

Oil and Gas Corporation of Newfoundland and Labrador

2021 Annual Performance Report

June 2022



Message from the Board of Directors

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

In accordance with the **Oil and Gas Corporation Act** and the **Transparency and Accountability Act**, I am pleased to provide the 2021 Annual Performance Report for Oil and Gas Corporation of Newfoundland and Labrador (OilCo), on behalf of the Board of Directors.

This Annual Report presents performance results and accomplishments for the 2021 calendar year for OilCo and is the second report under the corporation's 2020-2022 Strategic Plan. As the Board of Directors of OilCo, we are accountable for the preparation of this report and the results.

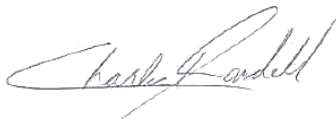
The 2020-2022 Strategic Plan for OilCo outlined the applicable strategic directions of the Government of Newfoundland and Labrador (Government or Province) in relation to the oil and gas energy sector, as communicated by the Minister of Industry, Energy and Technology.

Two items of particular importance to the future direction of OilCo are the Government's plan for the allocation of funding for new seismic acquisition, and the December 2021 announcement by Government in relation to its review of provincial assets, including the focus on the Province's oil and gas holdings. Any decisions in relation to these areas will have a profound impact on the future operations of the corporation.

The OilCo Board welcomes a thorough review and analysis of our oil and gas assets. Decisions on these assets and resources are profoundly important for the economic future of our province and we, as the OilCo Board, have a responsibility to support Government in optimizing the value of our provincial oil and gas resources. We believe there is intrinsic value in OilCo, and the Board and management are working hard to preserve this; thus maintaining the opportunity for maximum return to the Province. We need Government's continued support to maintain OilCo's significant value.

The OilCo Board is encouraged by your continued support of the oil and gas industry in our province and recognition of the economic value this sector brings to Newfoundlanders and Labradorians.

It is with pride that the Board of Directors continues to work with Government and our many valued industry partners to ensure the health of the sector and our economy in the decades ahead. The Board is also proud of OilCo's work and partnerships as we actively take steps towards achieving Canada's and Newfoundland and Labrador's commitment to reaching net zero emissions in offshore Newfoundland and Labrador by 2050. We look forward to the exciting opportunities that lay ahead for OilCo and the province's oil and gas industry.

A handwritten signature in black ink, appearing to read "Charles Randell". The signature is fluid and cursive, with a long horizontal stroke at the end.

Dr. Charles Randell
Chair, Board of Directors
Oil and Gas Corporation of Newfoundland and Labrador

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1. Overview

The Government of Newfoundland and Labrador (Government or Province) established the Oil and Gas Corporation of Newfoundland and Labrador (OilCo) in January 2020 from its legacy company Nalcor Energy-Oil and Gas. OilCo is a Category 1 public body.

OilCo leads oil and gas activities in the province. The corporation was established to enhance the province's oil and gas potential, and maximize the value of Newfoundland and Labrador's offshore resources. OilCo is focused on attracting new investments to the oil and gas industry in offshore Newfoundland and Labrador and maximizing returns through equity investments—positioning this province as a globally preferred location for development.

The corporation leads the exploration of the province's frontier and deepwater basins by making strategic investments in new data acquisition and analysis to evaluate Newfoundland and Labrador's undiscovered oil and gas resource potential.

OilCo is also responsible for all exploration pursuits, along with managing equity ownership in existing and potential future offshore developments.

On behalf of Nalcor Energy-Oil and Gas, OilCo currently manages participating interests in three offshore projects: Hibernia Southern Extension, Hebron, and the White Rose Extension project. With Government approval, OilCo can also participate in future projects by acquiring equity at the development and production stage of a project.

OilCo is moving beneficial opportunities forward in the oil and gas industry, acting as stewards of these resources while capturing value at every stage of exploration and development—creating a future full of economic opportunity for generations of Newfoundlanders and Labradorians. OilCo accomplishes this through proactive leadership, thoughtful guidance, and investment-grade science, while caring for the environment.

OilCo is committed to providing investment-grade science and thoughtful leadership and guidance that will support the creation of long-term value and wealth for the province.

Mandate

OilCo is focused on maximizing opportunities for growth in the province's offshore oil and gas industry. Established under the **Oil and Gas Corporation Act**, OilCo's mandate is to invest in, engage in, and carry out the following activities in the province and elsewhere, in accordance with the priorities of the Government, including:

- a) Exploring for, developing, producing, refining, marketing, and transporting hydrocarbons and products from hydrocarbons.
- b) Research and development.

Government has authorized OilCo and its subsidiaries to invest and engage in activities related to supply chain development opportunities and advancement of oil and gas supply and service business opportunities.

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

Lines of Business

OilCo has the following business focus areas: Exploration, Development and Production, Facilities Management - Bull Arm Fabrication, and Sustainability. Our work in these areas support the fulfillment of the strategic directions of the corporation. A description of each business segment is presented below with additional information pertaining to each of OilCo's strategic issues for the 2020-2022 planning period included in Section 3 of this report.

Learn more about OilCo and our business operations at www.oilconl.com.

Exploration

Oil and gas exploration represents the first piece of the petroleum value chain. The availability of quality well and seismic data is a critical step to exploration and is instrumental in understanding the prospectivity of the province's offshore basins. That is why in 2010 OilCo's oil and gas team (then working at Nalcor Energy-Oil and Gas) began making strategic investments in new data acquisition and analysis to better understand the potential in Newfoundland and Labrador's offshore basins.

OilCo's exploration work includes: finding and characterizing the oil and gas resource potential of offshore Newfoundland and Labrador's frontier basins; opening new areas to industry exploration; and, increasing Newfoundland and Labrador's global competitiveness to attract

global exploration investment. We are not competitive with industry and therefore do not participate in bidding on land. OilCo participates on behalf of Government in future projects through potential equity ownership in new successful developments.

Through our award-winning exploration strategy, to date OilCo has inventoried over 650 leads and prospects throughout Newfoundland and Labrador's offshore. This strategy has attracted the interest of the geoscientists and investment decision makers of the most capable and reputable firms in the global oil and gas industry.

OilCo takes a systematic and scientific approach to evaluating Newfoundland and Labrador's offshore frontier basins. Through Insight (formerly NESS), our team consistently evaluates all of Newfoundland and Labrador's basins (over 20) on the key elements that make up a commercial-grade petroleum deposit. This process identifies critical knowledge gaps that may exist and highlights key risks holding back industry investment.

Insight is a map-based geoscience data management tool that allows users to catalog the oil and gas potential of offshore Newfoundland and Labrador. Using state-of-the-art technology, this system allows users to display, filter, and analyze a vast array of available geoscience data and information and then export the results to meet their needs.

Our business strategy is to drive investment decisions through world-leading geophysical science that diminishes investment risk and enhances commercial exploration success. This strategy results in mutual success and greater shareholder value for the Government and the people of Newfoundland and Labrador.

OilCo has developed and is executing an exploration strategy based on global best practices to find and deliver new oil and gas resources for the benefit of the people of Newfoundland and Labrador.

Development and Production

OilCo is focused on environmentally-responsible and sustainable growth and development of Newfoundland and Labrador's oil and gas resources. While existing participating interests remain with Nalcor Energy-Oil and Gas, OilCo manages these interests under a Management Services Agreement (MSA). Future exploration activities and investments in prospective production developments reside with OilCo.

Currently, OilCo manages participating interests in three producing assets:

- 8.7 per cent working interest in the Hibernia Southern Extension.
- 4.9 per cent working interest in the Hebron oil field.
- 5.0 per cent working interest in the White Rose Extension project. This project includes the North Amethyst field, West White Rose, and South White Rose Extension.

In 2018, a framework agreement with the Government was finalized for the deepwater Bay du Nord Project in the Flemish Pass. This agreement provides OilCo with the option to acquire a 10 per cent participating interest in the project on behalf of the Government.

OilCo's exploration and production work has attracted new investments, doubled entrants to the oil and gas industry in Newfoundland and Labrador, and positioned the province as a globally preferred location for development.

Facilities Management – Bull Arm Fabrication

The Bull Arm Fabrication Site (BAF Site or Site) is a premier fabrication facility owned by the Government and operated by Bull Arm Fabrication Inc. (BAF).

Responsible for the management of BAF, OilCo is driven to ensure this valuable provincial industrial asset is ready for current and future leasing opportunities. The Site serves as a tremendous asset to the province at large. By owning and operating the BAF Site, many opportunities for large-scale industrial work are available to our province, especially as it relates to major project industrial benefits. In turn, this capacity and availability provides opportunities for employment and enables the Site to be a focus of economic activity for the region.

BAF leases all or portions of the Site to industrial tenants while typically managing core Site operations on behalf of its tenants. This strategic approach enables local participation in the industrial, marine and energy sectors by providing both global and local companies competitively priced, as-needed access to large-scale waterside assets in the province. This reduces the barriers of entry for the execution of large-scale industrial work in the province as the capital required for facility construction and maintenance can be saved by the tenant to focus on their project work. In addition, Site utilization provides opportunities for employment and economic activity for the province.

Over the past few years, strategic investments in Site infrastructure have enhanced the Site's ability to service offshore drill rigs into the future. OilCo continues to explore opportunities to maximize utilization of this facility while working on reducing operating costs.

Our strategy is to maximize utilization of the Bull Arm Fabrication Site through new opportunities.

Sustainability

Our team believes that exploring for and developing the province's oil and gas resources can address the future global supply gaps while also supporting the need to reduce carbon emissions and mitigate climate change. These are completely compatible and necessary strategic imperatives.

While the province's offshore projects are among some of the lowest carbon intensity emitting facilities in the world, industry recognizes that emissions can be further reduced. OilCo and our government and industry stakeholders and partners are actively taking steps towards achieving Canada's and Newfoundland and Labrador's commitment to reaching net zero emissions in offshore Newfoundland and Labrador by 2050.

From an emissions intensity perspective, offshore Newfoundland and Labrador oil is already amongst the best globally.

OilCo is actively involved in projects and research to make offshore operations even more environmentally sustainable. One example is our collaboration with econext (formerly the Newfoundland and Labrador Environmental Industries Association, or NEIA) and Energy NL (formerly the Newfoundland and Labrador Oil and Gas Industries Association, or Noia). OilCo is part of this consortium, the Net Zero Project, evaluating the technical and economic feasibility of various emission reduction technologies, including electrifying offshore production facilities. If the research proves the technical and economic viability of the process, not only are we further reducing our sectors carbon production, but also the province would potentially be advancing technologies of global interest.

OilCo Team

Headquartered in St. John's, OilCo had 27 staff in 2021, with all staff located in St. John's.

The OilCo team has extensive experience in science, investment attraction, finance, and facilities management required to meet the important assignment handed to them by the Province. In 2021, the team consisted of Geoscientists, Engineers, Technologists, Chartered Public Accountants, IT Specialists, Lawyer, Communications, and Corporate Service professionals.

Achieving gender parity is an important and vital step forward as a progressive and forward-thinking organization. OilCo has a view to the future for setting employment precedence of being a leader in gender equality in the offshore oil and gas industry. In 2021, the gender composition of OilCo's employee group was 56 per cent male and 44 per cent female.

OilCo has a team of experts who are working for the betterment of the province and enriching the lives of people living in Newfoundland and Labrador.

The OilCo team is high performing and competent, fully trained in the industry, and has a wide range of industry experience. Our employees have extensive knowledge of the industry because they have worked in the upstream sector and the supply chain across continents from North and South America, the Middle East and other areas now competing with Newfoundland and Labrador for capital investment.

They speak the language of the industry and as the oil and gas industry emerges from the current period of transition, the experience and resilience they bring to their roles is a distinct competitive advantage.

Newfoundland and Labrador oil and gas is not just a job for the OilCo team – it is a passion. This is their home and that added passion, combined with science and finance skills, is an advantage in preparing actionable business intelligence to put before the decision makers of the upstream sector as the COVID-19 pandemic recedes and the economy realigns.

Board of Directors

The OilCo Board of Directors is comprised of individuals from across the province with a variety of professional backgrounds and extensive experience in executive roles. As of December 31, 2021, the OilCo Board of Directors included:

- Dr. Charles Randell, Chair
- Wayne Chipman
- Bernard J. Collins
- Richard J. Daw
- Leslie Grattan
- Shelly Leighton
- Jennifer Warren

Biographies for the Board of Directors are provided in Appendix 1.

2021 Consolidated Revenues and Expenses

In 2021, OilCo had revenues from continuing operations of \$45.4 million. The majority of OilCo's revenues was generated from Government contributions (\$30.4M) and a management fee charged to Nalcor Energy-Oil and Gas (\$4.2M).

Approximately 77 per cent of OilCo's expenditures from continuing operations relate to operating costs, which are comprised primarily of salaries and wages (\$4.4M), utilities (\$2.1M), professional services (\$2.0M), and software maintenance (\$1.4M).

2021 Key Business Highlights:

- \$155 million in dividends earned from the equity investments that OilCo manages in our offshore developments.
- Approximately nine per cent of estimated proven and probable reserves produced, with more than \$1.1 billion in proven and probable reserves remaining.
- Average production in 2021 was approximately 10,400 barrels of oil equivalent per day.
- One new oil and gas company entrant to the province in 2021, bringing the total new entrant companies to nine over the past six years.

The following table summarizes the consolidated revenues and expenses of OilCo for the year ended December 31, 2021 (thousands of dollars):

Table 1: OilCo Consolidated Revenue and Expenses 2021

<i>For the period ended December 31, 2021 (in thousands of Canadian Dollars)</i>	\$	%
Continuing operations		
Grant revenue	30,427	66.8
Other revenue	11,486	25.2
Lease revenue	3,613	8.0
Net finance income	14	0.1
Revenue	45,540	
Operating costs	11,489	77.3
Amortization of tangible capital assets	685	4.6
Amortization of exploration assets	2,578	17.3
Exploration expenses	122	0.8
Expenses	14,874	
Annual surplus from continuing operations		
	30,666	
Discontinued operations		
Loss for the year from discontinued operations	-	-
Annual surplus	30,666	-

The 2021 Annual Audit Consolidated Financial Statements for OilCo is appended to this document (Appendix 3).

2. Highlights and Partnerships

Since inception, OilCo and our employees have worked diligently to build strong, collaborative working relationships with a variety of agencies, departments, commissions, and businesses. Throughout 2021, OilCo worked closely with these organizations to execute our mandate and support the strategic directions of the Government related to the oil and gas sector.

Department of Industry, Energy and Technology

In 2021, OilCo continued to work with the Department of Industry, Energy and Technology (IET) to advance oil and gas sector priorities.

As a member of IET's Oil and Gas Industry Recovery Task Force (Task Force), OilCo participated in the Energy Transition work stream of the Task Force where ways to reduce emissions in the offshore oil and gas sector were evaluated. OilCo's work supported the mandate of the Task Force to identify immediate actions to sustain the Newfoundland and Labrador oil and gas industry in the short term and drive its long-term recovery. The Task Force submitted its final report to IET in April 2021.

In June 2021, IET announced the establishment of the Implementation Committee for the Task Force recommendations. Representatives from OilCo are members of the Implementation Committee and Energy Transition working groups for the Task Force. The committee of experts is working to provide implementation oversight and ensure that the recommendations of the Task Force are addressed.

Department of Finance

The Department of Finance works with OilCo to address requirements related to financial structure, financial forecasts, as well as grant revenue for the corporation's operating activities. During 2021, OilCo's economic modelling and preparation of financial forecasts, including required grant funding, are examples of interactions between the Department of Finance and OilCo.

Other Departments, Organizations and Public Bodies

OilCo continues to work closely with its legacy company Nalcor Energy-Oil and Gas. Under a MSA, OilCo manages existing participating interests in offshore developments on behalf of Nalcor Energy-Oil and Gas.

OilCo also works with private and public sector organizations and is actively taking steps towards achieving Canada's and Newfoundland and Labrador's commitment to reaching net zero emissions in Newfoundland and Labrador's offshore by 2050.

Throughout 2021, OilCo demonstrated its commitment to climate change mitigation strategies through engaging with a variety of aligned entities and by participating on a number of climate change focused committees. Working with governments, industry, environmental and educational partners, OilCo is supporting federal and provincial carbon commitments of advancing low emission and clean technologies in the offshore oil and gas industry.

In 2021, OilCo participated on a technical advisory committee (drilling and reservoir) for Natural Resources Canada's (NRCan) Emissions Reduction Fund, which aims to reduce emissions in the offshore oil and gas sector.

Through the year, OilCo also worked with econext and Energy NL to advance the Net Zero Project. This partnership is supported with funding from the Oil and Gas Industry Recovery Assistance Fund. Working with econext and Energy NL, the Net Zero Project is looking at advancing environmentally- and economically-sustainable initiatives to progress achieving net zero emissions in the offshore sector. The Net Zero Project will aid the development, demonstration, and adoption of clean growth strategies and technologies in four areas as they relate to Newfoundland and Labrador's offshore: low emissions, renewable energy, electrification, and hydrogen.

OilCo also collaborated with Energy Research & Innovation Newfoundland & Labrador (ERI, formerly Petroleum Research Newfoundland and Labrador). ERI is a member-based organization that identifies research and technology development opportunities that deliver value to its oil and gas industry participants. OilCo and ERI are working on a digital technologies roadmap with a goal to identify digital technologies that will improve the efficiency of Newfoundland and Labrador's offshore oil and gas industry, which in turn can reduce greenhouse gas emissions.

OilCo works with several groups who are interested in hydrogen production. In 2021, OilCo worked with the Atlantic Hydrogen Alliance to bring together stakeholders interested in continuing to evaluate hydrogen feasibility. The Atlantic Hydrogen Alliance was created to support the development of an economically-viable clean hydrogen value chain that will enable the transition to a prosperous low-carbon economy in Atlantic Canada. In 2021, OilCo also participated in a feasibility study with econext on the use of hydrogen in Newfoundland and Labrador.

OilCo has established a working group with OilCo staff and academics at Memorial University evaluating the carbon capture and storage (CCS) potential both onshore and offshore Newfoundland and Labrador. The group, called CO2MinNL, is in the process of progressing various carbon dioxide storage initiatives.

Our team at OilCo are also actively participating in various conferences and workshops that relate to sustainability including presenting at the “Sustainability in Oceans” seminar hosted by Canada’s Ocean Supercluster, as well as the “Propelling the Blue Economy” hosted by the Marine Institute and Memorial University.

By collaborating with these and other organizations, OilCo is helping to lead the oil and gas industry and the Province in achieving net zero emissions in the offshore sector.

3. Report on Performance

The 2020-2022 Strategic Plan for OilCo highlighted two strategic issues around which goals and objectives were established. For each strategic issue, the information provided below is reflective of work completed in 2021, the second year of the three-year planning period. These issues encompass the activities of OilCo and BAF.

These two strategic issues will be addressed by OilCo to realize its mandate and vision:

- Issue 1: Exploring Newfoundland and Labrador's Offshore
- Issue 2: Offshore Development and Operations

These issues reflect the key priorities of OilCo and support the strategic directions of the Government.

Issue 1: Exploring Newfoundland and Labrador's Offshore

Our job is to enhance the attractiveness of offshore Newfoundland and Labrador by conducting leading-edge geoscience that finds and characterizes Newfoundland and Labrador's undiscovered oil and gas resource potential, reduces investor risk, and raises our standing at the decision-making tables of leading exploration companies.

Since 2010, OilCo has implemented its multi-year exploration strategy to invest in new geoscientific data in advance of offshore license rounds to evaluate, assess, and promote the resource potential and attract global exploration investment to our province. In advance of a license round issued by the Canada-Newfoundland & Labrador Offshore Petroleum Board (C-NLOPB), OilCo prepares a detailed multi-year schedule to acquire, process, interpret and release data. This strategy ensures that we have high-quality data for each license round that informs global investors.

In 2021, OilCo, with partners PGS and TGS, acquired multi-client 3D seismic surveys over prospective frontier basins in offshore Newfoundland and Labrador. The focus of the 2021 acquisition was on the Cape Anguille survey. With the 2021 acquisition, we have planned and acquired over 180,000 line km of new 2D seismic data and more than 50,000 line km of new 3D seismic data in the Newfoundland and Labrador offshore.

In preparation for the C-NLOPB's 2021 call for bids in Labrador South, OilCo completed and released an Independent Resource Assessment in the Labrador South Region. OilCo incorporated 2D and 3D seismic data into the 2021 Independent Resource Assessment. The C-NLOPB did not receive any bids for the Labrador South Region.

The C-NLOPB decided not to proceed with its planned 2021 call for bids in the Jeanne d’Arc or South Eastern Regions (NL02-SEN). As a result of the cancelled call for bids in South Eastern Newfoundland, OilCo suspended its planned Independent Resource Assessment for this area. We will re-commence our Resource Assessment for this area in 2022. OilCo continues to monitor the C-NLOPB’s changes to its call for bids schedule and we will adjust our exploration technical work accordingly.

Throughout 2021, OilCo team members continued to meet with and present to Exploration and Production companies to inform them on the potential prospectivity of Newfoundland and Labrador offshore.

OilCo, along with our partners, undertakes work and assessments in various regions of offshore Newfoundland and Labrador. OilCo has been cataloging these results in papers and publications since 2010. This work continued through 2021.

OilCo and the industry recognized that 2021 continued to be a period for pause in investment as exploration firms concentrated on managing reduced cash flows. We anticipate that 2022 will likely be a year of evaluation for exploration firms as they do the requisite planning for multi-year exploration programs. OilCo’s continued emphasis on sifting through prospects and narrowing the most promising, backed by reputable data and technical work, puts the company in a good position in anticipation of the easing of exploration budgets in the coming years.

Issue 1: Exploring Newfoundland and Labrador’s Offshore	
Goal: By December 31, 2022, OilCo will have advanced opportunities to increase oil and gas exploration and investment activities in the province.	
Objective: By December 31, 2021, OilCo will have made continued advancements in data collection enhancing the knowledge of the province’s oil and gas resource potential.	
Indicators	2021 Activities and Accomplishments
Continued to collect geoscience data and exploration data surveys	OilCo has developed and is executing an exploration strategy based upon global best practices to find and deliver new oil and gas resources in Newfoundland and Labrador’s offshore. Throughout 2021, OilCo continued

	<p>to make strategic investments in new data acquisition and analysis at the front end of the exploration cycle.</p> <p>In 2021, OilCo successfully executed its planned 3D seismic survey with partners PGS and TGS. The area covered by the 2021 3D surveys totalled 10,000km² in the Central Orphan basin. This area in the Central Orphan basin is key to understanding the prospectivity of the area, as it is directly adjacent to the West Orphan area containing the Cape Freels prospect. This area is planned for the November 2022 Eastern Newfoundland call for bids as part of the C-NLOPB's land tenure system.</p>
<p>Continued to implement and advance OilCo's multi-year exploration strategy</p>	<p>In 2021, OilCo continued mapping newly acquired 3D surveys and lead and prospect evaluation over newly surveyed Orphan, Labrador, and Salar basins. This work in 2021 resulted in very large prospects in multiple basins being imaged and mapped.</p> <p>OilCo completed and released its seventh Independent Resource Assessment. The 2021 Independent Resource Assessment was the first exploration round for the newly imaged and defined Chidley Basin off the coast of Labrador (Labrador South Region NL16-CFB03). While the region is within an unexplored and undrilled basin, the high-quality seismic data shows significant geophysical qualities that are indicative of a multiphase gas and oil prone system. Results of the Independent Resource Assessment show a potential of 21.9 billion barrels of oil equivalent (P50 unrisked volumes) in this region. Seismic collected over this area from previous 2D and 3D data acquisition programs was incorporated into the 2021 Independent Resource Assessment. Ten of the parcels in the Labrador South Region were the focus of the 2021 Independent Resource Assessment, released in October 2021 in advance of the C-NLOPB's call for bids, which were held in December 2021.</p>

<p>Promoted and delivered information on geoscience results and overall offshore potential to the oil and gas industry and local stakeholders</p>	<p>Throughout the year, OilCo engaged with more than 15 Exploration and Production companies and organizations from around the world to inform them on the potential prospectivity of upcoming bid rounds in offshore Newfoundland and Labrador.</p> <p>The OilCo team is recognized as the leading authority on frontier exploration in the province’s offshore and being a go to source for the global industry. In 2021, members of the OilCo team co-authored three published and peer reviewed journal papers on offshore Newfoundland and Labrador explaining and promoting our resources. With these latest publications, OilCo has now published 45 global conference and journal papers since 2010.</p>
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The objective and indicators for 2022 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

2022 Objective

By December 31, 2022, OilCo will have further progressed its exploration strategy in support of upcoming license rounds.¹

2022 Indicators

- Continued to implement OilCo’s multi-year exploration strategy.²
- Delivered information on geoscience results and benefits of offshore Newfoundland and Labrador to the international oil and gas industry and local stakeholders, as well as to Government.

¹ In January 2022, IET notified OilCo of Government’s decision to take a pause in the allocation of funding for new seismic acquisition for the 2022 season. Therefore, OilCo will not be acquiring new geoscience data in offshore Newfoundland and Labrador in 2022.

² OilCo continues to monitor the C-NLOPB’s changes to its call for bids schedule for 2022 and we will adjust our 2022 exploration technical work accordingly.

Issue 2: Offshore Development and Operations

Further development of the province's offshore industry yields tremendous opportunities for Newfoundland and Labrador. OilCo has a fiduciary responsibility to ensure that our province is the major beneficiary of our offshore resources.

OilCo's goal is to further advance current and future equity investment opportunities in the offshore by December 31, 2022. In 2021, this was accomplished through three core efforts: continuing to be actively involved in current joint ventures at the committee and voting level; continuing to evaluate equity growth opportunities and providing shareholder advice on acquisitions; and, supporting industrial development projects.

Since 2020, the COVID-19 global pandemic has resulted in much of the world implementing a wide variety of measures to reduce the spread of the virus. The effect of these measures has resulted in a significant slow down in global economic activity and has influenced oil prices, as well as investment, construction, and production. After a significant decline in prices and demand through 2020, both have risen in 2021 driven by production cuts and expectation of rising oil demand.

Throughout 2021, OilCo continued to prioritize offshore development and operations activity with joint venture partners to advance work plans and achieve project milestones. The revenues from these projects remain with Nalcor Energy-Oil and Gas and are managed by OilCo through a MSA.

OilCo manages working interests in three offshore projects - Hibernia Southern Extension, Hebron and the White Rose Extension project. As of December 31, 2021, the Government had invested \$170 million to buy the equity in these three projects. At the end of 2021, the initial investment had been recovered and an additional \$575 million in free cash flow had been generated after all capex and operating obligations have been paid. This money is in addition to the royalties and taxes earned by the Province that are paid by the project partners.

The following information summarizes key activities that occurred in 2021 in relation to these projects.

Hibernia Southern Extension: On March 1, 2021, Nalcor Energy-Oil and Gas' working interest in the Hibernia Southern Extension (HSE) went from 10 per cent to 8.7 per cent. The HSE Agreements outlined the process for redetermination and all parties to the Agreements are subject to the redetermination. First redetermination of ownership interests occurred on March 1, 2021; final redetermination is currently expected to occur in 2025.

Redetermination is a rebalancing, or "true-up," of the oil resource among the partners following the start of commercial production as owners get a better understanding of where, and in what quantities, the oil reserves are actually located, and what licence areas are most productive.

The redetermination means that we received 1.3 million more barrels of oil from the HSE project that we did not own. The result is that these barrels will be returned to the companies involved in the project over a two-year period.

At the end of 2021, our \$30 million equity acquisition in the HSE project resulted in a 159 per cent return on investment after funding all project capital and operating costs and royalties paid to the Province. Since acquiring an ownership interest in HSE, the overall project has grown since initial estimates. OilCo anticipates an 11 per cent growth in expected resource recovery compared to what was expected at the time of project sanction. This growth factors in the lower equity ownership following first redetermination.

Hebron: At the end of 2021, our \$110 million acquisition in the Hebron project for 4.9 per cent working interest resulted in a 79.9 per cent return on investment after funding all project capital and operating costs and royalties paid to the Province. The Hebron project continues to outperform expectations. It is anticipated that additional field development will progress after a planned two-year drilling pause, beginning late 2022, to upgrade equipment and assess new geological data.

White Rose Extension: OilCo manages a five per cent working interest in the White Rose Extension project. Due to global economic impacts caused by the COVID-19 pandemic, major construction on the White Rose wellhead platform was suspended in March 2020. The project remained under review through 2021. Through the year, OilCo continued to discuss the future of the project with its partners. A decision on the future of the project is expected by the project operator in 2022.

At the end of 2021, our \$30 million acquisition in the White Rose Extension project resulted in an 81 per cent return on investment after funding all project capital and operating costs and royalties paid to the Province.

In addition to advancing our equity investment opportunities, OilCo is focused on supporting the growth of our provincial oil and industrial sector by maximizing the utilization of the BAF Site.

BAF leases all or portions of the Site to industrial tenants for the execution of their project or work while managing core Site operations on behalf of our tenants.

In December 2018, BAF leased portions of the Site to DF Barnes. Since that time, DF Barnes has executed various service contracts for work related to the oil and gas industry. These lease agreements have enabled the BAF Site to support different aspects of drill rig Floating Production Storage and Offloading (FPSO) work. DF Barnes continues to utilize the Site.

OilCo recognizes the challenges of climate change and the need to transition to a lower-carbon economy. We are working with stakeholders to support current and future development projects to explore options to incorporate new technology to further lower the environmental footprint from the oil and gas sector. By exploring options to electrify our offshore assets, using wind energy to power the offshore, and investigating carbon capture technologies, the offshore industry can move towards the target of becoming a net zero producer.

Issue 2: Offshore Development and Operations	
Goal: By December 31, 2022, OilCo will have advanced current and future equity investment opportunities in the province’s offshore.	
Objective: By December 31, 2021, OilCo will have supported efforts to advance offshore project milestones and further enhanced knowledge of the province’s oil and gas potential.	
Indicators	2021 Activities and Accomplishments
Continued to exercise Joint Venture voting rights and committee representation in the three offshore developments as outlined in a Management Services Agreement with Nalcor Energy-Oil and Gas	<p>OilCo manages Nalcor Energy-Oil and Gas’ existing working interests in offshore developments under a MSA. The activities include the participation in partner joint venture groups and committees that oversee and approve decisions related to the projects as well as the oversight of sales specific to the ownership shares. Throughout 2021, OilCo continued to pursue developments and approvals that maximize value from these equity interests. In 2021, OilCo earned \$155 million from the equity investments that we manage in our offshore developments.</p> <p>Through 2021, the COVID-19 pandemic continued to impact activity levels in the three offshore projects in which OilCo has equity investments.</p>

	<p>OilCo held discussions with partners related to the restart of various capital projects within the three fields. OilCo also worked with partners to progress future development initiatives.</p> <p>OilCo and its partners discussed the long-term focus on continued maximization of economic value for each asset while meeting net zero 2050 emissions goals.</p> <p>Hebron drilling performance continued to proceed ahead of schedule.</p>
<p>Continued to evaluate equity growth opportunities and provided advice to the Shareholder on new potential acquisitions</p>	<p>OilCo evaluates and assesses equity growth opportunities as they arise. Throughout 2021, the OilCo team worked with IET to ensure that the Province received maximum value from its existing and potential future investments in offshore Newfoundland and Labrador.</p> <p>In July 2018, the Government announced it had finalized a framework agreement for the development of the Bay du Nord project. The agreement also provides the Government, through OilCo, with the option to purchase a 10 per cent participating interest in the project. Should the project be sanctioned by the operator, OilCo will work with IET to assess equity participation in the project.</p>
<p>Supported local industrial activity development projects within the oil and gas sector</p>	<p>Through 2020-2021, DF Barnes executed a quayside services contract for the Terra Nova FPSO vessel for their client Suncor. While the FPSO was berthed quayside, more than 200 personnel were working at the BAF Site executing repair, inspection and maintenance work. The FPSO departed the Site in December 2021.</p>

	<p>OilCo progressed climate change initiatives in support of the Government’s commitment to achieve net zero greenhouse gas emissions by 2050. One of these initiatives is the creation of the Net Zero Project. The Net Zero Project, a collaboration of OilCo, econext and Energy NL, is evaluating the technical and economic feasibility of various emission reduction technologies, and is looking at advancing environmentally- and economically-sustainable initiatives to progress low-emission technology in an effort to lower emissions in our offshore oil and gas industry. This work will continue in 2022.</p>
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The objective and indicators for 2022 are consistent with the direction outlined in the 2020-2022 Strategic Plan.

2022 Objective

By December 31, 2022, OilCo will have progressed current joint venture capital projects supporting the long-term viability of the projects.

2022 Indicators

- Continued to exercise Joint Venture voting rights and committee representation in the three offshore developments as outlined in a MSA with Nalcor Energy-Oil and Gas.
- Continued to evaluate equity growth opportunities and provided advice to the Shareholder on new potential acquisitions.
- Supported local industrial activity projects within the oil and gas sector.
- Supported multi-stakeholder initiatives and projects to advance clean energy and reduced emissions within the oil and gas sector.

4. Opportunities and Challenges

The COVID-19 pandemic, environmental, social and governance standards, and declining industry investments in Canada continued to challenge the oil and gas industry in 2021. However, while the last two years were a time of pause, 2022 will likely be a year of evaluation and growth.

Around the world, fossil fuels are making a remarkable comeback as a super-charged recovery from the COVID-19 pandemic boosts demand. And while the transition to a cleaner energy economy is just in its infancy, the world still relies heavily on oil and gas.

Ensuring oil supply meets demand requires ongoing investment. However, investments in oil and gas developments around the world have dwindled and the world is not investing enough to meet its collective future (clean) energy needs. In addition, uncertainties over energy policies, demand and supply forecasts, and political unrest are creating volatility for energy supply and prices.

These are the challenges OilCo, the Province, and the oil and gas industry as a whole are facing. However, with every challenge OilCo sees opportunity.

We know that Newfoundland and Labrador has what the world wants and needs to meet its future energy needs. Energy analysts describe the barrels of the future as “advantaged barrels.” From an investment perspective, an advantaged oil project is generally a large-scale development that can meet both cost and emissions criteria on a per barrel basis.

OilCo has identified more than 20 potential fields in offshore Newfoundland and Labrador with oil reserves close to one billion barrels or more. Roughly half of these prospects are in existing licenses taken over the past several years and yet to be drilled while the balance remain in Crown lands waiting for upcoming license rounds. The scale of these, together with the technology and the inherent advantages of offshore deepwater developments, mean that they will have two key ingredients for investment - total life of field development costs in the range of around \$20 to \$30 US per barrel and lower carbon emissions intensities compared to other places around the world.

From an emissions perspective, offshore Newfoundland and Labrador oil is already amongst the best globally from an emissions intensity perspective – in 2020, our offshore greenhouse gas emissions for producing fields was more than 20 per cent lower than the 2020 global average.

Given oil and gas will continue to play a key role in the world's energy mix for decades to come, it is critical to find balance between supporting and growing Newfoundland and Labrador's offshore oil and gas industry while protecting our environment. With this in mind, the next five years are critical to identifying those advantaged barrels that should go into the global energy mix.

Newfoundland and Labrador has an important role to play in the transition to a lower-carbon economy. OilCo will continue collaborating with key stakeholders in advancing our environmental initiatives to ensure that our competitive offshore remains climate conscious and sustainable throughout the clean energy transition over the coming decades.

Appendix 1 Board of Directors' Biographies

Dr. Charles Randell, Chair

Dr. Randell began his oil and gas career in 1981 on seismic survey vessels. His foray into research and development began as a technician at C-CORE. He went on to become President and CEO of C-CORE in 2006 and led the corporation through significant growth and expansion. Dr. Randell has degrees in Electrical Engineering from Lakehead University, and M.A.Sc. and Ph.D. degrees in Engineering and Computer Science from University of Victoria. He was named one of Atlantic Canada's Top 50 CEOs (2012), and was inducted as a Fellow of the Canadian Academy of Engineering (2014). Retired from C-CORE (2017), he consults through his company, Magellan Consulting Ltd.

Wayne Chipman

Wayne Chipman is a graduate of Memorial University (Bachelor of Mechanical Engineering). Mr. Chipman started his 35-year oil and gas industry career in Calgary before returning to Newfoundland and Labrador to work with the Newfoundland and Labrador Petroleum Directorate. Following the signing of the Atlantic Accord, Mr. Chipman spent more than 20 years with the Canada-Newfoundland & Labrador Offshore Petroleum Board where he was responsible for conservation; coordinating reservoir engineering; and, petrophysical, and measurement and production reporting activities. Mr. Chipman was instrumental in setting up Nalcor Energy's Oil and Gas division. While working with Nalcor Energy he was a member of the team that negotiated equity interests in the White Rose, Hebron and Hibernia Southern Extension fields. In 2013, Mr. Chipman was awarded Noia's Outstanding Contribution Award in recognition of his contribution to the oil and gas industry in Newfoundland and Labrador.

Bernard J. Collins, B.BA, P.Log, CCS

Bernard J. Collins is the Chair and former President of PF Collins. Tasked with developing PF Collins' involvement in the emerging offshore petroleum industry, under his leadership the company grew from a small customs brokerage firm into a progressive integrated logistics provider employing over 100 professionals in Newfoundland and Labrador, Nova Scotia, and Alberta. Mr. Collins has received numerous recognitions, including Noia's Outstanding Contribution Award (2005) and the Gardiner Centre Entrepreneur of the Year Award (2012). He has been listed among Atlantic Business Magazine's Top 50 CEOs, and inducted into the Junior Achievement Business Hall of Fame. Mr. Collins holds a Bachelor of Business Administration from St. Francis Xavier University.

Richard J. Daw, FCPA, FCA, CMC

Richard J. Daw was a partner with Deloitte for almost 30 years where he practiced as a Chartered Accountant, advising oil and gas contractors on tax and organizational matters. After retirement, Mr. Daw became an Executive in Residence with Memorial University's Faculty of Business and a founding member of the Institute of Corporate Directors – NL Chapter. He was also the Vice-Chair of the Audit Committee and the Chair of the HR Committee with the Canada Revenue Agency Board of Management (2010-2016). Mr. Daw served as the Vice Chair and Director of the Dr. H. Bliss Murphy Cancer Care Foundation (2008-2014). Mr. Daw is a member of the Institute of Certified Management Consultants of Atlantic Canada and the Association of Chartered Professional Accountants of Newfoundland and Labrador. He currently serves as independent director on the board of Muskrat Falls Corporation and on the Advisory Board for Memorial University's Faculty of Business Administration.

Leslie Grattan, FRCGS

As the owner of Leslie Grattan and Associates Inc., Ms. Grattan provides environmental consulting services. Ms. Grattan has held senior leadership positions in environmental management in the private and public sectors. She has extensive experience in offshore oil and gas, hydroelectricity generation, civil construction, and aquaculture. Ms. Grattan is Chair of the Oceans Learning Partnership, Director of the Atlantic Regional Board of the Nature Conservancy Canada, winner of the NEIA 2018 Industry Champion Award, and a committee member of the Coastal Zone Canada Association. She is a Fellow of both the Royal Canadian Geographical Society and Women in Science and Engineering NL, and is an Honorary Member of the Professional Engineers and Geoscientists of Newfoundland and Labrador.

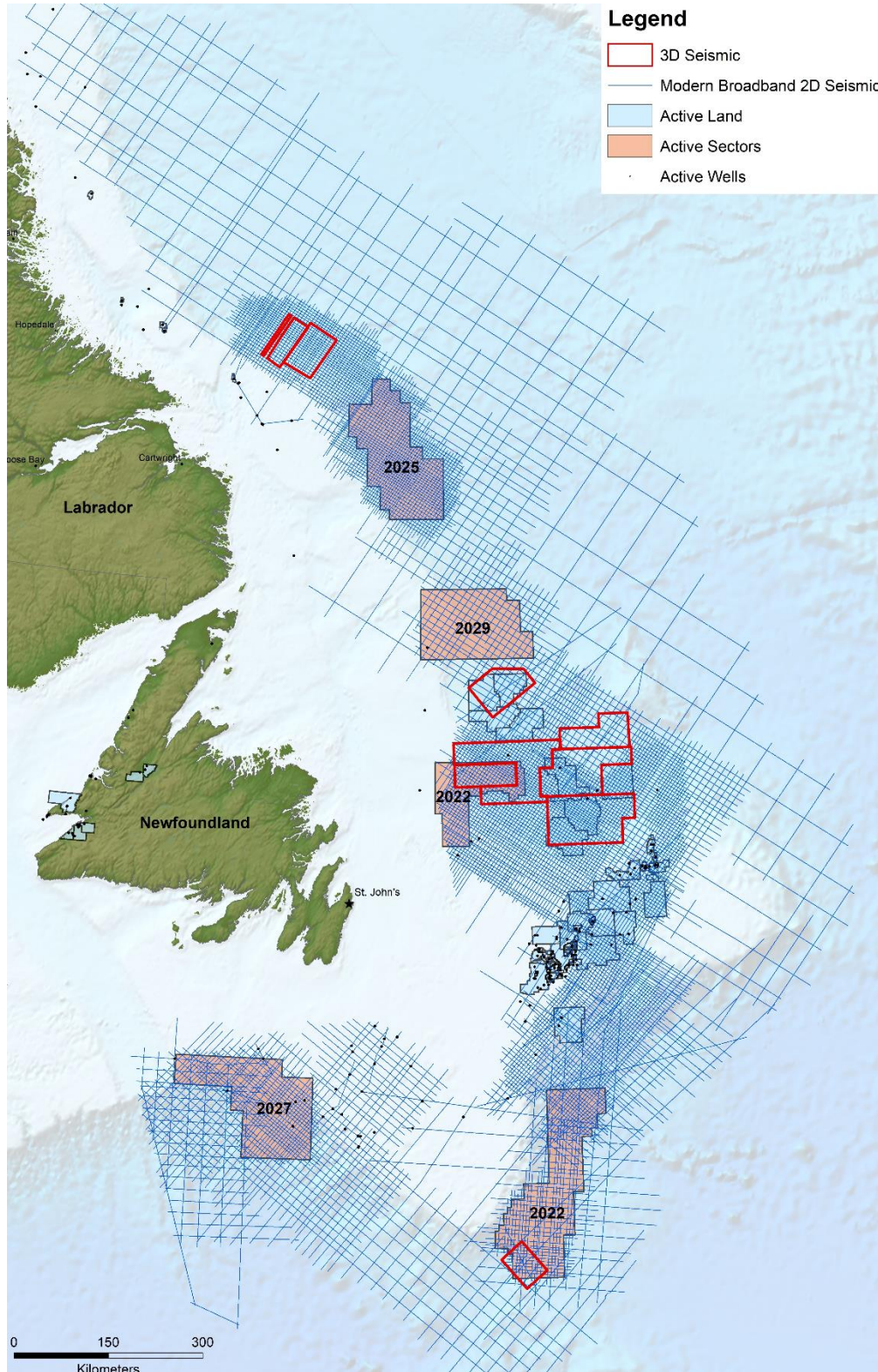
Shelly Leighton, P. Eng, CLS

Shelly Leighton is a graduate of University of New Brunswick (Bachelor of Science and Engineering in Geodesy and Geomatics, 2007) and Memorial University (Masters in Oil and Gas Engineering, 2015). Ms. Leighton has spent several years working in the offshore oil and gas industry as well as on heavy civil projects in Newfoundland and Labrador. She is the owner and CEO of Advanced Access Engineering – an engineering firm specializing in autonomous vehicles, both in water and in air. Ms. Leighton is an instructor with the School of Ocean Technology at the Marine Institute and Chair of the school's Ocean Mapping Program. She is an advocate for women in STEM and is a role model for young women interested in careers in science and technology.

Jennifer Warren

Jennifer Warren is a graduate of Memorial University, Bachelor of Commerce Co-Op (2002) and is a Chartered Professional Accountant (2004). Ms. Warren has over 16 years' experience in finance, risk, and compliance for large, complex and Crown corporations and has extensive experience in the natural resource sector and highly-regulated industries. Ms. Warren's broad range of experiences and skills include, financial management and reporting, regulatory compliance, corporate governance, internal controls, and risk management. Ms. Warren has held progressively senior roles with Deloitte, Voisey's Bay Nickel, Fortis Inc., Nalcor Energy, and RSA Canada. She is currently the Director, Compliance and Governance with Johnson Insurance.

Appendix 2 Newfoundland and Labrador Offshore Map



Appendix 3 2021 Annual Audited Consolidated Financial Statements

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated financial statements

December 31, 2021



Management's responsibility for financial reporting

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

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

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

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



Director



Director

Independent auditor's report

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

Opinion

We have audited the consolidated financial statements of **Oil and Gas Corporation of Newfoundland and Labrador** ["Oilco"], which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statement of operations and accumulated surplus, consolidated statement of change in net assets (debt) and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Oilco as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

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

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

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

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

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

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

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



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

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

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

St. John's, Canada
April 6, 2022

Ernst & Young LLP

Chartered Professional Accountants



Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of financial position

[in thousands of Canadian dollars]

As at December 31

	2021	2020
	\$	\$
Assets		
Cash	7,080	5,009
Accounts receivable [note 4]	4,707	3,408
	<u>11,787</u>	<u>8,417</u>
Liabilities		
Accounts payable [notes 6 and 10]	7,238	11,655
Deferred contribution [note 8]	533	543
Deferred revenue	724	755
	<u>8,495</u>	<u>12,953</u>
Net assets (debt)	<u>3,292</u>	<u>(4,536)</u>
Non-financial assets		
Tangible capital assets, net [note 5]	4,944	3,788
Exploration assets [note 7]	45,851	24,037
Prepaid expenses	519	599
	<u>51,314</u>	<u>28,424</u>
Accumulated surplus	<u>54,606</u>	<u>23,888</u>

Commitments and contingencies [note 14]

Subsequent events [note 16]

See accompanying notes

On behalf of the Board:


Director


Director

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of operations and accumulated surplus [in thousands of Canadian dollars]

Year ended December 31

	Budget	2021	2020
	\$	\$	\$
Revenue			
Grant revenue	43,422	30,427	30,034
Other revenue <i>[note 12]</i>	5,229	11,486	5,181
Lease revenue	625	3,613	1,290
Net finance income	—	14	35
Other income	—	—	238
	<u>49,276</u>	<u>45,540</u>	<u>36,778</u>
Expenses			
Operating costs <i>[note 11]</i>	12,332	11,437	9,963
Amortization of exploration assets	—	2,333	174
Amortization of tangible capital assets	923	685	670
Exploration expenses	—	367	92
Restructuring cost <i>[note 15]</i>	—	—	1,991
	<u>13,255</u>	<u>14,822</u>	<u>12,890</u>
Annual surplus	36,021	30,718	23,888
Accumulated surplus, beginning of year	23,888	23,888	—
Accumulated surplus, end of year	<u>59,909</u>	<u>54,606</u>	<u>23,888</u>

See accompanying notes

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of change in net assets (debt)

[in thousands of Canadian dollars]

Year ended December 31

	2021	2020
	\$	\$
Annual surplus	30,718	23,888
Amortization of tangible capital assets	685	670
Acquisition of tangible capital assets	(1,841)	(4,458)
Amortization of exploration assets	2,333	174
Acquisition of exploration assets	(24,147)	(24,211)
Prepaid expenses	80	(599)
Change in net assets (debt)	7,828	(4,536)
Net debt, beginning of year	(4,536)	—
Net assets (debt), end of year	3,292	(4,536)

See accompanying notes

Oil and Gas Corporation of Newfoundland and Labrador

Consolidated statement of cash flows

[in thousands of Canadian dollars]

Year ended December 31

	2021	2020
	\$	\$
Operating transactions		
Annual surplus	30,718	23,888
Adjustments for		
Amortization of tangible capital assets	685	670
Amortization of exploration assets	2,333	174
Gain on sale of tangible capital assets	(500)	—
	<u>33,236</u>	<u>24,732</u>
Changes in non-cash assets and liabilities related to operations		
Increase in accounts receivable	(1,299)	(3,408)
Decrease (increase) in prepaid expenses	80	(599)
Increase (decrease) in accounts payable	(4,417)	11,655
Increase (decrease) in deferred revenue	(31)	755
Increase (decrease) in deferred contribution	(10)	543
Cash provided by operating transactions	<u>27,559</u>	<u>33,678</u>
Capital transactions		
Purchase of tangible capital assets	(1,841)	(4,458)
Proceeds on sale of tangible capital assets	500	—
Purchase of exploration asset	(24,147)	(24,211)
Cash used in capital transactions	<u>(25,488)</u>	<u>(28,669)</u>
Net increase in cash during the year	2,071	5,009
Cash, beginning of year	5,009	—
Cash, end of year	<u>7,080</u>	<u>5,009</u>

See accompanying notes

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

1. Nature of the entity

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

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

2. Summary of significant accounting policies

Basis for accounting

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

Basis of consolidation

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

Revenue recognition

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

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

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

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

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

Tangible capital assets

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

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

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

Computer hardware	5 years
Computer software	10 years
Office furniture and equipment	20 years
Leasehold improvements	5–50 years
Buildings	18 years
Module hall door	26 years
Visitor centre	42 years
Other	5–25 years

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

Exploration assets

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

Employee future benefits

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

Foreign currencies

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

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

Use of estimates

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

3. Accounting changes

In fiscal 2020, Oilco early adopted Public Sector Guideline 8, *Purchased intangibles* ["PSG-8"]. PSG-8 requires the recognition of purchased intangibles in the consolidated financial statements. It is effective for fiscal years beginning on or after April 1, 2023; however, early adoption is encouraged. The adoption resulted in the recognition of intangibles assets in the consolidated statement of financial position of \$48,358K [2020 – \$24,211K] [note 7]. Oilco also recognized \$2,333K [2020 – \$174K] in amortization of intangible assets related to the purchased intangibles.

4. Accounts receivable

As at December 31 [thousands of Canadian dollars]

	2021	2020
	\$	\$
0–60 days	3,326	1,249
60+ days	—	269
HST receivable	1,381	1,890
	<u>4,707</u>	<u>3,408</u>

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

5. Tangible capital assets

As at December 31 [thousands of Canadian dollars]

	Computer hardware \$	Computer software \$	Office furniture and equipment \$		Leasehold improvements \$	Module hall door \$	Visitor centre \$	Buildings \$	Other \$	Construction in progress \$	Total \$
			Computer hardware \$	Computer software \$							
Cost											
Balance, January 1, 2021	430	1,154	39	700	240	532	31	848	484	4,458	
Additions	19	117	—	1	—	—	—	103	1,601	1,841	
Disposals	—	—	—	—	—	—	—	—	—	—	
Balance, December 31, 2021	449	1,271	39	701	240	532	31	951	2,085	6,299	
Accumulated amortization											
Balance, January 1, 2021	159	197	2	237	16	16	5	38	—	670	
Amortization	138	204	2	250	16	16	5	54	—	685	
Disposals	—	—	—	—	—	—	—	—	—	—	
Balance, December 31, 2021	297	401	4	487	32	32	10	92	—	1,355	
Net book value, December 31, 2021	152	870	35	214	208	500	21	859	2,085	4,944	

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

	Computer hardware \$	Computer software \$	Office		Leasehold improvements \$	Module hall door \$	Visitor centre \$	Buildings \$	Other \$	Construction in progress \$	Total \$
			furniture and equipment \$	equipment \$							
Cost											
Balance, January 1, 2020	—	—	—	—	—	—	—	—	—	—	—
Additions	430	1,154	39	—	700	240	532	31	848	484	4,458
Disposals	—	—	—	—	—	—	—	—	—	—	—
Balance, December 31, 2020	430	1,154	39	—	700	240	532	31	848	484	4,458
Accumulated amortization											
Balance, January 1, 2020	—	—	—	—	—	—	—	—	—	—	—
Amortization	159	197	2	—	237	16	16	5	38	—	670
Disposals	—	—	—	—	—	—	—	—	—	—	—
Balance, December 31, 2020	159	197	2	—	237	16	16	5	38	—	670
Net book value, December 31, 2020	271	957	37	—	463	224	516	26	810	484	3,788

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

Oil and Gas Corporation of Newfoundland and Labrador

Notes to consolidated financial statements

December 31, 2021

6. Accounts payable

As at December 31 [thousands of Canadian dollars]

	2021 \$	2020 \$
Trade payables	6,511	5,621
Due to related parties <i>[note 10]</i>	62	6,034
HST payable	665	—
	<u>7,238</u>	<u>11,655</u>

7. Exploration assets

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

As at December 31 [thousands of Canadian dollars]

	2021	2020 \$
Cost, January 1, 2021	24,211	—
Additions	24,147	24,211
Disposals	—	—
Balance, December 31, 2021	48,358	24,211
Accumulated amortization, January 1, 2021	174	—
Amortization	2,333	174
Disposals	—	—
Balance, December 31, 2021	2,507	174
Net carrying amount, December 31, 2021	45,851	24,037

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8. Deferred contribution

During 2020, Bull Arm Fabrication Inc. received Mooring Bollards with a fair value of \$616K from an unrelated party in exchange for a rent concession in the amount of \$52K. The difference between the fair value and the rent concession was recorded as a deferred contribution and is amortized over the useful life of the asset, which is determined to be 25 years.

During 2021, an unrelated party completed work on a sewage system for the Company with a fair value of \$13K. This has been recorded as a deferred contribution and will be amortized over the useful life of the asset, which is determined to be 20 years.

As at December 31 [thousands of Canadian dollars]

	2021	2020
	\$	\$
Deferred contribution, beginning of year	543	—
Additions	13	564
Less revenue recognized	(23)	(21)
Deferred contribution, end of year	533	543

9. Employee future benefits

Pension plan

Employees participate in the Province's Public Service Pension Plan, a multi-employer defined benefit plan. The employer's contributions for the year ended December 31, 2021 of \$354K [2020 – \$374K] were expensed as incurred [note 11].

10. Related party transactions

- [i] Oilco operates on a site leased from the Province for a term of 30 years for a nominal amount of \$1 per annum, which expires March 2022.
- [ii] As at December 31, 2021, Oilco had a net payable to Nalcor Energy – Oil and Gas Inc. of nil [2020 – \$5.7 million] related to transition of operations. The prior year net payable was forgiven during the current year.
- [iii] For the period ended December 31, 2021, Oilco earned \$4.2 million [2020 – \$4.2M] for the management of Nalcor Energy – Oil and Gas Inc. assets, as set out in the management services agreement.
- [iv] As at December 31, 2021, Oilco had a net payable to Nalcor Energy of \$62K [2020 – \$305K] related to operations.
- [v] For the period ended December 31, 2021, Oilco was charged \$233K [2020 – \$194K] by Nalcor for IT – related services [note 11].

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11. Operating costs

As at December 31 [thousands of Canadian dollars]

	2021 \$	2020 \$
Salaries and benefits [note 9]	4,298	4,358
Professional services	1,963	1,744
Software maintenance [note 10]	1,363	1,214
Utilities	2,111	806
Site maintenance and materials	585	708
Building rental	513	511
Insurance	404	357
Other operating costs	200	265
	<u>11,437</u>	<u>9,963</u>

12. Other revenue

Other income includes [thousands of Canadian dollars]

	2021 \$	2020 \$
Forgiveness of payables to Nalcor Energy – Oil and Gas Inc. related to the transition of 2019 operations	4,984	—
Management fee related to management of Nalcor Energy – Oil and Gas Inc. assets	4,215	4,200
Seismic revenue	2,064	912
Proceeds on disposal of tangible capital assets	500	—
Amortization of deferred contributions	23	69
Foreign currency losses	(300)	—
	<u>11,486</u>	<u>5,181</u>

13. Financial instruments and risk management

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

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

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

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Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Oilco is exposed to credit risk through its accounts receivable. The degree of exposure to credit risk on cash and accounts receivable is determined by the financial capacity and stability of those customers and counterparties. The maximum exposure to credit risk on these financial instruments is represented by their carrying values on the consolidated statement of financial position at the reporting date. As at December 31, 2021, there was no allowance [2020 – nil] for doubtful accounts included in accounts receivables.

Liquidity risk

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

Foreign exchange risk

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

14. Commitments and contingencies

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

15. Restructuring transactions

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

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

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

As at December 31 [thousands of Canadian dollars]

	2020
	\$
Financial assets	
Cash	27
Accounts receivable	251
Tangible capital assets	856
Prepaid expenses	131
	<u>1,265</u>
Liabilities	
Accounts payables	3,236
Deferred revenue	20
Net effect	<u>(1,991)</u>

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

Included in the consolidated statement of operations and accumulated surplus in 2020 were the following revenues and expenses related to the responsibilities transferred from Bull Arm Fabrication Inc. as part of the restructuring transaction.

As at December 31 [thousands of Canadian dollars]

	2020
	\$
Revenue	
Other	<u>1,290</u>
Expenses	
Operating costs	1,807
Amortization	75
Net income	(4)
Annual deficit	<u>(588)</u>

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16. Subsequent events

In January 2022, the Government of Newfoundland and Labrador announced a decision to suspend the 2022 seismic program. A decision to suspend the seismic program beyond 2022 is not known at this time and could have a material impact on future exploration activities within Oilco.

In February 2022, the head lease of the Bull Arm Fabrication site was renewed with the Province for 10 years, for a nominal amount of \$1. The Renewed lease agreement expires March 2032.