





Offshore
Helicopter
Safety Inquiry
Hearing Room

High standards of safety in the workplace are achieved when well-designed equipment is operated properly by well-managed and trained persons. Occupational safety is maintained by keeping these factors in a state of positive balance, in what is normally a highly dynamic situation.

**Royal Commission on the
Ocean Ranger Marine Disaster**

ANNUAL REPORT 2009-10

June 30, 2010

The Honourable Christian Paradis
Minister of Natural Resources Canada
Government of Canada

The Honourable Kathy Dunderdale
Minister of Natural Resources
Government of Newfoundland and Labrador

Dear Ministers:

Pursuant to Section 29 of the legislation implementing the Atlantic Accord, I am pleased to present the Annual Report, together with the financial statements, of the Canada-Newfoundland and Labrador Offshore Petroleum Board for the fiscal year ended March 31, 2010.

Respectfully submitted,



Max Ruelokke, P. Eng.
Chairman and Chief Executive Officer





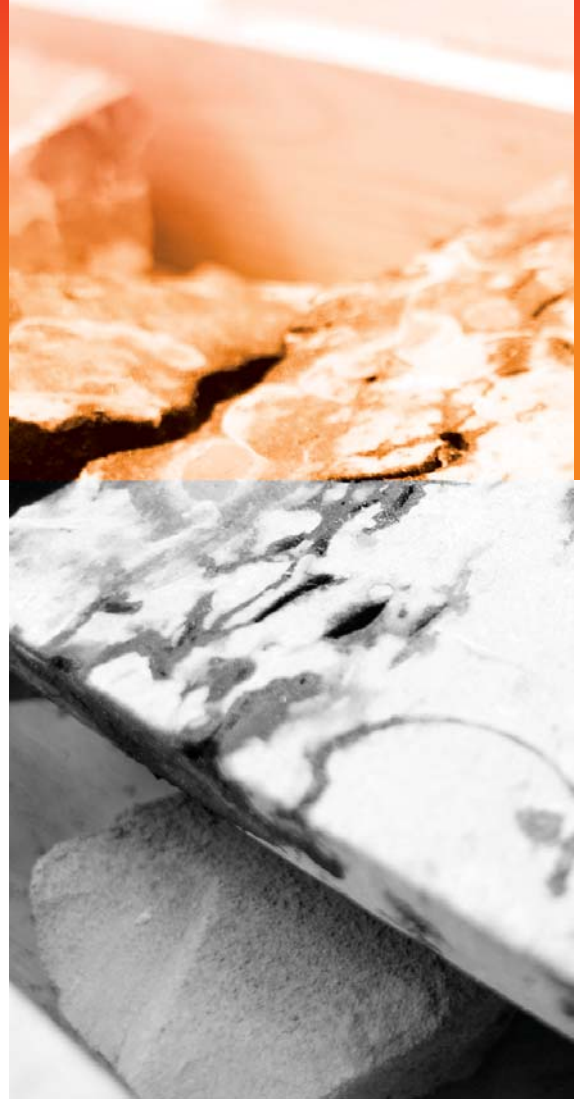
BOARD MEMBERS

(Back l-r) Max Ruelokke, P. Eng. (Chairman and Chief Executive Officer), Halcum Stanley (Member), Fred Way (Vice-Chairman), Lorne Spracklin (Member)

(Front l-r) Reg Anstey (Member), Ed Drover (Member)

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MESSAGE FROM THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

It is my pleasure to present the 2009-10 Annual Report of the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB).

Although there are many positive things to report for the fiscal year 2009-10, our year started on a somber note as we continued to monitor the accident investigation into the crash of Cougar 491. The C-NLOPB established the Inquiry into Matters Respecting Helicopter Passenger Safety for Workers in the Newfoundland and Labrador Offshore Area and on April 16, 2009 Honourable Robert Wells Q.C., was appointed to head the Inquiry.

There were several major activities undertaken during the reporting period, including the 2009 Calls for Bids which closed on November 19. Successful bids were received on all four parcels offered totaling \$47,000,211.

In February, the C-NLOPB completed the Southern Newfoundland Strategic Environmental Assessment. A copy of the report is available on the C-NLOPB's website.

I know I speak for all Board members when I also thank and express appreciation to staff for their continued hard work, dedication and professionalism.

On December 31, 2009 the **Newfoundland and Labrador Offshore Area Drilling and Production Regulations** came into effect and have replaced the **Newfoundland and Labrador Offshore Area Drilling Regulations** and the **Newfoundland and Labrador Offshore Area Production and Conservation Regulations**.



Hibernia Management and Development Company's (HMDC) Development Plan application for the AA Block was approved by governments in September. HMDC is proceeding with development of the AA Block from the Gravity Based Structure (GBS). The AA Block is contained within the existing Production Licence - PL 1001 and is estimated to contain 48 million barrels of oil.

Progress is being made at the C-NLOPB Core Storage and Research Centre (CSRC), where construction commenced early October 2009 to increase storage capacity. The increased capacity is necessary to accommodate the growing volume of well material from the Newfoundland and Labrador Offshore Area.

I want to thank my fellow Board members, Reg Anstey, Ed Drover, Lorne Spracklin, Halcum Stanley and Fred Way for their dedication and support during 2009-10. I know I speak for all Board members when I also thank and express appreciation to staff for their continued hard work, dedication and professionalism.

The report that follows highlights the activities of the C-NLOPB during 2009-10. More information about the C-NLOPB can be obtained from our website at www.cnlopb.nl.ca.

A handwritten signature in blue ink that reads "Max Ruelokke". The signature is fluid and cursive.

Max Ruelokke, P. Eng.
Chairman and Chief Executive Officer



C-NLOPB OVERVIEW

The C-NLOPB was created in 1985 through the Atlantic Accord for the purposes of regulating the oil and gas industry offshore Newfoundland and Labrador, and has four regulatory mandates: Safety, Environmental Protection, Resource Management and Industrial Benefits. The Board is comprised of seven persons; a Chair and CEO appointed jointly by the federal and provincial governments, three members appointed by the federal government and three members appointed by the provincial government.

The C-NLOPB had a budget of \$17.6 million for fiscal year 2009-10, which included the base operating budget of \$11.3 million and special funding for the Offshore Helicopter Safety Inquiry, expansion of the Core Storage and Research Centre and data management.

At the end of this fiscal year, the C-NLOPB had 71 staff members. At least 68 of these employees have degrees or diplomas, 60 are graduates of post-secondary institutions in Newfoundland and Labrador, and 26 have professional designations in engineering, geoscience, safety, finance and public relations.





**Government of Canada
Minister of Natural Resources**

**Government of Newfoundland and Labrador
Minister of Natural Resources**

**Chair and CEO
Max Ruelokke**

Jointly Appointed by the governments of Canada and Newfoundland and Labrador

Board Members

Lorne Spracklin, Halcum Stanley and One Vacancy

Appointed by the government of Canada

Reg Anstey, Ed Drover and Fred Way

Appointed by the government of Newfoundland and Labrador

Environmental
Affairs

Exploration
and Resource
Management

Industrial
Benefits,
Policy and
Regulatory
Coordination

Legal and
Land

Operations
and Safety

Public
Relations

Support
Services

SENIOR STAFF

John P. Andrews, LL.B.

Manager, Legal and Land and Corporate Secretary

Michael Baker, CHRP

Manager, Support Services

Jeffrey M. Bugden, P. Eng.

Manager, Industrial Benefits, Policy and Regulatory Coordination

David G. Burley

Manager, Environmental Affairs

Sean Kelly, APR, FCPRS

Manager, Public Relations

Howard Pike, P. Eng.

Manager, Operations and Safety and Chief Safety Officer

Frank Smyth, P. Eng.

Manager, Exploration and Resource Management and Chief Conservation Officer



MANDATE: ROLE AND OBJECTIVES

MANDATE

To interpret and apply the provisions of the Atlantic Accord and the Atlantic Accord Implementation Acts to all activities of operators in the Newfoundland and Labrador Offshore Area; and, to oversee operator compliance with those statutory provisions.

ROLE

In the implementation of its mandate, the role of the C-NLOPB is to facilitate the exploration for and development of the hydrocarbon resources in the Newfoundland and Labrador Offshore Area in a manner that conforms to the statutory provisions for:

- worker safety;
- environmental protection and safety;
- effective management of land tenure;
- maximum hydrocarbon recovery and value; and,
- Canada-Newfoundland and Labrador benefits.

While the legislation does not prioritize these mandates, worker safety and environmental protection will be paramount in all Board decisions.



OBJECTIVES

SAFETY

- To verify that operators have appropriate safety plans in place.
- To verify, through audits and inspections, that operators follow their safety plans and applicable statutory requirements.
- To verify, through compliance actions, that deviations from approved plans and applicable statutory requirements are corrected.

ENVIRONMENT

- To verify that operators assess and provide for effects of the environment on the safety of their operations.
- To verify that operators perform an environmental assessment pursuant to Canadian regulations, of the effects of their operations on the environment, and prepare a plan and provide for mitigation where appropriate.
- To verify, through compliance actions, that operators comply with their environmental plans.

RESOURCE MANAGEMENT

- To effectively and efficiently administer land tenure.
- To oversee production activities for consistency with maximum recovery, good oilfield practice, production accounting and approved plans.
- To build a knowledge base for the Newfoundland and Labrador Offshore Area through the acquisition and curation of data from exploration and production activity.

BENEFITS

- To verify operators have an approved Canada-Newfoundland and Labrador Benefits Plan that addresses their statutory obligations.

THE C-NLOPB DOES NOT

- Guarantee the safety of workers or the environment; worker safety is the obligation of operators.
- Manage reservoirs or production; that is the role of the operator within the context of an approved Development Plan.
- Guarantee the participation of Canadian and Newfoundland and Labrador workers or businesses.
- Have any role, beyond the provision of required data and information to government, in the establishment or administration of the fiscal regime (royalties/taxes) for any offshore activity.

CANADANEWFOUNDLAND
and LABRADOR
OFFSHORE
PETROLEUM
BOARD



SAFETY OF OFFSHORE WORKERS

The C-NLOPB's mandate with respect to safety is as follows:

- To verify that operators have appropriate safety plans in place.
- To verify, through audits and inspections, that operators follow their safety plans and applicable statutory requirements.
- To verify, through compliance actions, that deviations from approved plans and applicable statutory requirements are corrected.

SAFETY PLANS

Prior to being issued an authorization for work offshore, an operator must prepare a Safety Plan that demonstrates to the C-NLOPB that the operator has taken all reasonable and practicable steps to achieve safety for the proposed work. The Safety Plan must set out the procedures, practices, resources, sequence of key safety related activities and monitoring measures necessary to ensure the safety of personnel. It must summarize and reference the management system, describe the hazards and associated risk and the measures taken to avoid, prevent, reduce and manage this risk. It must also fulfill the duties set forth in the legislation and regulations for the specific work or activity.



An operator is required to have a Safety Plan that identifies hazards and reduces risk to as low as reasonably practicable.

During 2009-10, staff in several departments including Operations and Safety, worked on the development of guidance for the **Drilling and Production Regulations**. Safety Officers were also engaged in the drafting of guidance to operators for the preparation of Safety Plans for drilling and production operations. On December 31, 2009 draft Safety Plan Guidelines were issued for use on a one year trial basis. The draft Guidelines will be revised as necessary during this period based on feedback and experience gained from their use.

SAFETY ASSESSMENTS

When operators apply to undertake petroleum activities in the Newfoundland and Labrador Offshore Area, the C-NLOPB conducts a systematic and comprehensive assessment of the operator's application for the proposed activity. This includes Safety Plans and other safety-related information as required by legislation and guidance. During 2009-10, the C-NLOPB completed 12 Safety Assessments, which included a review of Safety Plans for the following:

- HMDC's Operations Authorization;
- Husky Energy's Operations Authorization for exploration and development drilling;
- Husky Energy's Operations Authorization for production; and
- ConocoPhillips Canada's Operations Authorization for an exploratory drilling program in the Laurentian Basin.

Safety Assessments were also conducted on two diving programs, three construction programs and three geophysical programs. At the end of the reporting period, a Safety Assessment was being conducted for Chevron's Operations Authorization for exploratory drilling in the Orphan Basin. In addition, at the end of the reporting period, Safety Officers were reviewing two Development Plan Amendments, one for the Hibernia South Extension and one for White Rose.

COMPLIANCE AND ENFORCEMENT

Safety Officers may conduct incident investigations, issue Orders, investigate Work Refusals and conduct Safety Inspections and Safety Audits onboard installations and vessels. For new installations or vessels, a pre-approval Safety Audit may also be conducted. Safety Officers participate in Integrated Safety and Environmental Protection Audits with C-NLOPB Environmental Compliance Officers. During 2009-10, the C-NLOPB completed the audits and inspections listed in Table 1.

Table 1

| Operator | Installation/Vessel | Type |
|---------------------------------------|--|---------------------------|
| ConocoPhillips Canada | Mobile Offshore Drilling Unit (MODU) Stena Carron | Pre-Approval Safety Audit |
| ConocoPhillips Canada | MODU Stena Carron | Focused Safety Audit |
| ExxonMobil Canada Properties | M/V Siem Mollie | Pre-Approval Safety Audit |
| HMDC | Hibernia Platform | Safety Inspection |
| HMDC | Hibernia Platform | Safety Inspection |
| Husky Energy | M/V Well Servicer | Pre-Approval Safety Audit |
| Husky Energy | M/V Jumbo Javelin | Pre-Approval Safety Audit |
| Husky Energy | Mother Craft (M/V Atlantic Hawk) and Daughter Craft (ProDive Attender) | Pre-Approval Safety Audit |
| Husky Energy | M/V Deep Pioneer | Pre-Approval Safety Audit |
| Husky Energy | MODU GSF Grand Banks | Safety Inspection |
| Husky Energy | SeaRose FPSO | Focused Safety Audit |
| Suncor Energy (formally Petro-Canada) | Terra Nova FPSO/M/V Burin Sea | Integrated Audit |
| Suncor Energy | MODU Henry Goodrich | Safety Inspection |
| Suncor Energy | Terra Nova FPSO | Safety Inspection |

In 2009-10, Safety Officers investigated and made decisions regarding three Work Refusals related to offshore workers' concerns with travel by helicopter. Pursuant to the legislation, workers on offshore installations have the right to refuse any task which they believe is dangerous to their health and safety, or the health and safety of another person at the workplace. Where a worker has exercised his or her right to refuse and the matter is not remedied by the worker's supervisor to the satisfaction of the worker, the matter shall be brought to the attention of the Offshore Joint Occupational Health and Safety (JOHS) Committee and reported to a C-NLOPB Safety Officer. If the committee is unable to resolve the matter, the

matter will be investigated by a Safety Officer who has the authority to order a resolution. A person may refuse the work until either they are satisfied with the remedial action taken by the employer or a Safety Officer has investigated the matter and has rendered a decision. Two of the refusals were raised due to concerns with the location and/or configuration of auxiliary fuel tanks inside the passenger cabin, and the other refusal was raised in relation to concerns with cracks that were found in the gearbox mounting feet of helicopters in Nova Scotia and the North Sea. In each case, Safety Officers investigated the

refusal, interviewed all personnel involved or affected by the refusal, consulted with local authorities and agencies as appropriate, and consulted with authorities and agencies in other jurisdictions. In each case, Safety Officers made the determination that based on the information provided, the risks associated with each refusal were being managed and there was no increase in risk of travel by helicopter due to the concerns noted.

In 2009-10, the C-NLOPB engaged the services of an external consultant to conduct Security Audits of offshore installations. By March 31, the security consultant completed two Security Audits and three security plan reviews.

MONITORING

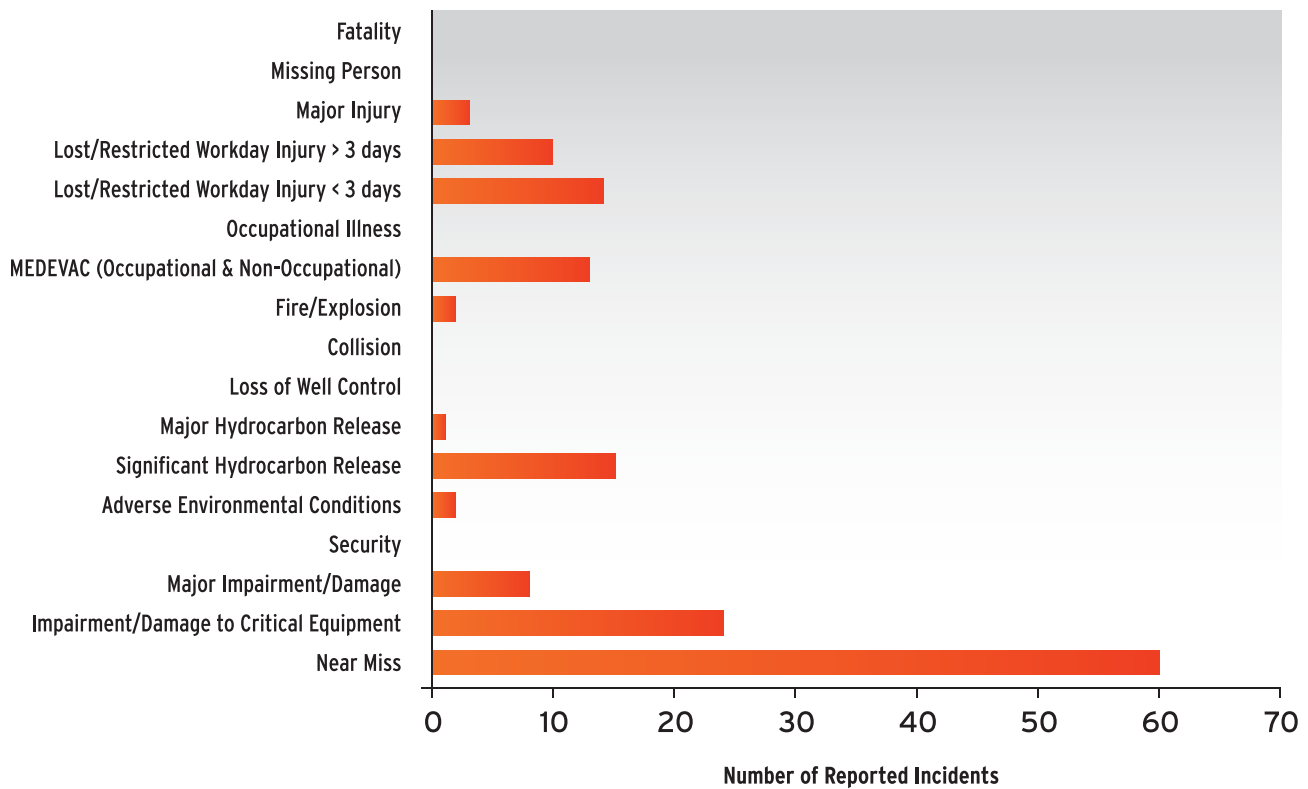
Following authorization of an operator's activity, the Operations and Safety Department conducts monitoring activities which include the review of the operator's daily reports, incident reports, complaints, the installation's Offshore JOHS Committee meeting minutes, and training exemptions against the Canadian Association of Petroleum Producers (CAPP) Training and Qualifications Standard Practice.

The operator is required to report and investigate all incidents as described in the C-NLOPB/Canada-Nova Scotia Offshore Petroleum Board (CNSOPB) Guideline for the Reporting and Investigation of Incidents. An incident refers to any event that caused, or under slightly different circumstances, would likely have caused harm to personnel or the environment, or caused an imminent threat to the safety of an installation,

vessel or aircraft. It also includes any event that impairs the function of any equipment or system critical to the safety of personnel, the installation, vessel or aircraft. Any event that impairs the function of equipment or system critical to the protection of the natural environment is also referred to as an incident. Operator's efforts are expected to be directed toward the prevention of all incidents. Safety Officers review submitted incident reports and, during inspections and audits, verify that incidents are reported and investigated, that incident investigation procedures are followed, and that corrective actions are implemented. During 2009-10, the C-NLOPB reviewed 158 incident reports from operators.

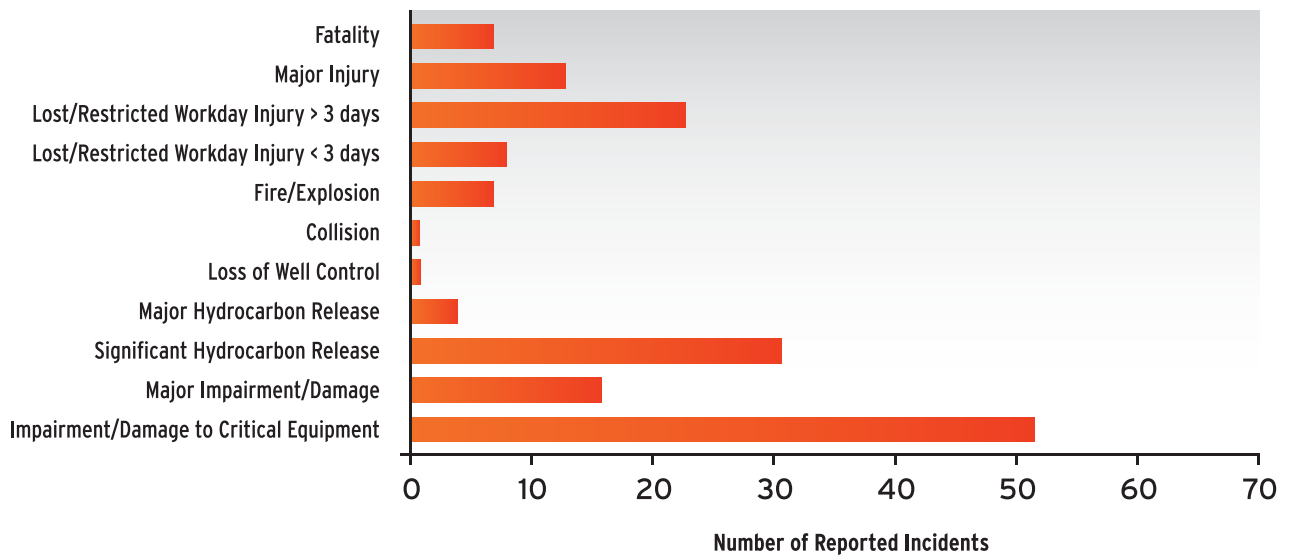
To ensure consistent reporting of all incidents which occur during the course of an operator's activity, the guideline specifies several distinct and defined health, safety and environmental incident classifications. For each incident that is submitted, operators must specify all actual and potential consequences associated with the incident. Some incidents may fall under several different actual and potential incident classifications. For example, a near miss classification with a dropped object may have identified as its potential consequence, both an impairment/damage to critical equipment and a fatality. Therefore, the number of incidents reported in the figures below will be higher than the number of incident reports that have been submitted. Figure 1 shows the incidents submitted based on actual incident classifications.

Figure 1: Actual Incident Classifications (April 1, 2009 - March 31, 2010)



In addition to classifying incidents with regards to the actual consequences, the C-NLOPB also places significant importance on near misses and other incidents that have higher potential consequence. By placing focus on near miss classifications with higher potential, actions can be identified and taken to prevent incidents with actual consequences. The C-NLOPB expects operators to investigate high potential near misses to the same extent as those incidents that actually resulted in the same consequence. Figure 2 shows the reporting of incidents based on potential consequences.


Figure 2: Potential Incident Classifications (April 1, 2009 - March 31, 2010)



During the reporting period, offshore workers worked 4,209,591 hours in the Newfoundland and Labrador Offshore Area. There were 27 incidents that resulted in a reportable injury or illness, resulting in a Reportable Injury Frequency Rate of 6.41 per million hours worked.

In addition to reviewing the Offshore JOHS Committee meeting minutes and meeting with the committees during offshore visits, the C-NLOPB holds an annual Offshore JOHS Committee workshop. The purpose of the workshop is to engage committees from each installation, operating

in the Newfoundland and Labrador Offshore Area, in discussions on current occupational health and safety topics and best practice. The C-NLOPB held this workshop with Offshore JOHS Committees in November and December of 2009. Discussions focused on optimization of training for offshore personnel and analysis of the increasing injury trend in the industry. In addition, the Commissioner and staff of the Helicopter Safety Inquiry were present at both sessions to engage the committees on helicopter safety.



The Operations and Safety Department has a process in place to deal with all health and safety related complaints. Any person who has a complaint related to offshore petroleum operations may contact one of the Safety Officers by telephone, in writing or in person. Anonymous complaints may also be submitted. A Safety Officer will be assigned to assess each complaint, conduct a review of the facts surrounding the complaint, take or recommend action as necessary and will respond to the complainant once the review has been completed. During 2009-10, the C-NLOPB processed 13 complaints. At the end of the reporting period, four of these complaints were under review.

REGULATORY EQUIVALENCIES

The Chief Safety Officer and/or the Chief Conservation Officer may authorize deviations from the regulations where those officers are satisfied that the applicant for the deviation will achieve an equivalent level of safety, protection of the environment and resource conservation as that provided by the legislation. As a result of the new regulations, the C-NLOPB is undergoing an internal review of regulatory deviations against the repealed regulations and will advise operators, installation owners and Certifying Authorities of associated changes. During 2009-10, the C-NLOPB received 38 applications for deviations from the regulations and 35 regulatory deviations were processed. As of January 1, 2010 the C-NLOPB began to post approved regulatory equivalencies on its website. At the end of the reporting period work was continuing on this project.

OFFSHORE HELICOPTER SAFETY

On April 8, 2009 the C-NLOPB established an Inquiry into Matters Respecting Helicopter Passenger Safety for Workers in the Newfoundland and Labrador Offshore Area. On April 16, 2009 the Board appointed retired Supreme Court Justice, Honourable Robert Wells Q.C., to lead the Inquiry. The purpose of the Inquiry is to determine what improvements can be made to reduce the risk of helicopter transportation of offshore workers as low as is reasonably practicable. The Commissioner's mandate is to inquire into, report on and make recommendations in respect of matters relating to the safety of offshore workers in respect of escape, evacuation and rescue procedures while traveling by helicopter over water to installations in the Newfoundland and Labrador Offshore Area. The Inquiry will be conducted in two phases. Phase I which includes public hearings, will conclude in September of 2010 with a report to the Board from the Commission containing recommendations. Phase II of the Inquiry will begin when the Transportation Safety Board releases its report on the cause of the crash. In Phase II, the Commissioner will make recommendations to the C-NLOPB on matters arising from the report of the Transportation Safety Board. The C-NLOPB is also a Party in Standing at the Inquiry. Staff of the C-NLOPB have been involved in providing logistical support, testimony and information to the Inquiry, as required.

As of May 2009, survival suits worn during transportation to and from offshore installations have been fitted with Helicopter Underwater Emergency Breathing Apparatus' (HUEBA). All persons travelling offshore are required to complete training in the application of this equipment before they are permitted to travel. Operators also engaged the suit manufacturer, Helly Hanson (Canada) Limited, in a process of ensuring each and every person traveling offshore was provided with a properly fitted suit. The C-NLOPB has directed that no person shall be permitted to travel offshore without a properly fitted suit.

On February 8, 2010 the Commissioner made some early recommendations to the Board regarding the need to improve first response search and rescue practices. Following a review of these recommendations, the Board advised operators on February 12, 2010 of changes to be implemented.

Further information related to the Offshore Helicopter Safety Inquiry, including transcripts and exhibits is available on the Inquiry website - www.oshsi.nl.ca.

ESCAPE, EVACUATION AND RESCUE PERFORMANCE BASED STANDARD

During 2009-10 a committee comprised of members from both industry and regulatory bodies has been working to publish an escape, evacuation and rescue performance guide for use by regulators and operators in evaluating escape, evacuation and rescue systems on petroleum installations. It is expected that the standard will be released later in 2010.

RISK TRENDS PROJECT

In 2009-10, the C-NLOPB contracted SafetyNet to review risk trends in the Newfoundland and Labrador Offshore Area, similar to the analysis of risk trends conducted by the Petroleum Safety Authority in Norway. SafetyNet is a Memorial University research centre in Occupational Health and Safety (OHS). Its focus is on multidisciplinary research, knowledge exchange, education and the development of clinical expertise in the province. The purpose of the risk trends project is to conduct a review and analysis of information submitted by operators to identify areas where risk may be trending upwards and to direct operators' efforts to these areas.

DIVING AND CONSTRUCTION ACTIVITY

The C-NLOPB received two applications in 2009-10 for authorization to conduct diving programs in the Newfoundland and Labrador Offshore Area. Husky Energy was authorized to execute a diving program to conduct repair, replacement, maintenance and inspection activity on the **SeaRose Floating, Production, Storage and Offloading (FPSO)** vessel and associated subsea installation, by the diving support vessels **M/V Atlantic Hawk** (mother craft) and **ProDive Attender** (daughter craft). Husky Energy was also authorized to conduct a diving program with the diving support vessel **M/V Wellservicer**, for installation and hook-up activities on the North Amethyst field.



The C-NLOPB also reviewed three applications for authorization to conduct subsea construction activities on Husky Energy's North Amethyst field. Husky Energy was authorized to install subsea flowlines with the **M/V Deep Pioneer**, subsea templates with the **M/V Jumbo Javelin** and to protect the flowlines with rocks via the rock-dumping vessel, **M/V Seahorse**.

INTERNATIONAL REGULATORS OFFSHORE SAFETY CONFERENCE

The C-NLOPB is a co-host to the Third International Regulators Offshore Safety Conference being held October 17-21, 2010 in Vancouver, BC. This year, the conference will focus on managing technological, human resource and organizational changes in a constantly changing environment, performance indicators, safely extending production life and challenges ahead for regulators. Leading government and industry experts from eight nations will share their best practices for offshore safety over the three day conference. During the conference the Carolita Kallaur Award for Leadership and International Safety Achievement will be presented to an individual or company who has made significant contribution to national and global safety within the offshore oil and gas industry.

The C-NLOPB is chairing the Conference Steering Committee with committee representation from the CNSOPB, the National Energy Board (NEB) and the 2007 International Regulators Forum (IRF) Conference Chair.

More information about the IRF and the IRF Conference can be found at www.irfconference2010.com.



PROTECTION OF THE ENVIRONMENT


The C-NLOPB's mandate with respect to environmental protection is as follows:

- To verify that operators assess and provide for effects of the environment on the safety of their operations.
- To verify that operators perform an environmental assessment pursuant to Canadian regulations, of the effects of their operations on the environment, and prepare a plan and provide for mitigation where appropriate.
- To verify, through compliance actions, that operators comply with their environmental plans.

ENVIRONMENTAL PROTECTION PLANS

Prior to being issued an authorization for drilling or production activity offshore, an operator must prepare an Environmental Protection Plan (EPP) that demonstrates to the C-NLOPB that the operator has taken all reasonable and practical steps to achieve protection of the environment during its proposed activity. The EPP must set out the procedures, practices, resources, and monitoring necessary to manage hazards to, and protect the environment from, the proposed activity. It also must summarize and reference the management system, summarize hazards and associated risk to the environment, the measures to avoid, prevent, reduce and manage those risks, and fulfill the duties set forth in the legislation and regulations with respect to environmental protection.

An EPP demonstrates that the operator has taken all reasonable and practical steps to achieve protection of the environment.



During the 2009-10 reporting period, four EPPs were reviewed as part of the Operations Authorizations process for the following:

- HMDC's Operations Authorization;
- Husky Energy's Operations Authorization for exploration and development drilling;
- Husky Energy's Operations Authorization for production; and
- ConocoPhillips Canada's Operations Authorization for an exploratory drilling program in the Laurentian Basin.

At the end of the reporting period, the review of the EPP associated with the Chevron Operations Authorization application for exploratory drilling in the Orphan Basin was completed, however the Operations Authorization had not yet been issued.

ENVIRONMENTAL ASSESSMENT

PROJECT BASED ENVIRONMENTAL ASSESSMENT

The C-NLOPB is the lead agency for environmental assessment (EA) of proposed offshore exploration and production activities under the Atlantic Accord, the **Atlantic Accord Implementation Acts**, and the **Canadian Environmental Assessment Act (CEAA)**. The C-NLOPB, in accordance with the **CEAA**, must undertake an environmental assessment of certain petroleum exploration and production works or

activities proposed for the Newfoundland and Labrador Offshore Area. The C-NLOPB also assesses the potential environmental implications of projects and activities that are not covered by the **CEAA**. These can include controlled source electromagnetic surveys and aeromagnetic surveys using a magnetometer.

During 2009-10, the C-NLOPB completed EAs for the Hibernia Drill Centers Construction and Operations Program and the Suncor Energy (formerly Petro-Canada) Jeanne d'Arc Basin Exploration Drilling Program. Nine EAs were ongoing as of March 31, 2010 including the comprehensive study level assessment of the Hebron project.

STRATEGIC ENVIRONMENTAL ASSESSMENT

Strategic Environmental Assessment (SEA) is a broad-based approach to environmental assessment (EA) that examines the environmental effects which may be associated with a plan, program or policy proposal and that allows for the incorporation of environmental considerations at the earliest stages of program planning. A SEA typically involves a broader-scale EA that considers the larger ecological setting, rather than a project based EA that focuses on site-specific issues with defined boundaries.

The Southern Newfoundland SEA was initiated by the C-NLOPB in the 2008-09 fiscal year. This SEA was undertaken to identify issues for consideration prior to issuing exploration licences for this area, and supplements the more detailed environmental assessments that must be conducted for each activity proposed for C-NLOPB authorization. LGL Limited

was contracted to prepare this SEA report. To assist with the SEA process, a working group was established with local representation from community groups, academia, non-governmental organizations and government agencies. The working group assisted in the review of the draft SEA report. Consultations were held in communities along the South Coast adjacent to the SEA area. In August 2009, public and regulatory comments were invited on the draft SEA report. Comments were received from federal and provincial agencies, non-governmental organizations and the public. The final report was published in February 2010. The Southern Newfoundland SEA incorporated updates to the previously published Sydney Basin and Laurentian Subbasin SEAs, and assessed an area immediately east of these areas.

COMPLIANCE AND ENFORCEMENT

The C-NLOPB conducts Integrated Audits, which include both safety and environmental protection components. The Integrated Audit that commenced for Suncor Energy at the end of the 2008-09 reporting period was completed in 2009-10. In December 2009, Suncor Energy provided an action plan to address the observations and findings identified in the audit. The action plan was reviewed and a majority of the observations were closed. At the end of 2009-10, Suncor Energy was provided with additional information on the observations and findings that remained open. Work will continue in the next fiscal year to close the remaining observations and findings.

In March 2010, the C-NLOPB assisted Environment Canada in conducting an inspection on the Hibernia Platform under the **federal Halocarbon Regulations**. The inspection assessed the use of chlorofluorocarbons (CFCs) on the facility in various cooling and refrigeration equipment.

An audit of laboratory procedures and practices and an inspection of general housekeeping on the deck and topside areas of Husky Energy's **SeaRose FPSO** was conducted in November 2009. The results were communicated to Husky Energy and an action plan is being developed to address issues arising from the audit.

Operators must report all discharges, spills, unauthorized and unplanned releases and problems with effluent quality for all offshore installations and activities. The C-NLOPB reviews these reports and investigates as required.

Of the 25 petroleum spills reported in 2009-10, 16 were less than one litre in volume. A summary of spill information for the 2009-10 fiscal year is provided in Table 2 below.

Table 2 Summary of Spill Information 2009-10

| Component | Litres | Percentage of Annual Total ¹ | Number of Incidents |
|-----------------------------|--------|---|---------------------|
| Synthetic Based Mud | 1.00 | 0.36 | 1 |
| Crude Oil | 250.21 | 90.00 | 6 |
| Hydraulic & Lubricating Oil | 16.10 | 5.80 | 6 |
| Condensate | 0.21 | 0.08 | 2 |
| Other Petroleum | 10.55 | 3.80 | 10 |

¹Percentage will not add to 100% due to rounding.

ENVIRONMENTAL EFFECTS MONITORING

Environmental effects monitoring (EEM), is the monitoring of the receiving environment to determine the effects of an industrial activity. In the Newfoundland and Labrador Offshore Area, EEM has been conducted principally for development drilling and production operations. This is due to the greater variety and volume of their regulated discharges such as produced water, and their longer-term presence offshore in comparison with exploration installations. EEM surveys begin during the first full year of offshore development drilling and continue annually for at least two additional years, becoming biennial thereafter.

This year, the C-NLOPB began posting EEM reports to its website. Any existing EEM reports that are not in a digital format can be viewed at the C-NLOPB Information Resources Centre. Future EEM reports will be posted within three months after the finalized report is submitted to the C-NLOPB by the operator, or when the C-NLOPB completes its review of the report.

HMDC submitted its 2007 EEM survey report in April, 2008. The C-NLOPB reviewed the 2007 report and provided comments to HMDC. The report was re-submitted in September, 2009 and accepted by the C-NLOPB. HMDC also submitted a revised EEM design report in June, 2009 to address changes to the EEM program that have taken place over the last 10 years. The C-NLOPB reviewed this report and provided comments to HMDC during the 2009-10 reporting period.

Suncor Energy submitted its 2008 EEM survey report in October 2009. The C-NLOPB reviewed this report and provided comments to Suncor Energy. At the end of the reporting period, the C-NLOPB had received Suncor Energy's response to these comments and they were under review. A report was also submitted to the C-NLOPB by Suncor Energy in May 2009 outlining their plan for revising the Water Quality Monitoring Component of the EEM Plan for the Terra Nova field.

Husky Energy submitted its 2008 EEM survey report in May, 2009. The C-NLOPB reviewed the 2008 report and provided comments to Husky Energy. At the end of the reporting period, the C-NLOPB was awaiting Husky Energy's response to these comments.

GUIDELINE UPDATES

During the 2009-10 fiscal year, the C-NLOPB reviewed and updated the Offshore Chemical Selection Guidelines (OCSG) and concluded with the revised guideline being published in April, 2009. The review and update of these guidelines was conducted jointly by the C-NLOPB, CNSOPB and the NEB, with the assistance of a stakeholder working group. The OCSG provide a framework for chemical selection that minimizes the potential for environmental impacts from the discharge of chemicals used in offshore drilling and production operations. These guidelines are formally reviewed every five years to ensure they continue to reflect significant gains in scientific and technical knowledge.

As part of the effort to formulate guidance for the new **Drilling and Production Regulations**, C-NLOPB environmental staff were engaged in the drafting of guidance for the preparation of EPPs for drilling and production operations. This work was completed during the reporting period with the issuance of a draft of the Environmental Protection Plan Guidelines. These guidelines were issued effective December 31, 2009 for a one-year trial basis. They will be revised as necessary during this period based on feedback and experience gained from their use.

During 2009-10, review and update continued for the Offshore Waste Treatment Guidelines. These guidelines outline recommended practices and standards for the treatment and disposal of wastes from petroleum drilling and production operations in Canada's offshore areas, and for sampling and analysis of waste streams to ensure compliance with these standards. The review and update are being conducted jointly by the C-NLOPB, the CNSOPB and NEB, with the assistance of a stakeholder working group. A C-NLOPB representative chairs the working group and the C-NLOPB also provides secretariat services.



MANAGEMENT OF RESOURCES

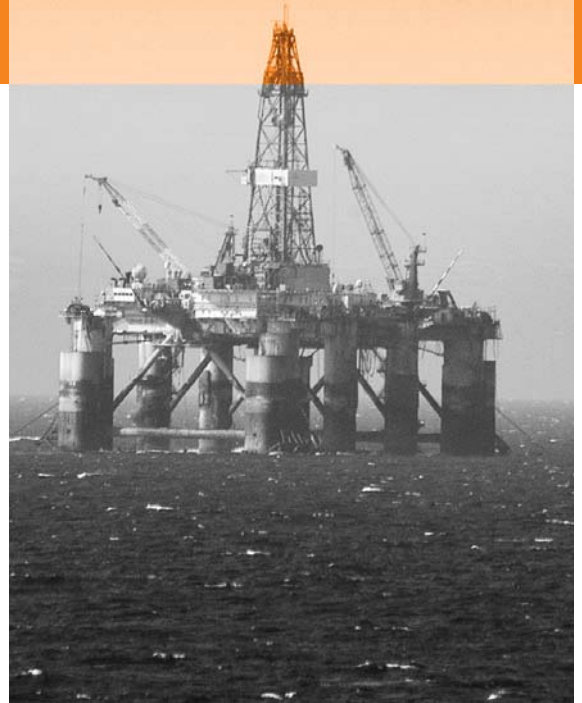
The C-NLOPB's mandate with respect to resource management encompasses the whole system from the regulation of exploration, through the land rights issuance process to production activities. The C-NLOPB's mandate in the area is as follows:

- To effectively and efficiently administer land tenure.
- To oversee production activities for consistency with maximum recovery, good oilfield practice, production accounting and approved plans.
- To build a knowledge base for the Newfoundland and Labrador Offshore Area through the acquisition and curation of data from exploration and production activity.

LAND RIGHTS AND LAND ISSUANCE

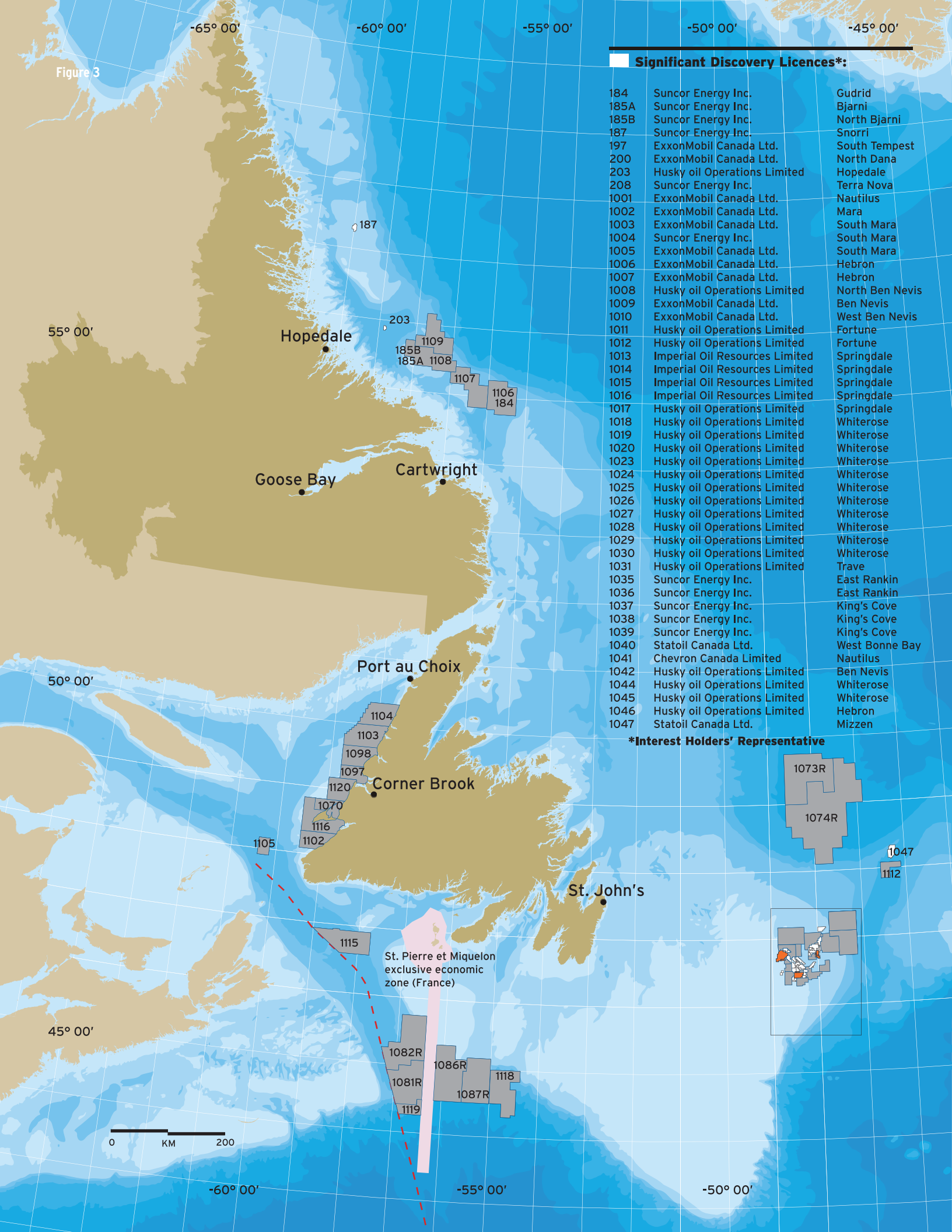
The C-NLOPB issues land rights in the form of exploration licences (ELs), significant discovery licences (SDLs) and production licences (PLs). As of March 31, 2010 there were 37 ELs; four of which were issued in the 2009-10 fiscal year. Currently, there are 49 SDLs and eight PLs in the Newfoundland and Labrador Offshore Area.

The approximate locations of all current licences are shown in Figures 3 and 4. Detailed information and maps respecting individual licences are published on the C-NLOPB's website.



Ten wells were spudded in the 2009-10 fiscal year, including three exploration wells.

Figure 3



Significant Discovery Licences*:

| | | |
|------|--------------------------------|-----------------|
| 184 | Suncor Energy Inc. | Gudrid |
| 185A | Suncor Energy Inc. | Bjarni |
| 185B | Suncor Energy Inc. | North Bjarni |
| 187 | Suncor Energy Inc. | Snorri |
| 197 | ExxonMobil Canada Ltd. | South Tempest |
| 200 | ExxonMobil Canada Ltd. | North Dana |
| 203 | Husky oil Operations Limited | Hopedale |
| 208 | Suncor Energy Inc. | Terra Nova |
| 1001 | ExxonMobil Canada Ltd. | Nautilus |
| 1002 | ExxonMobil Canada Ltd. | Mara |
| 1003 | ExxonMobil Canada Ltd. | South Mara |
| 1004 | Suncor Energy Inc. | South Mara |
| 1005 | ExxonMobil Canada Ltd. | South Mara |
| 1006 | ExxonMobil Canada Ltd. | Hebron |
| 1007 | ExxonMobil Canada Ltd. | Hebron |
| 1008 | Husky oil Operations Limited | North Ben Nevis |
| 1009 | ExxonMobil Canada Ltd. | Ben Nevis |
| 1010 | ExxonMobil Canada Ltd. | West Ben Nevis |
| 1011 | Husky oil Operations Limited | Fortune |
| 1012 | Husky oil Operations Limited | Fortune |
| 1013 | Imperial Oil Resources Limited | Springdale |
| 1014 | Imperial Oil Resources Limited | Springdale |
| 1015 | Imperial Oil Resources Limited | Springdale |
| 1016 | Imperial Oil Resources Limited | Springdale |
| 1017 | Husky oil Operations Limited | Springdale |
| 1018 | Husky oil Operations Limited | Whiterose |
| 1019 | Husky oil Operations Limited | Whiterose |
| 1020 | Husky oil Operations Limited | Whiterose |
| 1023 | Husky oil Operations Limited | Whiterose |
| 1024 | Husky oil Operations Limited | Whiterose |
| 1025 | Husky oil Operations Limited | Whiterose |
| 1026 | Husky oil Operations Limited | Whiterose |
| 1027 | Husky oil Operations Limited | Whiterose |
| 1028 | Husky oil Operations Limited | Whiterose |
| 1029 | Husky oil Operations Limited | Whiterose |
| 1030 | Husky oil Operations Limited | Whiterose |
| 1031 | Husky oil Operations Limited | Trave |
| 1035 | Suncor Energy Inc. | East Rankin |
| 1036 | Suncor Energy Inc. | East Rankin |
| 1037 | Suncor Energy Inc. | King's Cove |
| 1038 | Suncor Energy Inc. | King's Cove |
| 1039 | Suncor Energy Inc. | King's Cove |
| 1040 | Statoil Canada Ltd. | West Bonne Bay |
| 1041 | Chevron Canada Limited | Nautilus |
| 1042 | Husky oil Operations Limited | Ben Nevis |
| 1044 | Husky oil Operations Limited | Whiterose |
| 1045 | Husky oil Operations Limited | Whiterose |
| 1046 | Husky oil Operations Limited | Hebron |
| 1047 | Statoil Canada Ltd. | Mizzen |

***Interest Holders' Representative**

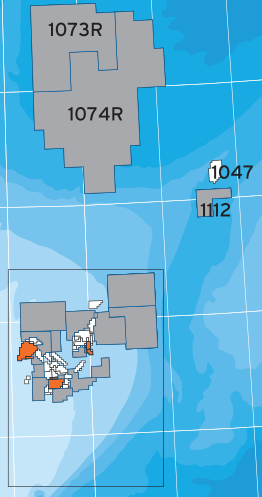
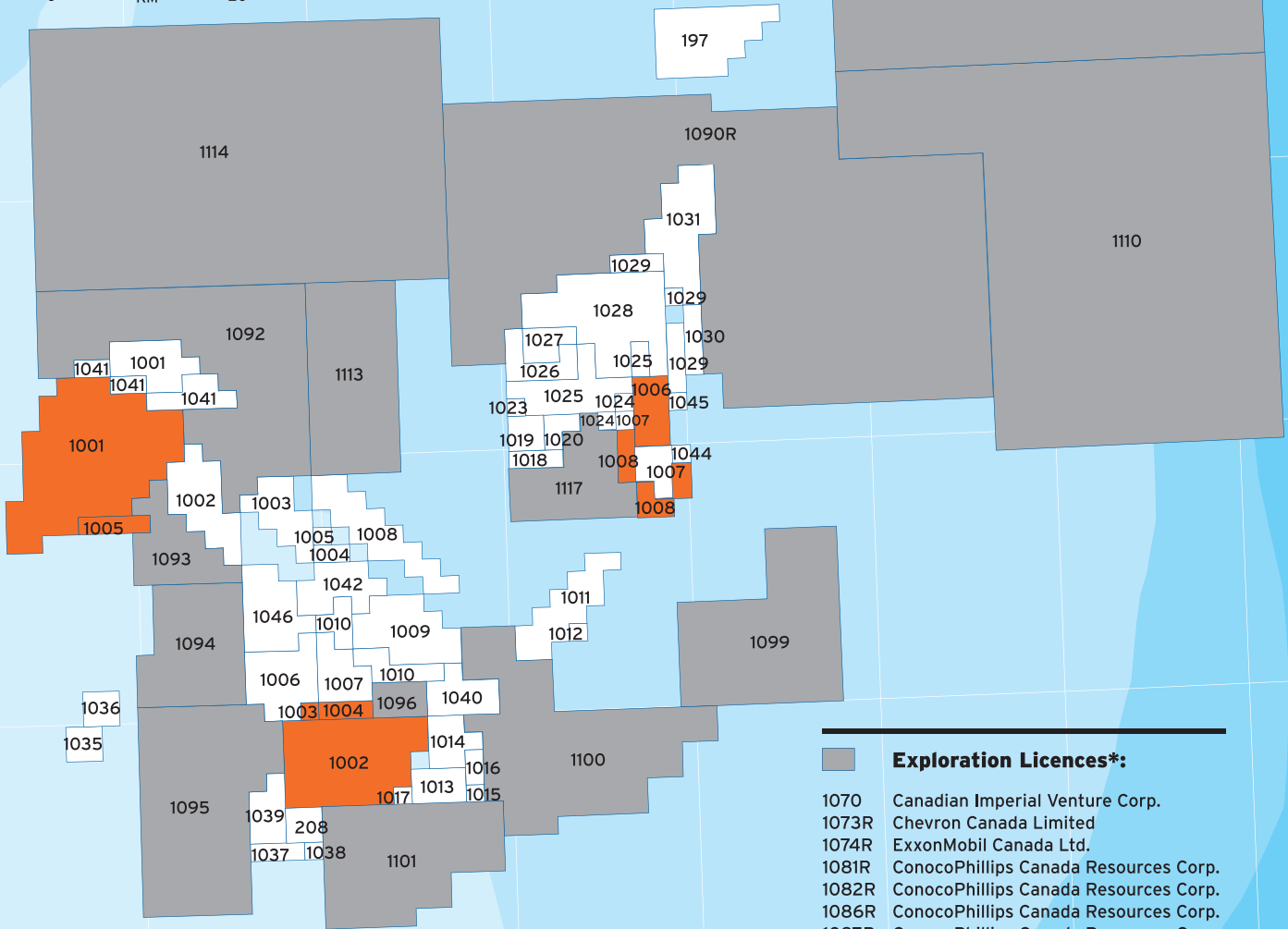


Figure 4

0 KM 20



- Production Licences*:**
- 1001 ExxonMobil Canada Ltd. Hibernia
 - 1002 Suncor Energy Inc. Terra Nova
 - 1003 Suncor Energy Inc. Terra Nova
 - 1004 Suncor Energy Inc. Terra Nova
 - 1005 ExxonMobil Canada Ltd. Hibernia
 - 1006 Husky Oil Operations Limited Whiterose
 - 1007 Husky Oil Operations Limited Whiterose
 - 1008 Husky Oil Operations Limited North Amethyst

***Interest Holders' Representative**

Exploration Licences*:

- 1070 Canadian Imperial Venture Corp.
- 1073R Chevron Canada Limited
- 1074R ExxonMobil Canada Ltd.
- 1081R ConocoPhillips Canada Resources Corp.
- 1082R ConocoPhillips Canada Resources Corp.
- 1086R ConocoPhillips Canada Resources Corp.
- 1087R ConocoPhillips Canada Resources Corp.
- 1090R Husky Oil Operations Limited
- 1092 Suncor Energy Inc.
- 1093 ExxonMobil Canada Properties
- 1094 Husky Oil Operations Limited
- 1095 Suncor Energy Inc.
- 1096 Husky Oil Operations Limited
- 1097 NWest Oil & Gas Inc.
- 1098 NWest Oil & Gas Inc.
- 1099 Husky Oil Operations Limited
- 1100 Statoil Canada Ltd.
- 1101 Statoil Canada Ltd.
- 1102 B.G. Oil & Gas Inc.
- 1103 NWest Oil & Gas Inc.
- 1104 NWest Oil & Gas Inc.
- 1105 Corridor Resources Inc.
- 1106 Husky Oil Operations Limited
- 1107 Investcan Energy Corporation
- 1108 Husky Oil Operations Limited
- 1109 Chevron Canada Limited
- 1110 Husky Oil Operations Limited
- 1111 Husky Oil Operations Limited
- 1112 Statoil Canada Ltd.
- 1113 Suncor Energy Inc.
- 1114 Husky Oil Operations Limited
- 1115 Husky Oil Operations Limited
- 1116 PDI Production Inc.
- 1117 Husky Oil Operations Limited
- 1118 ConocoPhillips Canada Resources Corp.
- 1119 ConocoPhillips Canada Resources Corp.
- 1120 Ptarmigan Energy Inc.

-49° 00'

-48° 30'

-48° 00'

-47° 30'

46° 00'

46° 30'

47° 00'

OPERATING LICENCES

Any person wishing to undertake any work or activity respecting petroleum operations in the Newfoundland and Labrador Offshore Area must obtain an operating licence. Table 3 shows the 14 operating licences issued by the C-NLOPB during the fiscal year, 2009-10.

Table 3

OPERATING LICENCES (April 1, 2009 - March 31, 2010)

| | |
|----|--|
| 1 | ExxonMobil Canada Ltd., as managing partner for ExxonMobil Canada Properties |
| 2 | ExxonMobil Canada Ltd. |
| 3 | Husky Oil Operations Limited |
| 4 | EnCana Corporation |
| 5 | Chevron Canada Limited, as managing partner for Chevron Canada Resources |
| 6 | Chevron Canada Limited |
| 7 | Hibernia Management and Development Company Ltd. |
| 8 | Statoil Canada Ltd. (formerly StatoilHydro Canada Ltd.) |
| 9 | ConocoPhillips Canada Resources Corp. |
| 10 | Imperial Oil Resources Limited |
| 11 | Imperial Oil Resources Ventures Limited |
| 12 | Shell Canada Limited |
| 13 | Suncor Energy Inc. (formerly Petro-Canada) |
| 14 | NWest Oil & Gas Inc. |

CALLS FOR BIDS

Calls for Bids NLO9-01 (Jeanne d'Arc Basin), NLO9-02 (Laurentian Subbasin) and NLO9-03 (Western Newfoundland and Labrador Offshore Region) closed on November 19, 2009. This was the first year a call for bids was held in the Laurentian Subbasin. Successful bids were received on all four parcels offered, totaling \$47,000,211. One successful bid parcel is located in the Jeanne d'Arc Basin, two are located in the Laurentian Subbasin and the remaining bid parcel is located in the Western Newfoundland and Labrador Offshore Region. The bids represent the expenditures that the bidders commit to make in exploring the parcels during the initial five-year period of a nine-year term exploration licence. As of March 31, 2010 the C-NLOPB had not announced a call for bids for 2010.

LICENCE CONSOLIDATION, SURRENDER AND AMENDMENT

In January 2010, the Board entered into a Licence Consolidation and Amendment Agreement with Husky Oil Operations Limited to consolidate ELs 1090 and 1091 into EL 1090R which was issued on January 14, 2010.

SIGNIFICANT DISCOVERY DECLARATION

On February 12, 2010 the C-NLOPB made a Declaration of Significant Discovery (Mizzen O-16) located in the Flemish Pass/Central Ridge Region of the Newfoundland and Labrador Offshore Area. Subsequently, Statoil Canada applied for a significant discovery licence for those lands of EL 1049 which fell within the significant discovery area. SDL 1047 (Mizzen O-16) was issued effective February 22, 2010.

REGISTRY OFFICE

The C-NLOPB operates a registry to record exploration, significant discovery and production licences, and information related to these interests for public review. The C-NLOPB publishes on its website uncertified copies of interests, instruments and abstracts currently on file to facilitate further public access to these records.

FUNDS COLLECTED

Under the **Atlantic Accord Implementation Acts**, the C-NLOPB is responsible for the collection of certain fees, forfeitures and rentals. In 2009-10, \$5,944,527 was collected and remitted to the Receiver General for Canada. Some of these revenues are for deposit to the Newfoundland and Labrador Offshore Petroleum Resources Revenue Fund. Since its inception, the C-NLOPB has collected \$164,276,700.19 on behalf of the Crown.

DATA STORAGE AND RESEARCH

The C-NLOPB's Core Storage and Research Centre (CSRC) archives core, cuttings, fluid samples, petrographic slides, biostratigraphic slides, and other geological material derived from wells drilled in the Newfoundland and Labrador Offshore Area. Currently there are over 5,000 boxes of cuttings samples, 8,000 metres of core, 7,500 sidewall core samples, 40,000 geological slides and 200 fluid samples from over 300 wells available at the CSRC.

The CSRC provides access once material is released to the public in accordance with legislation/regulations. In 2009-10, the facility was used primarily by industry, universities and government. Research conducted involved almost all portions of the Newfoundland and Labrador Offshore Area, including the North and South Grand Banks, the Northeast Newfoundland Shelf, the Labrador Shelf and the Western Newfoundland Offshore Area.

In the 2009-10 budget, governments provided funding to the C-NLOPB for the construction of an expansion of the CSRC. This expansion consists of a new extension which will be a single storey, steel-framed building comprising a building footprint of approximately 900 square metres (10,000 square feet), all of which will be dedicated to the storage of core samples. Internal renovations to the building will be done to provide additional core viewing space.

The C-NLOPB issued a Request for Proposal and awarded a contract in the Fall of 2009 for the expansion. Following the completion of a Screening Report under the **Canadian Environmental Assessment Act**, site preparation began in October 2009.

EXPLORATION COMMITMENTS

As of March 31, 2010 there was \$882,131,448 in exploration commitments to be undertaken by interest owners, with security deposits valued at \$220,532,862.

GEOPHYSICAL / GEOLOGICAL PROGRAMS

The C-NLOPB reviewed four applications for authorization to conduct exploratory-related work in the Newfoundland and Labrador Offshore Area in 2009-10. Of these applications, three included geophysical programs with fieldwork and one included a geophysical program without fieldwork.

During the reporting period, the C-NLOPB approved two wellsite surveys. ConocoPhillips Canada acquired wellsite data for their Wolverine G-37 well in the Laurentian Subbasin using the vessel **M/V DOF Geosounder**. In the Jeanne d'Arc Basin, Husky Energy acquired 82 line kilometers of data over their Glenwood H-69 wellsite utilizing the **M/V Anticosti**.

ExxonMobil was authorized to conduct a Controlled Source Electromagnetics (CSEM) geophysical program consisting of 1,829 line kilometers of data collected by **M/V Siem Mollie** in the Orphan Basin.

Since 1964, approximately 2.1 million km of seismic data has been recorded in the Newfoundland and Labrador Offshore Area. The geophysical programs conducted in 2009-10 account for 82 km of 2D data and 1,829 km of CSEM data.



Table 4 Geophysical Programs Approved and Conducted

¹CMP = Common Midpoint

| Operator | Program | Area | Coverage (CMP ¹ km) |
|-----------------------|--------------------|---------------------|--------------------------------|
| ExxonMobil Canada | Resistivity Survey | Orphan Basin | 1,829 km |
| ConocoPhillips Canada | Surficial Survey | Laurentian Subbasin | N/A |
| Husky Energy | Surficial Survey | Jeanne d'Arc Basin | 82 km |

DRILLING ACTIVITY

Ten wells (including sidetracks) were spudded in the 2009-10 fiscal year, including three exploration wells.

HIBERNIA MANAGEMENT AND DEVELOPMENT COMPANY

In 2009-10, HMDC re-entered the Hibernia B-16 5 wellbore to perform a well intervention, and re-entered and resumed drilling Hibernia B-16 56. Hibernia B-16 57 and B-16 37 were re-entered and sidetracked. The resulting wells Hibernia B-16 57X and B-16 37Z, a producer and injector pair, marked the first wells drilled into the Hibernia South AA Block. The Hibernia B-16 21Z sidetrack, which was spudded during the previous fiscal year, was also drilled and completed during 2009-10.

HUSKY ENERGY

Husky Energy has undertaken a batch drilling program in the North Amethyst field utilizing the **GSF Grand Banks** and the **Henry Goodrich**. Under this program, North Amethyst G-25 1 and G-25 2 were drilled to Total Depth (TD) during the fiscal year. The batch drilling program also saw

the spudding of G-25 3 and G-25 4 wells by the **GSF Grand Banks** during 2009-10. Husky Energy also spudded the North Amethyst H-14 delineation well late in the year, and the Glenwood H-69 exploration well was spudded and suspended. Both of these wells used the **Henry Goodrich**.

SUNCOR ENERGY

Suncor Energy (formally Petro-Canada) re-entered the Terra Nova G-90 4 well and drilled the sidetrack G-90 4Z utilizing the **Henry Goodrich**. Operations were suspended in July 2009. The well was re-entered and completed in November, 2009. Suncor Energy also spudded the Ballicatters M-96 exploration well.

CONOCOPHILLIPS CANADA

ConocoPhillips Canada spudded the East Wolverine G-37 exploration well utilizing the MODU **Stena Carron** in the Laurentian Subbasin.

WELL EVALUATION, OPERATIONS AND RESOURCE ASSESSMENTS

The C-NLOPB's most recent reserve/resource estimate and production totals are provided in Table 5.

Table 5 Petroleum Reserves¹ and Resources² Newfoundland and Labrador Offshore Area

| Field | Oil | | Gas | NGLs ³ |
|-----------------------|--|---------------------------------|------------------|-------------------|
| | Originally in place MMbbls ⁵ | Produced ⁴ MMbbls | BCF ⁶ | MMbbls |
| Grand Banks | | | | |
| Hibernia | 1244 | 680.18 | 1796 | 202 |
| Terra Nova | 419 | 294.30 | 53 | 4 |
| White Rose | 305 | 141.93 | 3023 | 96 |
| North Amethyst | 68 | | 315 | - |
| Hebron | 581 | | - | - |
| Ben Nevis | 114 | | 429 | 30 |
| West Ben Nevis | 36 | | - | - |
| West Bonne Bay | 36 | | - | - |
| Mara | 23 | | - | - |
| North Ben Nevis | 18 | | 116 | 4 |
| Springdale | 14 | | 238 | - |
| Nautilus | 13 | | - | - |
| King's Cove | 10 | | - | - |
| South Tempest | 8 | | - | - |
| East Rankin | 7 | | - | - |
| Fortune | 6 | | - | - |
| South Mara | 4 | | 144 | 8 |
| North Dana | - | | 472 | 11 |
| Trave | - | | 30 | 1 |
| Subtotal | 2906 | | 6616 | 356 |
| Labrador Shelf | | | | |
| North Bjarni | - | | 2247 | 82 |
| Gudrid | - | | 924 | 6 |
| Bjarni | - | | 863 | 31 |
| Hopedale | - | | 105 | 2 |
| Snorri | - | | 105 | 2 |
| Subtotal | 0 | | 4244 | 123 |
| Total | 2906 | | 10860 | 479 |
| Produced | | 1116.41 | 0 | 0 |
| Remaining | 1790 | | 10860 | 479 |

¹ "Reserves" are volumes of hydrocarbons proven by drilling, testing and interpretation of geological, geophysical and engineering data, that are considered to be recoverable using current technology and under present and anticipated economic conditions. The Hibernia field oil reserves include the Ben Nevis/Avalon and Hibernia reservoirs. The Terra Nova field oil reserves are producing from the Jeanne d'Arc reservoir. The White Rose field oil reserves consist of the Ben Nevis/Avalon and Hibernia reservoirs. The North Amethyst field oil reserves consist of the Ben Nevis/Avalon reservoir.

² "Resources" are volumes of hydrocarbons, expressed at 50% probability of occurrence, assessed to be technically recoverable that have not been delineated and have unknown economic viability. Resources in the Jeanne d'Arc basin include all other oil reservoirs not listed in the reserves section, gas volumes and natural gas liquids.

³ Natural gas liquids (NGLs) are derived from natural gas, which is the portion of petroleum that exists in either the gaseous phase or in solution in crude oil in natural underground reservoirs.

⁴ Produced oil reserves also include a small quantity of NGLs. Produced volumes as of March 31, 2010.

⁵ MMbbls = million barrels.

⁶ BCF = billion cubic feet.

HIBERNIA

The Hibernia field, discovered in 1979, consists of two principal reservoirs: Hibernia and Ben Nevis/Avalon. This field is operated by HMDC and is produced using a Gravity Based Structure (GBS). Total oil production for 2009-10 was 47.30 million barrels (MMbbls) with a daily average of 129,590 barrels (bbls). The C-NLOPB estimates oil reserves and resources at Hibernia to be 1,244 MMbbls of which 680.18 MMbbls were produced as of March 31, 2010.

The past fiscal year also saw the initiation of development drilling and production from the Hibernia A pool reservoir, following approval of the Hibernia A pool Depletion Plan in 2008-09. Three wells in the A pool are now on production, co-mingled with B pool production in each case.

During 2009-10, the C-NLOPB approved a Development Plan Amendment that allowed development of Hibernia B pool reserves confined to the AA Block within PL 1001. The remainder of the Hibernia South Extension is the subject of a subsequent Development Plan Amendment Application that has been received by the C-NLOPB and is currently being reviewed.

Table 6 Hibernia Field Production Statistics

| | | 2009-10 | Cumulative to March 31, 2010 |
|------------------------|--------|---------|------------------------------|
| Production | | | |
| Oil | MMbbls | 47.30 | 680.18 |
| Gas | Bscf | 86.88 | 997.29 |
| Water | MMbbls | 44.46 | 278.90 |
| Gas Disposition | | | |
| Flared | Bscf | 2.10 | 77.41 |
| Fuel | Bscf | 5.36 | 64.83 |
| Injected | Bscf | 79.42 | 855.06 |
| Water Injected | MMbbls | 85.86 | 906.11 |

Conversion factors:

1 m³ oil = 6.2898106 bbl

1 m³ gas = 35.49370 cu. ft.



TERRA NOVA

The Terra Nova field, discovered in 1984 and operated by Suncor Energy, consists of one reservoir: the Jeanne d'Arc. Total production for 2009-10 at Terra Nova reached 27.74 MMbbls. The **Terra Nova FPSO** produced an average of 76,012 bbls/day during the past fiscal year.

During 2009-10, the C-NLOPB conducted a reassessment of reserves at the Terra Nova field, and updated its estimate of oil reserves to 419 MMbbls. As of March 31, 2010 294.30 MMbbls have been produced.

Table 7 Terra Nova Field Production Statistics

| | | 2009-10 | Cumulative to March 31, 2010 |
|------------------------|--------|---------|---------------------------------|
| Production | | | |
| Oil | MMbbls | 27.74 | 294.30 |
| Gas | Bscf | 57.09 | 358.59 |
| Water | MMbbls | 34.44 | 112.81 |
| Gas Disposition | | | |
| Flared | Bscf | 1.88 | 45.27 |
| Fuel | Bscf | 4.95 | 32.02 |
| Injected | Bscf | 50.26 | 281.31 |
| Lift | Bscf | 15.05 | 24.97 |
| Water Injected | MMbbls | 63.25 | 385.11 |

Conversion factors:

1 m³ oil = 6.2898106 bbls

1 m³ gas = 35.49370 cu. ft.

WHITE ROSE

The White Rose field, discovered in 1984 and operated by Husky Energy, also has one principal reservoir: the Ben Nevis/Avalon. Total oil production at White Rose for the reporting period was 18.96 MMbbls. The **SeaRose FPSO** at White Rose averaged 51,957 bbls/day. The C-NLOPB estimates oil reserves and resources at White Rose to be 305 MMbbls, which includes the main White Rose field, the South White Rose Extension and the West White Rose and North Avalon pools. As of March 31, 2010, 141.93 MMbbls have been produced and the remaining oil reserves amount to 163.07 MMbbls.

A new Subsurface Storage Licence was issued to Husky Energy for gas storage purposes in 2009 with the previous one expiring in 2009. The new licence has four additional land sections added to the original fifteen. This licence covers the North Avalon pool and parts of West Avalon pool and will now accommodate gas from the South Avalon production as well as the North Amethyst production.

During 2009-10, the C-NLOPB received a proposal for a pilot project to test production from the western area of the White Rose field. This development plan amendment application is currently under review.

Table 8 White Rose Field Production Statistics

| | | 2009-10 | Cumulative to March 31, 2010 |
|------------------------|--------|---------|---------------------------------|
| Production | | | |
| Oil | MMbbls | 18.96 | 141.93 |
| Gas | Bscf | 16.90 | 115.97 |
| Water | MMbbls | 14.59 | 26.20 |
| Gas Disposition | | | |
| Flared | Bscf | 3.37 | 24.17 |
| Fuel | Bscf | 3.02 | 13.46 |
| Injected | Bscf | 10.50 | 78.34 |
| Lift | Bscf | 5.25 | 5.80 |
| Water Injected | MMbbls | 43.98 | 239.04 |

Conversion factors:

1 m³ oil = 6.2898106 bbl

1 m³ gas = 35.49370 cu. ft.

NORTH AMETHYST

The North Amethyst field discovered in 2006, is a satellite field adjacent to the White Rose development, is operated by Husky Energy and will be produced using the **SeaRose FPSO**. Reserves in the North Amethyst field are contained in a single reservoir, the Ben Nevis/Avalon and are estimated by the C-NLOPB at 68 MMbbls.

A Development Plan for the North Amethyst field was approved in 2008, and construction of subsea facilities to tie back to the **SeaRose FPSO** were completed in 2009. Development drilling has commenced, and production is expected to begin early in the coming fiscal year.

HEBRON

The Hebron field, discovered in 1981 is an undeveloped oil field located north of the Terra Nova field. A development application, which will include a Development Plan and Benefits Plan, is anticipated to be submitted to the C-NLOPB in the coming fiscal year.

INDUSTRIAL BENEFITS, POLICY AND REGULATORY COORDINATION

The C-NLOPB's mandate with respect to industrial benefits is as follows:

- To verify operators have an approved Canada-Newfoundland and Labrador Benefits Plan that addresses their statutory obligations.

BENEFITS ADMINISTRATION

In 2009-10, the industrial benefits activities associated with offshore exploration and production continued to be monitored for compliance with the approved benefits plan provisions in relation to contracting and employment, supply of goods and services, diversity, research and development (R&D) and education and training (E&T).

Pre-development procurement and contracting plans associated with the Hebron project were also monitored by the C-NLOPB during the reporting period in anticipation of the submission of a Benefits Plan for the project in the coming fiscal year.

A benefits plan amendment for the Hibernia South Extension was received and is currently being reviewed. Pre-development procurement and contracting activity associated with this project is being monitored as part of the existing Hibernia Benefits Plan framework.

During 2009-10, the C-NLOPB reviewed and approved exploration benefits plans for geoscientific exploration programs in the Jeanne d'Arc Basin, Laurentian Subbasin, and Orphan Basin.



Expenditures for R&D shall be carried out in the Province and E&T shall be provided in the Province.

ECONOMIC IMPACT OF THE OIL INDUSTRY

In 2009, hydrocarbon production from the Newfoundland and Labrador Offshore Area accounted for approximately 35% of Canada's total light crude production, with an estimated market value of approximately \$6.65 billion. The sector directly accounted for 40% of the province's nominal Gross Domestic Product (GDP) for 2008. Since production commenced in 1997, provincial real GDP has grown by nearly 52% through 2009, with approximately half the growth attributed directly to the oil and gas sector. The sector represented approximately 30% of total private capital investment in the province, with over \$1.3 billion in capital expenditures in 2009.

During 2009, expenditures by operators related to work in the Newfoundland and Labrador Offshore Area amounted to \$2.15 billion. Since 1966, cumulative expenditures total \$26.8 billion.

As of December 31, 2009, 3,518 persons were working in direct support of petroleum related activity in the Newfoundland and Labrador Offshore Area, which was almost 1.6% of total employment in the province. Indirectly, through spin-off effects, the industry accounted for almost 5% of total employment.

During 2009, \$384.3 million was spent on exploration programs, generating more than 4,342 person-months of employment.

On-going production activities represent a \$1.32 billion, per year industry of which 56% of annual expenditures occur in Newfoundland and Labrador and a further 23% in the rest of Canada.

Tables 9, 10 and 11 summarize the participation of Newfoundland and Labrador residents and other Canadians in the operating phase workforce at Hibernia, Terra Nova and White Rose, respectively. Table 12 summarizes the participation of Newfoundland and Labrador residents and other Canadians in the development phase workforce for North Amethyst. A Newfoundland and Labrador resident is a Canadian citizen or Permanent Resident who has resided in the Province for the preceding six-month period prior to time of hire.

HIBERNIA

HMDC reported expenditures of \$415 million for the 2009-10 fiscal year, with 84% Canadian content including 51% Newfoundland and Labrador content. As of March 31, 2010 total direct employment in the province in support of the Hibernia project was 1,090 persons, including tanker operations. Of this amount, 93% of the workers were Newfoundland and Labrador residents at the time of hire, and 5% were other Canadian residents.

Table 9 Hibernia Operations Phase Employment (as of March 31, 2010)

| Location | Residency | | | Total |
|---------------------|-------------------------|-----------------|---------------|--------------|
| | Newfoundland & Labrador | Other Canadians | Non-Canadians | |
| Platform Operations | 500 | 23 | 8 | 531 |
| Tanker Operations | 69 | 3 | 0 | 72 |
| Onshore & Support | 445 | 28 | 14 | 487 |
| Total | 1,014 | 54 | 22 | 1,090 |

TERRA NOVA

Suncor Energy (formally Petro-Canada) reported expenditures of \$369 million for the fiscal year 2009-10, with 82% Canadian content including 63% Newfoundland and Labrador content. As of March 31, 2010 total employment in support of the Terra Nova project was 805 persons, including tanker operations. At the time of hire, 94% of this total were Newfoundland and Labrador residents and 6% were other Canadian residents.

Table 10 Terra Nova Operations Phase Employment (as of March 31, 2010)

| Location | Residency | | | Total |
|---------------------|-------------------------|-----------------|---------------|------------|
| | Newfoundland & Labrador | Other Canadians | Non-Canadians | |
| Platform Operations | 197 | 5 | 0 | 202 |
| Tanker Operations | 69 | 3 | 0 | 72 |
| Onshore & Support | 489 | 37 | 5 | 531 |
| Total | 755 | 45 | 5 | 805 |



WHITE ROSE

Husky Energy reported expenditures of \$425 million for the fiscal year 2009-10, with 77% Canadian content including 60% Newfoundland and Labrador content. As of March 31, 2010 total employment in support of the White Rose project was 1,019 persons, including tanker operations. At the time of hire, 89% of this total were Newfoundland and Labrador residents and 8% were other Canadian residents.



Table 11 White Rose Operations Phase Employment (as of March 31, 2010)

| Location | Residency | | | Total |
|---------------------|-------------------------|-----------------|---------------|--------------|
| | Newfoundland & Labrador | Other Canadians | Non-Canadians | |
| Platform Operations | 324 | 52 | 14 | 390 |
| Tanker Operations | 141 | 9 | 0 | 150 |
| Onshore & Support | 438 | 23 | 18 | 479 |
| Total | 903 | 84 | 32 | 1,019 |

NORTH AMETHYST

Husky Energy reported expenditures of \$366 million for the fiscal year 2009-10 directly related to the development of North Amethyst, with 78% Canadian content including 59% Newfoundland and Labrador content. As of March 31, 2010 total employment in support of the North Amethyst project was 217 persons. At the time of hire, 87% of this total were Newfoundland and Labrador residents and 7% were other Canadian residents.

Table 12 North Amethyst Development Phase Employment (as of March 31, 2010)

| Location | Residency | | | Total |
|--------------|-------------------------|-----------------|---------------|------------|
| | Newfoundland & Labrador | Other Canadians | Non-Canadians | |
| Development | 189 | 16 | 12 | 217 |
| Total | 189 | 16 | 12 | 217 |

HEBRON

ExxonMobil reported expenditures of \$46.9 million for the 2009 calendar year, directly related to the pre-development of the Hebron project.

RESEARCH AND DEVELOPMENT, EDUCATION AND TRAINING

Section 45 of the Atlantic Accord legislation states that expenditures shall be made for R&D to be carried out in the Province and for E&T to be provided in the Province. Guidelines were issued on this matter in November, 2004 with effect from April, 2004. The guidelines reflect the C-NLOPB's view that the level of expenditures in Newfoundland and Labrador should be consistent with the norm by the upstream petroleum industry in Canada. Two operators, HMDC and Suncor Energy launched a legal challenge of the C-NLOPB's authority to make these guidelines. The court proceedings on this matter came to a close on February 19, 2009 when the Supreme Court of Canada denied the companies' Application for Leave to Appeal.

Pursuant to the guidelines, the industry R&D and E&T obligations for the three producing projects are provided in Table 13. These obligations are determined on the basis of a benchmark reported by Statistics Canada, in respect of the R&D expenditures by oil and gas extracting companies, expressed as a percentage of gross revenue. This benchmark varies annually and the C-NLOPB uses the most recent five-year rolling average to determine the obligations. Gross revenues for oil projects offshore Newfoundland and Labrador are based on the amount of production and the average price

of oil, taking into account the market value of the crude produced from the Newfoundland and Labrador Offshore Area.

Table 13 Industry R&D and E&T Obligations (\$ millions)
(April 1, 2004 to Dec 31, 2008)

| Project | Obligation | Eligible Expenditures | Surplus/Shortfall |
|--------------|---------------|-----------------------|-------------------|
| Hibernia | 66.52 | 33.80 | 32.72 |
| Terra Nova | 34.04 | 25.07 | 8.97 |
| White Rose | 28.35 | 28.35 | 0.00 |
| Total | 128.91 | 87.22 | 41.69 |

R&D and E&T expenditures for the White Rose project are in accordance with the C-NLOPB's expectations. However, for the Hibernia and Terra Nova projects, the C-NLOPB's assessment of the R&D and E&T expenditures has revealed significant shortfalls. These shortfalls occurred during the period that the court challenge to the Board's authority to issue the R&D guidelines was underway. The Board has required these operators to file a financial instrument with the C-NLOPB as a surety that the obligations will be met. In the meantime, the C-NLOPB will continue to monitor industry's plans to meet its future R&D and E&T obligations.

POLICY AND REGULATORY COORDINATION

During 2009-10 the Policy and Regulatory Coordination Department continued its effort to remove administrative burden from the C-NLOPB's technical staff in order to allow them to focus on evaluating best practices and technology in support of the C-NLOPB's mandate.

During the reporting period, the Policy and Regulatory Coordination Department coordinated the issuance of four Operations Authorizations and the approval of a Development Plan Amendment for the Hibernia AA Block. A list of all authorizations issued by the C-NLOPB during the reporting period is provided in Table 14.

Table 14: Authorizations issued by the C-NLOPB in 2009-10

| Authorization Type | Operator | Installation/Vessel |
|---------------------------------------|------------------------------|--|
| Construction Program Authorization | Husky Energy | M/V Deep Pioneer |
| Construction Program Authorization | Husky Energy | M/V Jumbo Javelin |
| Construction Program Authorization | Husky Energy | M/V Well Servicer |
| Construction Program Authorization | Husky Energy | SeaHorse |
| Diving Program Authorization | Husky Energy | M/V Atlantic Hawk and ProDive Attender |
| Geophysical Program Authorization | ConocoPhillips Canada | M/V Geosounder |
| Geophysical Program Authorization | ExxonMobil Canada Properties | M/V Siem Mollie |
| Geophysical Program Authorization | Husky Energy | M/V Anticosti |
| Operations Authorization | ConocoPhillips Canada | MODU Stena Carron |
| Operations Authorization | HMDC | Hibernia Platform |
| Operations Authorization (Drilling) | Husky Energy | MODU GSF Grand Banks and Henry Goodrich |
| Operations Authorization (Production) | Husky Energy | SeaRose FPSO |

Also during the fiscal year, the Policy and Regulatory Coordination Department began the coordination of the transition to new **Drilling and Production Regulations** including guideline development, form updating and other administrative processes. Four sets of guidelines were issued by the C-NLOPB on December 31, 2009 to accompany the new regulations. These have been issued for use on a one-year trial basis and will be revised as necessary based on feedback from their use.

The Regulatory Coordination function will continue to grow to include other authorizations and approvals, including geophysical programs in addition to drilling and production related authorizations and approvals. One of the primary areas of focus in the next fiscal year will be the regulatory coordination of the Hebron project. The C-NLOPB will lead the regulatory coordination effort for this project for both the Environmental Assessment and Development/Benefits Plan applications.

THE NEW FACES AT THE BOARD



(Back l-r) Carlá Boyd, Darren Hicks, Jeff Clarke

(Front l-r) Paula Butler, Jason Pretty, Grace Evans, Carolyn Sheppard, Amanda Oakley

INFORMATION SERVICES

- The C-NLOPB curates data and information relating to offshore oil and gas activity in accordance with the provisions of the Atlantic Accord Acts.

INFORMATION MANAGEMENT

2009-10 showed continued growth in information management practices, policies and systems at the C-NLOPB. There was considerable progress in the implementation of both data and document management solutions, as the C-NLOPB continues to move toward a more efficient and effective information management framework.

Significant progress was made with loading data for the Offshore Petroleum Information Management System (OPIMS) including the loading of historical well information.

The document management system (TRIM) was rolled out to all C-NLOPB staff during 2009-10. Implementation is progressing on a pilot project basis. The first step in this pilot project is the integration of a new records classification plan as it relates to operator's records and the Operations Authorization process.

In December, 2009 the C-NLOPB purchased a new corporate Storage Area Network (SAN). The SAN replaces existing infrastructure with updated technology and increased capacity. The significant increase in raw storage capacity, five Terabytes (TB) to 75TB, will be used to support existing corporate and

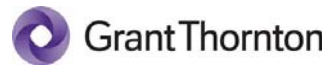
data management solutions as well as significant technical data submissions from offshore projects.

REQUESTS FOR INFORMATION

During 2009-10, the C-NLOPB received 700 requests for information from external parties through its Information Resources Centre. These requests primarily relate to access to non-privileged offshore petroleum technical data provided to the C-NLOPB by operators. These were responded to by the C-NLOPB and did not require formal **Access to Information Act** requests. The C-NLOPB received three requests under the **Access to Information Act** during 2009-10.



FINANCIAL STATEMENTS



Financial Statements

Canada-Newfoundland and Labrador Offshore
Petroleum Board

March 31, 2010





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Auditors' report

To the Members of Canada-Newfoundland and Labrador Offshore Petroleum Board

We have audited the statement of financial position of Canada-Newfoundland and Labrador Offshore Petroleum Board at March 31, 2010 and the statements of revenue and expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

St. John's, Newfoundland and Labrador
May 10, 2010

Grant Thornton LLP
Chartered Accountants

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Statement of Revenue and Expenditures

Year Ended March 31

| | 2010 | 2009 |
|---|--------------------|--------------------|
| Revenue | | |
| Operating grants | | |
| Government of Canada | \$ 7,562,235 | \$ 6,037,799 |
| Government of Newfoundland and Labrador | <u>7,562,235</u> | <u>6,037,799</u> |
| | 15,124,470 | 12,075,598 |
| Add: | | |
| Costs recovered from industry | 11,343,318 | 9,056,699 |
| Amortization of deferred capital grants | 679,225 | 301,745 |
| Interest and other | <u>65,168</u> | <u>116,383</u> |
| | 27,212,181 | 21,550,425 |
| Less: | | |
| Cost recoveries refunded to governments | (11,343,318) | (9,056,699) |
| Deferred capital grants | <u>(1,794,086)</u> | <u>(1,852,943)</u> |
| Net revenue | <u>14,074,777</u> | <u>10,640,783</u> |
| Expenditures | | |
| Personnel | 8,735,945 | 8,178,667 |
| Maintenance and support | 620,285 | 418,962 |
| Premises | 666,456 | 645,748 |
| Travel | 110,206 | 110,370 |
| Amortization of capital assets | 652,658 | 301,745 |
| General | 827,530 | 985,291 |
| Offshore Helicopter Safety Inquiry (Note 8) | <u>2,461,697</u> | - |
| | <u>14,074,777</u> | <u>10,640,783</u> |
| Excess of revenue over expenditures | \$ - | \$ - |

See accompanying notes to the financial statements.

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD
Statement of Financial Position

March 31

| | 2010 | 2009 |
|---------------------------|----------------------|---------------------|
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 10,276,831 | \$ 1,645,775 |
| Receivables | 295,785 | 4,417,553 |
| Prepays | <u>380,078</u> | <u>296,932</u> |
| | 10,952,694 | 6,360,260 |
| Capital assets (Note 4) | <u>3,935,714</u> | <u>2,820,854</u> |
| | \$ 14,888,408 | \$ 9,181,114 |

Liabilities

Current

| | | |
|---------------------------|------------------|------------------|
| Payables and accruals | \$ 6,314,996 | \$ 3,599,045 |
| Deferred revenue (Note 5) | <u>2,885,098</u> | <u>1,294,116</u> |

9,200,094 4,893,161

Deferred capital grants

3,935,714 2,820,853

Accrued employee future benefit obligation (Note 6)

1,752,600 1,467,100

\$ 14,888,408 **\$ 9,181,114**

Commitments (Note 9)

On behalf of the Board

 Member

 Member

See accompanying notes to the financial statements.

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Statement of Cash Flows

Year Ended March 31

| | 2010 | 2009 |
|---|----------------------|---------------------|
| Increase (decrease) in cash and cash equivalents | | |
| Operating | | |
| Excess of revenue over expenditures | \$ - | \$ - |
| Amortization of deferred capital grants | (679,225) | (301,745) |
| Amortization of capital assets | 679,225 | 301,745 |
| Accrued employee future benefit obligation | <u>285,500</u> | <u>253,000</u> |
| | 285,500 | 253,000 |
| Change in non-cash operating working capital (Note 7) | <u>8,345,556</u> | <u>(2,088,085)</u> |
| | <u>8,631,056</u> | <u>(1,835,085)</u> |
| Investing | | |
| Purchase of capital assets | (1,794,086) | (1,852,943) |
| Deferral of capital grants | <u>1,794,086</u> | <u>1,852,943</u> |
| | <u>-</u> | <u>-</u> |
| Net increase (decrease) in cash and cash equivalents | 8,631,056 | (1,835,085) |
| Cash and cash equivalents | | |
| Beginning of year | <u>1,645,775</u> | <u>3,480,860</u> |
| End of year | <u>\$ 10,276,831</u> | <u>\$ 1,645,775</u> |

See accompanying notes to the financial statements.

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

1. Purpose of organization

The Canada-Newfoundland & Labrador Offshore Petroleum Board was formed in 1985 to administer the relevant provisions of the **Canada-Newfoundland Atlantic Accord Implementation Acts** as enacted by the Parliament of Canada and the Legislature of Newfoundland and Labrador. The Board is a non-profit organization and is, therefore, exempt from income tax under Section 149 of the **Income Tax Act**.

2. Summary of significant accounting policies

The financial statements include the operations of the Canada-Newfoundland & Labrador Offshore Petroleum Board and the Offshore Helicopter Safety Inquiry and have been prepared in accordance with Canadian generally accepted accounting principles, the more significant of which are as follows:

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenditures during the year. Actual results could differ from these estimates.

Revenue recognition

The deferred method of accounting is used for contributions. Revenue is recognized in the period in which the related expenses are incurred.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks.

Capital assets

Rates and bases of depreciation applied to write-off the cost of capital assets over their estimated lives are as follows:

| | |
|-------------------------|----------------------------|
| Building | 4%, declining balance |
| Leasehold improvements | 2 - 5 years, straight line |
| Furniture and equipment | 4 years, straight line |
| Data management system | 3 years, straight line |
| Computer software | 1 year, straight line |
| Computer equipment | 3 years, straight line |

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

2. Summary of significant accounting policies (cont'd.)

Impairment of long-lived assets

Long-lived assets are reviewed for impairment upon the occurrence of events or changes in circumstances indicating that the value of the assets may not be recoverable, as measured by comparing their net book value to the estimated undiscounted cash flows generated by their use. Impaired assets are recorded at fair value, determined principally using discounted future cash flows expected from their use and eventual disposition.

Deferred revenue

Operating grants received from government in excess of Board expenditures, net of other revenue, are recorded as deferred revenue.

Deferred capital grants

Federal and provincial grants received for annual capital expenditures are deferred and recognized into revenue on a basis consistent with the capital asset amortization charge.

Employee future benefits

Effective January 1, 2009, the Board contributes 100% of the premiums for medical, life and dental benefits for retired employees. Prior to January 1, 2009, the cost of the retiree medical program was shared equally between the retirees and the Board. These retirement benefits are recorded on an accrual basis based on an actuary's estimate. The transitional obligation is amortized on a straight-line basis over the average remaining service period of the active members expected to receive benefits under the plan (14 years). Past service costs resulting from plan amendments are amortized over the expected average service life to full eligibility (12 years). The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service life (14 years).

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

2. Summary of significant accounting policies (cont'd.)

Financial instruments

The CICA Handbook Section 3855, "Financial Instruments - Recognition and Measurement", requires the Board to revalue all of its financial assets and liabilities, including derivatives and embedded derivatives in certain contracts, at fair value.

This standard also requires the Board to classify financial assets and liabilities according to their characteristics and management's choices and intentions related thereto for the purposes of ongoing measurements. Classification choices for financial assets include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings; b) held to maturity - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired; c) available-for-sale - measured at fair value with changes in fair value recognized in net earnings for the current period until realized through disposal or impairment; and d) loans and receivables - recorded at amortized cost with gains and losses recognized in net earnings in the period that the asset is no longer recognized or impaired.

Classification choices for financial liabilities include: a) held for trading - measured at fair value with changes in fair value recorded in net earnings and b) other - measured at amortized cost with gains and losses recognized in net earnings in the period that the liability is no longer recognized. Subsequent measurement for these assets and liabilities are based on either fair value or amortized cost using the effective interest method, depending upon their classification. Any financial asset or liability can be classified as held for trading as long as its fair value is reliably determinable.

In accordance with the standard, the Board's financial assets and liabilities are generally classified and measured as follows:

| <u>Asset/Liability</u> | <u>Classification</u> | <u>Measurement</u> |
|---------------------------|-----------------------|--------------------|
| Cash and cash equivalents | Held for trading | Fair value |
| Receivables | Loans and receivables | Amortized cost |
| Payables and accruals | Other liabilities | Amortized cost |

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

2. Summary of significant accounting policies (cont'd.)

Other balance sheet accounts, such as prepaids, capital assets, and accrued employee future benefit obligation are not within the scope of the accounting standards as they are not financial instruments.

The fair value of a financial instrument is the estimated amount that the Board would receive or pay to terminate the instrument agreement at the reporting date. To estimate the fair value of each type of financial instrument various market value data and other valuation techniques were used as appropriate. The fair values of cash approximated its carrying value.

3. Financial risk management

The Board's policy for managing significant risks includes policies, procedures and oversight designed to reduce the risks identified to an appropriate threshold. The Board members are provided with timely and relevant reports on the management of significant financial risks. Significant risks managed by the Board include liquidity and credit risks.

Liquidity risk

Liquidity risk is the risk that the Board will be unable to meet its contractual obligations and financial liabilities. The Board manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient cash available to meet its obligations and liabilities.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Board's credit risk is attributable to receivables. Management believes that the credit risk concentration with respect to financial instruments included in receivables is remote.

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD
Notes to the Financial Statements

March 31, 2010

4. Capital assets

| | <u>Cost</u> | <u>Accumulated Depreciation</u> | <u>2010 Net Book Value</u> | <u>2009 Net Book Value</u> |
|------------------------|---------------------|-------------------------------------|------------------------------------|------------------------------------|
| Land and parking lot | \$ 281,187 | \$ - | \$ 281,187 | \$ 281,187 |
| Building | 2,190,509 | 770,723 | 1,419,786 | 599,869 |
| Leasehold improvements | 402,141 | 262,097 | 140,044 | 161,840 |
| Furniture and fixtures | 563,808 | 373,271 | 190,537 | 142,430 |
| Data management system | 1,359,271 | 163,409 | 1,195,862 | 980,454 |
| Computer software | 578,492 | 189,357 | 389,135 | 378,714 |
| Computer equipment | <u>1,381,441</u> | <u>1,062,278</u> | <u>319,163</u> | <u>276,360</u> |
| | <u>\$ 6,756,849</u> | <u>\$ 2,821,135</u> | <u>\$ 3,935,714</u> | <u>\$ 2,820,854</u> |

Building with a cost of \$851,700, data management system with a cost of \$378,817 and computer software with a cost of \$199,778 have not been amortized as they are not available for use at year end.

5. Deferred revenue

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Government of Canada - Security project funding | \$ 26,568 | \$ 69,716 |
| Government of Canada | 1,720,765 | 612,200 |
| Government of Newfoundland and Labrador | <u>1,137,765</u> | <u>612,200</u> |
| | <u>\$ 2,885,098</u> | <u>\$ 1,294,116</u> |



CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

6. Employee future benefits

The Board provides for coverage under the group life and group health plans upon retirement from active service for its employees.

The following information for these plans is based upon an actuarial valuation completed as at March 31, 2008 and an extrapolation of those results to March 31, 2010.

| | <u>2010</u> | <u>2009</u> |
|---|-----------------------|-----------------------|
| Accrued benefit obligation | | |
| Balance, beginning of year | \$ 1,798,600 | \$ 1,423,300 |
| Current service cost | 89,100 | 106,800 |
| Interest cost | 158,800 | 103,000 |
| Plan amendment | - | 788,600 |
| Benefits paid | (37,800) | (22,600) |
| Actuarial loss (gain) | <u>706,900</u> | <u>(600,500)</u> |
| Balance, end of year | <u>\$ 2,715,600</u> | <u>\$ 1,798,600</u> |
| Plans assets | <u>\$ -</u> | <u>\$ -</u> |
| Reconciliation of funded status | | |
| Funded status - deficit | \$ (2,715,600) | \$(1,798,600) |
| Unamortized transitional obligation | 339,900 | 396,500 |
| Unamortized past service cost | 706,500 | 772,200 |
| Unamortized net actuarial gain | <u>(83,400)</u> | <u>(837,200)</u> |
| Accrued benefit liability | <u>\$ (1,752,600)</u> | <u>\$ (1,467,100)</u> |
| Net benefit expense | | |
| Current service cost | \$ 89,100 | \$ 106,800 |
| Interest cost | 158,800 | 103,000 |
| Actuarial gain | (46,900) | (7,200) |
| Plan amendment | 65,700 | 16,400 |
| Amortization of transitional obligation | <u>56,600</u> | <u>56,600</u> |
| | <u>\$ 323,300</u> | <u>\$ 275,600</u> |

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

6. Employee future benefits (cont'd.)

Significant actuarial assumptions used in calculating the accrued benefit liability and expense for these plans were as follows:

| | <u>2010</u> | <u>2009</u> |
|---|---|---|
| Discount rate | 6.3% | 8.5% |
| Rate of increase in compensation levels | 4.0% | 4.0% |
| Dental inflation rate | 4.0% | 4.0% |
| Medical inflation rate | 8.0% | 9.0% |
| | decreasing gradually and uniformly to 4% over 5 years | decreasing gradually and uniformly to 4% over 6 years |

7. Supplemental cash flow information

Change in non-cash operating working capital

| | <u>2010</u> | <u>2009</u> |
|-----------------------|---------------------|-----------------------|
| Receivables | \$ 4,121,768 | \$ (3,044,567) |
| Prepays | (83,146) | (88,082) |
| Payables and accruals | 2,715,952 | 850,673 |
| Deferred revenue | <u>1,590,982</u> | <u>193,891</u> |
| | <u>\$ 8,345,556</u> | <u>\$ (2,088,085)</u> |

8. Offshore Helicopter Safety Inquiry expenditures

On April 8, 2009, the Offshore Helicopter Safety Inquiry was established by the Board. The purpose of the Inquiry is to determine and recommend improvements for the safety of workers in the offshore industry of Newfoundland and Labrador with respect to helicopter transportation.

CANADA-NEWFOUNDLAND AND LABRADOR OFFSHORE PETROLEUM BOARD

Notes to the Financial Statements

March 31, 2010

9. Commitments

(a) The Board is committed under terms of a premises lease to make minimum annual rental payments in each of the next five years as follows:

| | |
|----------------|------------|
| March 31, 2011 | \$ 934,416 |
| March 31, 2012 | \$ 951,945 |
| March 31, 2013 | \$ 951,945 |
| March 31, 2014 | \$ 951,945 |
| March 31, 2015 | \$ 951,945 |

(b) The Board is committed to estimated payments of \$911,700 for a building under construction. The total estimated contract is \$1,642,700, of which \$731,000 has been paid to date.



CANADA-NEWFOUNDLAND
and LABRADOR
**OFFSHORE
PETROLEUM
BOARD**



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