the growth of our provincial oil and industrial sector is vital to ensuring that we use BAF Site to its full potential. Through the adoption of open and transparent site use terms, reliable up to date infrastructure, and a reputation for environmental stewardship, we can offer the most viable and competitive fabrication centre in Atlantic Canada.

- **Continue to partner with key stakeholders on climate change priorities**

OilCo recognizes the challenges of climate change and will embrace the ongoing low-carbon energy transition into all aspects of our business model.

The reality is that our offshore industry has a much lower carbon intensity when compared to other oil production fields around the world. We will continue to work with partners like NEIA on initiatives that lower emissions in our offshore. By exploring options to electrify our offshore assets, using wind energy to power the offshore, and investigating carbon capture technologies, the offshore industry can move towards the target of becoming a net-zero producer.

- **Build ongoing awareness and support for the significant potential for the Newfoundland and Labrador Offshore.**

Since first production in 1997, the offshore industry has become the cornerstone of the economic fabric of Newfoundland and Labrador. Thousands of well-paying jobs have been created directly and indirectly by the industry and the offshore is a major pillar of the provincial GDP. The provincial treasury has greatly benefited from income taxes, spinoffs, and as well as production royalties. Safely harvesting our offshore has helped fund the needs of society, health care, education, and infrastructure. We want to help Newfoundlanders and Labradorians understand the positive impact our resources have had on our province and the positive future impact it can continue to generate.

Even with changing consumer behaviours and initiatives towards greater climate change protection, our industry still has a long future. Billions of the lowest emitting barrels in the world are out there waiting to be discovered, developed, and produced. As industries and countries around the world undergo the low-carbon transition, they will still need to utilize oil and gas in different ways. They will look to jurisdictions like Newfoundland and Labrador and our low-carbon industry to help meet their needs.

STRATEGIC ISSUES

The two strategic issues outlined below will be addressed by OilCo to realize its mandate and vision.

Issue 1: Exploring Newfoundland and Labrador's Offshore

The goal for OilCo exploration by 2022 is to have advanced opportunities to increase oil and gas exploration and investment activities in the province. Gaining advanced knowledge of resource potential through a multi-year exploration strategy will place OilCo in a position to be leaders in offshore exploration.

OilCo's exploration is building on leading geological and geophysical programs. These programs provide new insights on the nearly two dozen basins that surround the province. The significant collection of geoscience data and exploration data surveys enhances knowledge of the province's oil and gas resource potential and increases awareness of that potential locally and globally.

As the provincial oil and gas company, OilCo undertakes strategic investments in new data acquisition and analysis at the front end of the exploration cycle to: find and characterize the oil and gas resource potential of offshore Newfoundland and Labrador's frontier basins; open new areas to industry exploration; and, increase Newfoundland and Labrador's global competitiveness to attract global exploration investment.

OilCo is not competitive with industry and therefore does not participate in land sales. OilCo participates on behalf of the province in future projects through equity ownership in new successful developments.

OilCo takes a systematic and scientific approach to evaluating Newfoundland and Labrador's offshore frontier basins. OilCo accomplishes this through its proprietary Exploration Strategy System, a map-based geoscience data management tool that allows users to examine the oil and gas potential of Newfoundland and Labrador offshore. Using state-of-the-art technology, this system allows users to display, filter and analyze a vast array of available geoscience data and information and then export the results to meet their needs.

Issue 1: Exploring Newfoundland and Labrador's Offshore	
Goal: By December 31, 2022 OilCo will have advanced opportunities to increase oil and gas exploration and investment activities in the province.	
Objective: By December 31, 2020 OilCo will have enhanced knowledge of the province's oil and gas resource potential and increased awareness of that potential locally and globally.	
INDICATORS	2020 ACTIVITIES
Collection of geoscience data and exploration data surveys	<p>OilCo has developed and is executing an exploration strategy based upon global best practices to find and deliver new oil and gas resources in Newfoundland and Labrador's offshore. Throughout 2020 OilCo made strategic investments in new data acquisition and analysis at the front end of the exploration cycle.</p> <p>In 2020, OilCo successfully executed three separate multi-client 3D seismic surveys within three separate prospective basins in NL offshore (Orphan, Carson and Chidley basins). The area covered by the 3D surveys totalled 8,190km² over prospective frontier basins in offshore Newfoundland and Labrador.</p>

<p>Continued implementation of the multi-year exploration strategy</p>	<p>In 2020, OilCo continued mapping of newly acquired 3D surveys and lead and prospect evaluation over these newly surveyed areas. This work in 2020 resulted in very large prospects in multiple basins being imaged and mapped.</p> <p>Completed and released the sixth Independent Resource Assessment on the Call for Bids area NL20-CFB01. The 2020 Independent Resource Assessment was based on new data covering six parcels and 15,000km² on offer within the Orphan Basin in the area of the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) 2020 Eastern Newfoundland Call for Bids. Newfoundland and Labrador's 2020 Independent Oil and Gas Resource Assessment results show 11.1 billion barrels of oil and 24.5 trillion cubic feet of natural gas potential offshore. The assessment findings were released in September 2020 in partnership with Government and other partners in advance of the Call for Bids, which were held in November 2020.</p>
<p>Communication of geoscience results and overall offshore potential to the oil and gas industry and local stakeholders</p>	<p>Throughout the year, OilCo continued individual meetings with Exploration and Production companies to inform on the potential prospectivity of upcoming bid rounds in the NL offshore. OilCo engaged with more than 20 companies through 2020.</p> <p>In 2020, members of the OilCo team published a seminal peer reviewed journal paper on offshore Labrador titled: Definition of the Churchill Delta and its Petroleum Potential, offshore Labrador (SEG Interpretation Journal). With this latest publication, OilCo has now published over 40 global conference and journal papers in the past decade.</p>

The objective and indicators for 2021 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

2021 Objective

By December 31, 2021 OilCo will have made continued advancements in data collection enhancing the knowledge of the province's oil and gas resource potential.

2021 Indicators

- Continued to collect geoscience data and exploration data surveys.
- Continued to implement and advance OilCo's multi-year exploration strategy.
- Promoted and delivered information on geoscience results and overall offshore potential to the oil and gas industry and local stakeholders.

Issue 2: Offshore Development and Operations

Further development of the province's offshore industry yields tremendous opportunities for OilCo. OilCo has a fiduciary responsibility to ensure that Newfoundland and Labrador is the major beneficiary of its offshore resources. OilCo's goal is to further advance current and future equity investment opportunities in the offshore by December 31, 2022.

To meet this goal, OilCo advanced current and future joint venture partnerships through 2020. This was accomplished through three core efforts: continuing to be actively involved in their joint ventures at the committee and voting level, continuing to evaluate equity growth opportunities and providing shareholder advice on acquisitions, and supporting industrial development projects.

OilCo sees great value in building effective partnerships and is focused on working with local industry to support the NL offshore. An example includes the excellent partnership with the team at the BAF Site. In 2020, BAF entered a lease with a tenant for the stacking of various offshore assets.

Issue 2: Offshore Development and Operations

Goal: By December 31, 2022 OilCo will have advanced current and future equity investment opportunities in the province's offshore.

Objective

By December 31, 2020 OilCo will have advanced current and future joint venture partnerships.

INDICATORS	2020 ACTIVITIES
<p>Continue to exercise Joint Venture voting rights and committee representation in the three offshore developments in support of the advancement of progress toward planned project milestones</p>	<p>In January 2020, Nalcor Oil and Gas existing equity interests in offshore developments became managed by OilCo under a management services agreement. Through 2020, OilCo continued to exercise its voting rights in joint venture project/operations decisions on all major expenditures, contracts in the Government's current equity interests.</p>
	<p>Over 100 million barrels of oil have been produced at Hebron since first oil in 2017.</p> <p>OilCo continued to progress environmental initiatives, including a partnership with NEIA and the Climate Change Technical Advisory Group.</p> <p>The Regional Assessment of Offshore Oil and Gas Exploratory Drilling East of Newfoundland and Labrador was released in early 2020. In the lead up to this report, OilCo participated in a Climate Change Technical Advisory Group where quantification of greenhouse gas emissions from offshore drilling facilities were considered as part of the analysis.</p> <p>OilCo participated in a Joint Committee (NEIA and Noia) established to advance low-emission technology in the offshore oil and gas industry.</p>

<p>Evaluation of equity growth opportunities and provide advice to the shareholder on potential additional acquisitions</p>	<p>OilCo evaluates and assesses equity growth opportunities as they arise. Through 2020 the OilCo team continued to work with IET to ensure that the province received maximum value from its existing and potential future investments in the NL offshore.</p> <p>While 2020 had a global decline in economic activity, it resulted in an exceptionally high level of activity for potential growth/additional acquisitions. These opportunities are the subject of confidentiality agreements until finalized.</p>
<p>Local industrial activity supporting current and future development projects</p>	<p>In 2020, OilCo and Bull Arm Fabrication worked with local industry to support the NL offshore with BAF entering into a lease with a tenant for the stacking of various offshore assets and included Terra Nova FPSO, West Aquarius, and Henry Goodrich MODU.</p> <p>Bull Arm Fabrication continues to explore opportunities to maximize fabrication site utilization.</p>

The objective and indicators for 2021 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

2021 Objective

By December 31, 2021 OilCo will have supported efforts to advance offshore project milestones and further enhanced knowledge of the province’s oil and gas potential.

2021 Indicators

- Continued to exercise Joint Venture voting rights and committee representation in the three offshore developments as outlined in a management services agreement with Nalcor Energy Oil and Gas.
- Continued to evaluate equity growth opportunities and provided advice to the shareholder on new potential acquisitions.
- Supported local industrial activity development projects within the oil and gas sector.

OPPORTUNITIES AND CHALLENGES

As stewards of the petroleum resources beneath the seas off our coast, the people of OilCo will remain focused and resilient while adhering to our mission to maximize the value of those resources on behalf of our shareholders, the people of the province as represented by the Government.

Our 2020-2022 Strategic Plan priorities remain as relevant today as they were when they were created. While adjusting to the specific circumstances brought about by global upheaval caused by a pandemic and its cascading short-term impacts on global energy markets, the people of OilCo believe that the tenets of the strategy remain true and achievable. What geologic heat and pressure took hundreds of millions of years to create beneath our seabeds remains a commodity needed by the world for many decades to come. Economic and biological gusts have slowed the journey, but we believe the destination of a more prosperous society on these shores remains in sight.

Our mandate, established under the **Oil and Gas Corporation Act**, includes the exploration for, development, production, refining, marketing and transportation of hydrocarbons and products from hydrocarbons, and research and development. The key focus areas highlighted in this performance report support fulfillment of the direction of the Government related to advancing the oil and gas industry in the province.

We are on course, despite the external circumstances that buffeted the world in 2020. Petroleum exploration and development is a multi-year process. As the storm subsides and the horizon clears, we believe that investment grade science that removes questions and provides a clearer path for exploration and discovery will ensure the basins of out offshore remain amongst the most attractive investment choices globally.

The new Crown corporation will continue to drive safe and environmentally-responsible exploration and development activity and maximize returns through equity investments.

OilCo remains focused on exploring Newfoundland and Labrador's offshore by applying rigorous exploration best practices and technical innovation to ensure the province's offshore basins are evaluated to discover new oil and gas resources for the people of Newfoundland and Labrador. As a direct result of the exploration strategy to date, the province is poised for growth. New basins in frontier areas have been mapped and delineated and geological analogs that have never before been seen in our offshore are now being imaged. Science drives discovery and scientific clarity drives investment decisions.

To date, OilCo has inventoried over 650 leads and prospects throughout Newfoundland and Labrador's offshore attracting the interest of the geologists and investment decision makers of the most capable and reputable firms in the global industry. As the competition for capital expenditure grows, clear science that shows the way is a critical necessity for any jurisdiction seeking investment. Our science has, and will, drive our mission of ensuring benefit, both economic and societal for the people of our province.

Over this planning period, OilCo will continue to prioritize offshore development and operations activity with joint venture partners to advance work plans and achieve project milestones. The revenues from these projects will remain with Nalcor Oil and Gas but continue to be managed by the new oil and gas entity. Currently, OilCo manages a working interest in the White Rose Extension project. This project includes the North Amethyst field, West White Rose, and South White Rose Extension. The company also manages a working interest in the Hibernia Southern Extension as well as a working interest in the Hebron oil field - the province's fourth offshore oil project. OilCo will also continue to partner with key stakeholders in advancing our environmental initiatives to ensure that our competitive offshore remains climate conscious and sustainable throughout the energy transition over the coming decades.

Throughout our history, the seas have sustained us in this province. As the pandemic is conquered and the global economy recovers exploration companies are creating their own new strategic directions. We believe our work will help ensure their intentions and those of this province will remain aligned.

Heather Jacobs, QC (Chair)

Heather M. Jacobs, QC, has been a member of the Board of Directors of the Oil and Gas Corporation of Newfoundland and Labrador since the Board was appointed in August 2019. Ms. Jacobs was also a member of the Nalcor Energy Board in her Government capacity and independently upon retirement for one year. Ms. Jacobs served as Deputy Minister of the Department of Justice and Public Safety from September 2015 until 2018. Ms. Jacobs served as Assistant Deputy Minister in the Department of Justice and Public Safety from June 2006 to August 2015. Ms. Jacobs managed the Government Services Unit within the Civil Division of the Department of Justice from January 2002 to June 2006 and served as a solicitor in the Civil Division from 1988 to 2001. Ms. Jacobs received her Bachelor of Commerce (Honours) from Memorial University in 1984 and Bachelor of Laws degree from York University (Osgoode Hall) in 1987. Ms. Jacobs was appointed Queen's Counsel in 2015 and has been a practicing member of the Bar of Newfoundland and Labrador since 1988.

Wayne Chipman

Wayne Chipman spent over 20 years with the Canada-Newfoundland and Labrador Offshore Petroleum Board in the Resource Management Department and in the position of Chief Conservation Officer. He was responsible for coordinating reservoir engineering, petrophysical and measurement and production reporting activities, which included discovered reserve and resource assessments, production forecasting, economic analysis and administering resource management provisions of the legislation. Mr. Chipman was also key in setting up the Oil and Gas Division of Nalcor Energy, and from 2007 to 2011 was Manager of Oil and Gas with the corporation. In 2013, Mr. Chipman was awarded NOIA's Outstanding Contribution Award in recognition of his contribution to the oil and gas industry in Newfoundland and Labrador.

Bernard J. Collins

Bernard J. Collins is the Chair and former President of PF Collins. Established by his grandfather in 1921, Mr. Collins joined the family business after receiving his post-secondary education. Tasked with developing PF Collins' involvement in the emerging offshore petroleum industry, under his leadership the company grew from a small customs brokerage firm into a modern and progressive integrated logistics provider employing over 100 professionals in Newfoundland and Labrador, Nova Scotia, and Alberta. For his leadership in Atlantic Canada's offshore petroleum industry, Mr. Collins has received numerous recognitions, including the NOIA Outstanding Contribution Award (2005) and the Gardiner Centre Entrepreneur of the Year Award (2012). He has

been listed among Atlantic Business Magazine's Top 50 CEOs, named an Atlantic Region finalist for Ernst & Young's Entrepreneur of the Year and inducted into the Junior Achievement Business Hall of Fame (2015).

Mr. Collins has been involved with many organizations throughout his career, including the Canadian Red Cross, Royal St. John's Regatta Committee, Junior Achievement, Health Care Foundation, and the Flight 491 Memorial Fund. Mr. Collins holds a Bachelor of Business Administration from St. Francis Xavier University.

Richard J. Daw

Richard J. Daw, FCPA.FCA.CMC was a partner with Deloitte for almost 30 years where he practiced as a chartered accountant. During his practice with Deloitte, he was an advisor to contractors for the Hibernia Gravity Based Structure and topsides on tax and organizational matters. He also advised Newfoundland and Labrador Hydro on oil partnership tax structures. After retirement, Mr. Daw became an Executive in Residence with Memorial University's Faculty of Business and a founding member of the Institute of Corporate Directors – Newfoundland and Labrador Chapter. He was also the Vice-Chair of the Audit Committee and the Chair of the HR Committee with the Canada Revenue Agency Board of Management from 2010 to 2016. Mr. Daw served as the Vice Chair and Director of the Dr. H. Bliss Murphy Cancer Care Foundation from 2008 to 2014 where he advised management and provided fiduciary governance. Mr. Daw is a member of the Institute of Certified Management Consultants of Atlantic Canada and the Association of Chartered Professional Accountants of Newfoundland and Labrador and currently serves as independent director on the board of Muskrat Falls Corporation and on the Advisory Board for Memorial University's Faculty of Business Administration.

Leslie Grattan, FRCGS

Leslie Grattan is the owner of Leslie Grattan and Associates Inc. which offers access to a wide range of environmental consulting services. The company has a specific focus on environmental planning, environmental and socioeconomic assessment, effective community engagement and monitoring associated with major resource projects. The company also has experience with offshore emergency response planning, environmental stewardship and integrated coastal and ocean management and recent training in infrastructure risk assessment associated with climate change.

Ms. Grattan has held senior leadership positions in environmental management in the private and public (federal and as a deputy minister, provincial) sectors and offers extensive experience on major projects in offshore oil and gas, hydroelectricity generation, civil construction, and aquaculture. Ms. Grattan has also demonstrated success in building highly effective in-house and consultant teams. Her strong communication skills have been sought in consultations, negotiations and in collaboration with the resource sector, industry, regulators, and the community. Ms.

Grattan is currently Chair of the Oceans Learning Partnership, a founding Advisor/fundraiser with the Petty Harbour Mini Aquarium, Director of the Atlantic Regional Board of the Nature Conservancy Canada, winner of the NEIA 2018 Industry Champion Award and a committee member of the Coastal Zone Canada Association. Ms. Grattan is a Fellow of both the Royal Canadian Geographical Society and Women in Science and Engineering NL and is an Honorary Member of the Professional Engineers and Geoscientists of Newfoundland and Labrador (PEGNL).

Shelly Leighton

Shelly Leighton graduated from University of New Brunswick in 2007 with a Bachelor of Science and Engineering in Geodesy and Geomatics and went on to graduate from Memorial University in 2015 with her Masters in Oil and Gas Engineering. Ms. Leighton has spent several years working in the offshore oil and gas industry as well as on heavy civil projects in Newfoundland and Labrador. She has worked as an offshore surveyor, data processor and project manager for construction support projects worldwide. Ms. Leighton currently is the owner and CEO of Advanced Access Engineering – an engineering firm specializing in autonomous vehicles, both in air and in water. In addition, Ms. Leighton is an instructor with the School of Ocean technology with the Marine Institute and Chair of the Ocean Mapping Program. Ms. Leighton is also a Commissioned Canada Lands Surveyor and is involved in a number of initiatives with the Association of Canada Lands Surveyors (ACLS).

Ms. Leighton is an advocate for women in STEM and regularly acts as a role model for other young women interested in science and technology careers. Being a professional in science and technology industry, she has spoken at a number of conferences, most recently the Women in Engineering breakfast at the Oceans '19 Conference in Seattle, Washington.

Charles Randell

Dr. Charles Randell began his career with the oil and gas industry in 1981 on seismic survey vessels. That same year he was on the MV Arctic Explorer when it sank off St. Anthony with a loss of 13 crew. He, with the other survivors spent three days in a life raft; thus, he has a rare perspective on offshore safety. His foray into research and development began when, as a technician at C-CORE, his first assignment was trying to blow up icebergs. He went on to earn an undergraduate degree in Electrical Engineering at Lakehead University, and M.A Sc and Ph.D. degrees in Engineering and Computer Science at the University of Victoria. The majority of Dr. Randell's technical work has been satellite-based remote sensing, primarily of ice-prone regions.

Dr. Randell became President and CEO of C-CORE in 2006 and led the corporation in 100 per cent revenue growth, 50 per cent personnel growth and expansion across the country. In 2012, Dr. Randell was named one of Atlantic Canada's Top 50 CEOs, and in 2014 he was inducted as a Fellow of the Canadian Academy of Engineering. He retired from C-CORE in April 2017 and now consults through his company, Magellan Consulting Ltd.

Pierre Tobin

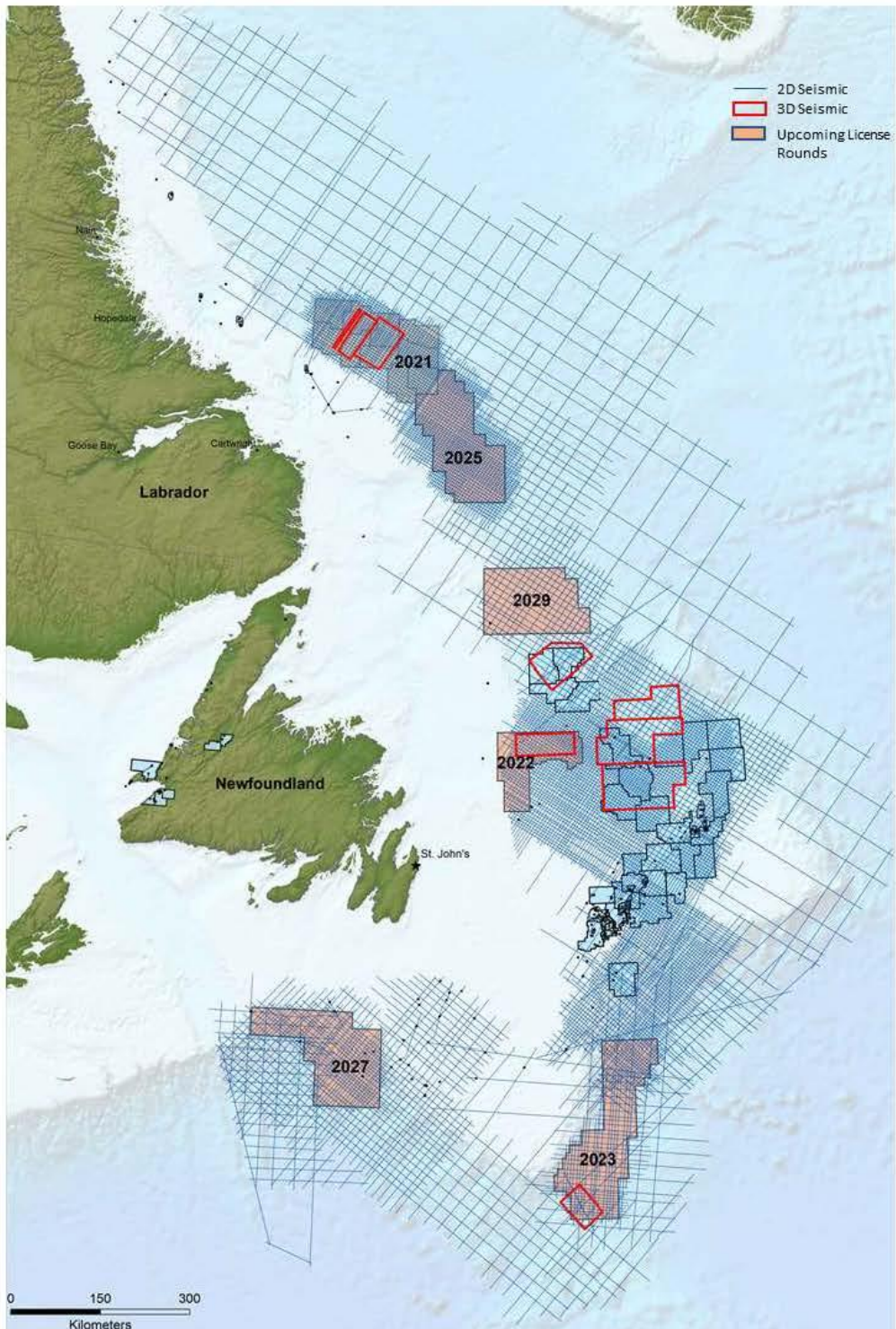
Pierre Tobin spent much of his career as a public servant with the Government of Newfoundland and Labrador and held several executive positions including Assistant Deputy Minister of Industrial Benefits, Assistant Secretary to Cabinet for Economic Policy and Associate Deputy Minister of Energy. During his career in the public service, Mr. Tobin served on several boards including those for Bull Arm Site Corporation, Canadian Centre for Marine Communications and Memorial's Genesis Center. Following his retirement from the public service, Mr. Tobin worked for several years in the oil and gas sector with Wood Group and WorleyParsons. Mr. Tobin has also served as a member of the Board of Directors of Dairy Farmers of Newfoundland and Labrador and the School Milk Foundation of Newfoundland and Labrador. Mr. Tobin holds undergraduate degrees as well as a Master of Business Administration from Memorial University. Mr. Tobin is the Chair of the BAF Board of Directors.

Jennifer Warren

Jennifer Warren graduated from Memorial University in 2002 with a Bachelor of Commerce and in 2004 became a Chartered Professional Accountant through the Atlantic School of Chartered Accountancy. Throughout her career, Ms. Warren has served in progressively senior roles with several high-profile companies including Deloitte, Voisey's Bay Nickel, Fortis Inc., Nalcor Energy, RSA Canada and most currently she is the Director, Compliance and Governance with Johnson Insurance.

Ms. Warren has over 16 years' experience in finance, risk, and compliance for large, complex and Crown corporations. Ms. Warren has extensive experience in the energy and natural resource sectors, as well as highly regulated industries. Ms. Warren's broad range of experiences and skills include, financial management and reporting, regulatory compliance, corporate governance, internal controls, and risk management.

Appendix 2 NL Offshore Map



Oil and Gas Corporation of Newfoundland and Labrador

Consolidated financial statements
December 31, 2020



Management's responsibility for financial reporting


The accompanying consolidated financial statements and supplementary financial information schedules of Oil and Gas Corporation of Newfoundland and Labrador are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian public sector accounting standards prescribed for governments as recommended by the Public Sector Accounting Board. Management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control and is ultimately responsible for reviewing and approving the consolidated financial statements.

The external auditors, Ernst & Young LLP, conduct an audit in accordance with Canadian generally accepted auditing standards, and express their opinion on the consolidated financial statements. The external auditors have access to financial management of Oil and Gas Corporation of Newfoundland and Labrador and meet when required.

 Director

 Director

Independent auditor's report

To the Board of Directors of
Oil and Gas Corporation of Newfoundland and Labrador

Opinion

We have audited the consolidated financial statements of **Oil and Gas Corporation of Newfoundland and Labrador** ["Oilco"], which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net debt and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Oilco as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of Oilco in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing Oilco's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate Oilco or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing Oilco's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.



As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Oilco's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Oilco's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Oilco to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

St. John's, Canada
April 21, 2021

Ernst + Young LLP

Chartered Professional Accountants



Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of financial position


[in thousands of Canadian dollars]

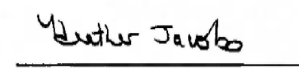
As at December 31

	2020
	\$
Assets	
Cash	5,009
Accounts receivable <i>[note 4]</i>	3,408
	<u>8,417</u>
Liabilities	
Accounts payable <i>[notes 6 and 10]</i>	11,655
Deferred contribution <i>[note 8]</i>	543
Deferred revenue	755
	<u>12,953</u>
Net debt	<u>(4,536)</u>
Non-financial assets	
Tangible capital assets <i>[note 5]</i>	3,788
Exploration assets <i>[note 7]</i>	24,037
Prepaid expenses	599
	<u>28,424</u>
Accumulated surplus	<u>23,888</u>
Commitments and contingencies <i>[note 14]</i>	

See accompanying notes

On behalf of the Board:


Director


Director

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of operations and accumulated surplus

[in thousands of Canadian dollars]

Year ended December 31

	Budget	2020
	\$	\$
Revenue		
Grant revenue	37,334	30,034
Other revenue <i>[note 10]</i>	9,313	5,181
Lease revenue	108	1,290
	<u>46,755</u>	<u>36,505</u>
Expenses		
Operating costs <i>[note 11]</i>	11,781	9,963
Restructuring cost <i>[note 15]</i>	—	1,991
Amortization of tangible capital assets	832	670
Amortization of exploration assets	—	174
Exploration expenses	26,891	92
Net finance expense (income)	14	(35)
Other income		(238)
	<u>39,518</u>	<u>12,617</u>
Annual surplus for the year and accumulated surplus end of year	<u>7,237</u>	<u>23,888</u>

See accompanying notes

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of change in net debt

[in thousands of Canadian dollars]

Year ended December 31

	2020
	<u>\$</u>
Annual surplus	23,888
Amortization of tangible capital assets	670
Acquisition of tangible capital assets	(4,458)
Amortization of exploration assets	174
Acquisition of exploration assets	(24,211)
Prepaid expenses	(599)
Change in net debt and net debt, end of year	<u>(4,536)</u>

See accompanying notes

Consolidated statement of cash flows

[in thousands of Canadian dollars]

Year ended December 31

	2020
	<u>\$</u>
Operating transactions	
Annual surplus	23,888
Adjustments for	
Amortization of tangible capital assets	670
Amortization of exploration assets	174
	<u>24,732</u>
Changes in non-cash assets and liabilities related to operations	
Increase in accounts receivable	(3,408)
Increase in prepaid expenses	(599)
Increase in accounts payable	11,655
Increase in deferred revenue	755
Increase in deferred contribution	543
Cash provided by operating transactions	<u>33,678</u>
Capital transactions	
Purchase of tangible capital assets	(4,458)
Purchase of exploration asset	(24,211)
Cash used in capital transactions	<u>(28,669)</u>
Net change in cash during the year and cash, end of year	<u>5,009</u>

See accompanying notes

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

1. Nature of the entity

Oil and Gas Corporation of Newfoundland and Labrador ["Oilco"] is a Crown corporation established under its enabling statute, the Oil and Gas Corporation Act (NL), which was proclaimed on January 1, 2020. Reporting directly to the Minister Industry, Energy and Technology, Oilco focuses on maximizing opportunities for growth in the Newfoundland and Labrador's offshore oil and gas industry and aims to position the Province of Newfoundland and Labrador [the "Province"] as a globally preferred location for Oilco development. As well, Bull Arm Fabrication Inc., a subsidiary of Oilco, operates on a site leased from the Province for a term of 30 years for a nominal amount of \$1 per annum, which expires March 2022. This site is Atlantic Canada's largest industrial fabrication site and has a fully integrated infrastructure to support large scale fabrication. Oilco activities are aimed at maximizing exploration investments in Newfoundland and Labrador, to acquire and manage the Province's equity interests in Oilco projects and enhance local supply chain development opportunities in support of Advance 2030 – the Way Forward on Oil and Gas.

Oilco is exempt from paying income taxes under Section 149(1) (d.2) of the *Income Tax Act*.

2. Summary of significant accounting policies

Basis for accounting

These consolidated financial statements have been prepared in accordance with Canadian public sector accounting standards prescribed for government organizations, as recommended by the Public Sector Accounting Board.

Basis of consolidation

Bull Arm Fabrication Inc. is a 100% owned subsidiary of Oilco. These consolidated financial statements reflect the assets, liabilities, revenues and expenses for the activity of these entities. All inter-entity assets, liabilities, revenues, and expenses have been eliminated.

Revenue recognition

Grant revenue is recognized as revenues when the grant is authorized and any eligibility criteria are met, except to the extent that grant stipulations give rise to an obligation that meets the definition of a liability. Grants are recognized as deferred revenue when transfer stipulations give rise to a liability. Grant revenue is recognized in the consolidated statement of operations as the stipulation liabilities are settled.

Lease revenue is recognized when services have been rendered, recovery of the consideration is probable, and the amount of revenue can be reliably measured.

Revenue related to fees for services received in advance of the services being performed is deferred and recognized when the service is performed, amount of revenue can be reasonably measured and collection is reasonably assured.

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

Revenue associated with the sale of geoscientific data is recognized when the terms and conditions governing sales have been met, the amount of revenue can be reliably measured, and recovery of the consideration is probable.

Tangible capital assets

Tangible capital assets are recorded at cost less accumulated amortization. Cost includes materials, labour, contracted services and professional fees.

Costs capitalized with the related asset include all those costs directly attributable to bringing the asset into operation. When significant parts of tangible capital assets are required to be replaced at intervals, Oilco recognizes such parts as individual assets with specific useful lives and amortization, respectively. Repairs and maintenance costs are expensed as incurred.

Amortization is recorded on a straight-line basis over the estimated life of the tangible capital asset commencing once the asset is available for productive use as follows:

Computer hardware	5 years
Computer software	10 years
Office furniture and equipment	20 years
Leasehold improvements	5 – 50 years
Buildings	18 years
Module hall door	26 years
Visitor centre	42 years
Other	5 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to Oilco's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the consolidated statement of operations.

Exploration assets

Costs related to the purchase of seismic surveying are capitalized and amortized over their expected useful lives of six years. Exploration assets are tested for impairment when events or circumstances indicate that their carrying amount may not be recoverable.

Employee future benefits

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. Contributions by Oilco to this plan are recognized as an expense when employees have rendered service entitling them to the contributions. Assets and liabilities associated with this Plan are held with the Province.

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

Foreign currencies

Transactions in currencies other than Oilco's functional currency [foreign currencies] are recognized using the exchange rate in effect at the date of transaction, approximated by the prior month end close rate. At the end of each reporting period, monetary items denominated in foreign currencies are translated at the rates of exchange in effect at the period end date. Foreign exchange gains and losses are included in the consolidated statement of operations as other expense.

Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses during the reporting period. These estimates include useful lives of tangible capital assets and employee future benefits. Actual results could differ from management's best estimates as additional information becomes available in the future.

3. Accounting changes

Oilco early adopted Public Sector Guideline 8, *Purchased intangibles* ["PSG-8"]. PSG-8 requires the recognition of purchased intangibles in the consolidated financial statements. It is effective for fiscal years beginning on or after April 1, 2023; however, early adoption is encouraged. The adoption resulted in the recognition of intangibles assets in the consolidated statement of financial position of \$24,211 [note 7]. Oilco also recognized \$174 in amortization of intangible assets related to the purchased intangibles.

4. Accounts receivable

	2020 \$
0 – 60 days	1,249
60+ days	269
HST receivable	1,890
	<u>3,408</u>

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

5. Tangible capital assets

	Computer hardware \$	Computer software \$	Office furniture and equipment \$	Leasehold improvements \$
Cost				
Balance, January 1, 2020	—	—	—	—
Additions	430	1,154	39	700
Disposals	—	—	—	—
Balance, December 31, 2020	430	1,154	39	700
Accumulated amortization				
Balance, January 1, 2020	—	—	—	—
Amortization	159	197	2	237
Disposals	—	—	—	—
Balance, December 31, 2020	159	197	2	237
Net book value, December 31, 2020	271	957	37	463

	Module hall door \$	Visitor centre \$	Buildings \$	Other	Construction in progress \$	Total \$
Cost						
Balance, January 1, 2020	—	—	—	—	—	—
Additions	240	532	31	848	484	4,458
Disposals	—	—	—	—	—	—
Balance, December 31, 2020	240	532	31	848	484	4,458
Accumulated amortization						
Balance, January 1, 2020	—	—	—	—	—	—
Amortization	16	16	5	38	—	670
Disposals	—	—	—	—	—	—
Balance, December 31, 2020	16	16	5	38	—	670
Net book value, December 31, 2020	224	516	26	810	484	3,788

Included in additions for the year ended December 31, 2020 are the 2019 net book values of Bull Arm Fabrication Inc.'s tangible capital assets. This is a result of the restructuring transaction that took place during the year ended December 31, 2020 as set out in *note 15*.

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

6. Accounts payable

	2020 \$
Trade payables	5,621
Due to related parties <i>[note 10]</i>	6,034
	<u>11,655</u>

7. Exploration assets

Exploration assets comprise expenditures related to 2D and 3D seismic data, geoscientific studies and a resource assessment.

	2020 \$
Cost, January 1, 2020	—
Additions	24,211
Disposals	—
Balance, December 31, 2020	<u>24,211</u>
Accumulated amortization, January 1, 2020	—
Amortization	174
Disposals	—
Balance, December 31, 2020	<u>174</u>
Net carrying amount, December 31, 2020	<u>24,037</u>

8. Deferred contribution

During the year, Bull Arm Fabrication Inc. received Mooring Bollards with a fair value of \$616K from an unrelated party in exchange for a rent concession in the amount of \$52K. The difference between the fair value and the rent concession has been recorded as a deferred contribution and will be amortized over the useful life of the asset, which is determined to be 25 years.

	2020 \$
Deferred contribution as at January 1, 2020	—
Additions	564
Less revenue recognized	(21)
	<u>543</u>

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

9. Employee future benefits

Pension plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2020 of \$373,804 were expensed as incurred [note 11].

10. Related party transactions

- [i] Oilco operates on a site leased from the Province for a term of 30 years for a nominal amount of \$1 per annum, which expires March 2022.
- [ii] As at December 31, 2020, Oilco had a net payable to Nalcor Energy – Oil and Gas Inc. of \$5.7 million related to transition of operations.
- [ii] For the period ended December 31, 2020, Oilco earned \$4.2 million for the management of Nalcor Energy – Oil and Gas Inc. assets, as set out in the management services agreement.
- [iv] As at December 31, 2020, Oilco had a net payable to Nalcor Energy of \$305,003 related to operations.
- [v] For the period ended December 31, 2020, Oilco was charged \$193,955 by Nalcor for IT – related services [note 11].

11. Operating costs

	2020
	\$
Salaries and benefits [note 9]	4,358
Professional services	1,744
Software maintenance [note 10]	1,214
Utilities	806
Site maintenance and materials	708
Building rental	511
Insurance	357
Other operating costs	265
	<u>9,963</u>

12. Financial instruments

Financial instruments are classified in one of the following categories: [i] fair value or [ii] cost or amortized cost. Oilco determines the classification of its financial instruments at initial recognition.

Cash is classified at fair value. Other financial instruments, including accounts receivable and accounts payable, are initially recorded at their fair value and are subsequently measured at amortized cost, net of any provisions for impairment.

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

13. Risk management

Oilco is exposed to certain credit, liquidity and foreign exchange risks from its financial instruments. This note describes Oilco's objectives, policies and processes for managing those risks and the methods used to measure them. Further qualitative and quantitative information in respect of these risks is presented below and throughout these consolidated financial statements.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Oilco is exposed to credit risk through its accounts receivable. The degree of exposure to credit risk on cash and accounts receivable is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the consolidated statement of financial position at the reporting date. As at December 31, 2020, there was no allowance for doubtful accounts included in accounts receivables.

Liquidity risk

Liquidity risk is the risk that Oilco will encounter difficulty in meeting obligations associated with financial liabilities. Oilco is exposed to liquidity risk through its accounts payable, and Oilco's potential inability to pay as a result of cash flow constraints. Oilco's liquidity risk management activities are directed to ensuring cash is available to meet those obligations as they become due. Oilco mitigates its liquidity risk through cash on hand and financial support from the Government of Newfoundland and Labrador.

Foreign exchange risk

Oilco is exposed to foreign exchange price risk on its sales, payables and purchases, which are denominated in USD.

14. Commitments and contingencies

Oilco is subject to various legal proceedings and claims in the normal course of business. Although the outcome of such actions cannot be predicted with certainty, management currently believes Oilco's exposure to such claims and litigation, to the extent not covered by insurance policies or otherwise provided for, is not expected to materially affect the financial position of Oilco.

15. Restructuring transactions

In March 2019, the Government of Newfoundland and Labrador announced the establishment of Oilco to promote and support the province's oil and gas industry, including encouraging new research and development. As part of this transition, Bull Arm Fabrication Inc., an entity that operates a fabrication facility leased from the Province, transferred from Nalcor Energy to the newly formed standalone Crown Corporation.

On January 1, 2020, Oilco entered into a restructuring transaction with Bull Arm Fabrication Inc. At this time, the shares of Bull Arm Fabrication Inc. were transferred from Nalcor Energy to Oilco for a nominal amount of \$1. At the same time, the employees of Bull Arm Fabrication Inc. transitioned to Oilco. The purpose of the transfer from Bull Arm Fabrication Inc. to Oilco is to enable greater focus on Oilco exploration and operating activities.

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2020

Oilco has recognized in the consolidated statement of financial position, the assets and liabilities received from Bull Arm Fabrication Inc. at their carrying amount on the date of the restructuring, on January 1, 2020, as illustrated below:

	\$
Financial assets	
Cash	27
Accounts receivable	251
Tangible capital assets	856
Prepaid expenses	131
Liabilities	
Accounts payables	3,236
Deferred revenue	20
Net effect	<u>(1,991)</u>

As well, an expense of \$1,991 has been recognized as a separate line item on the consolidated statement of operations, which represents the net effect of the assets and liabilities received. Nominal compensation was exchanged with Nalcor Energy Inc. as part of the transfer.

Included in the consolidated statement of operations are the following revenues and expenses related to the responsibilities transferred from Bull Arm Fabrication Inc. as part of the restructuring transaction.

	\$
Revenue	
Other	1,290
Expenses	
Operating costs	1,807
Amortization	75
Net income	(4)
Annual deficit	<u>(588)</u>