

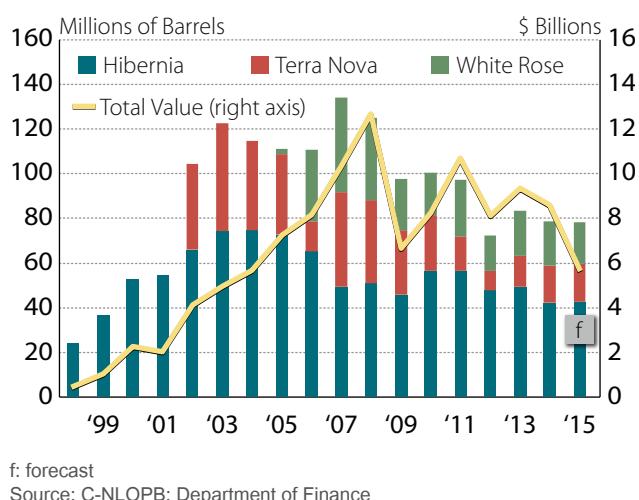
Oil and Gas

The oil and gas industry is the largest contributor to provincial GDP. It is estimated that oil and gas extraction and support activities accounted for approximately 28.4% of the province's nominal GDP in 2013. In 2014, employment in the oil and gas industry (including support activities for mining and oil and gas extraction) was approximately 9,200. In addition to its economic benefits, the oil and gas industry makes a substantial fiscal contribution to the provincial treasury. For the fiscal year 2013-14, offshore oil royalties accounted for approximately 28% of provincial revenues. Hibernia, Terra Nova and White Rose have all experienced considerable increases in recoverable oil estimates since the developments were initially proposed.

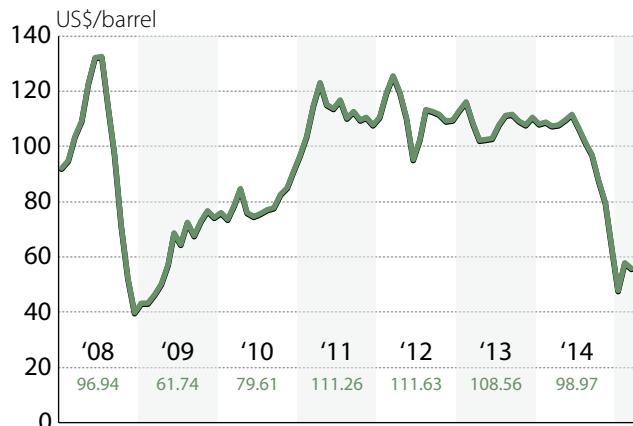
Crude oil production in the province decreased 5.7% from 83.6 million in 2013 to 78.9 million barrels in 2014 (see chart). This decrease was mainly the result of reduced production at Hibernia. The corresponding estimated value of oil production decreased 8.0% to \$8.6 billion due to both reduced production volumes and lower crude oil prices. Falling oil prices were partially offset by a lower Canadian dollar which depreciated by 6.8% relative to the U.S. dollar in 2014.

The price of Brent crude oil, a benchmark for Newfoundland and Labrador oil, averaged US\$98.97/barrel in 2014, down from an average of US\$108.56/barrel in 2013 (see chart). The price decline was particularly sharp throughout the second half of 2014 and into January of this year. Brent prices fell from a peak of US\$115.19/barrel on June 19, 2014 to a low of US\$45.13/barrel on January 13, 2015. Since mid-January oil prices have recovered

Offshore Oil Production



Brent Crude Oil Monthly Spot Prices



Source: U.S. Energy Information Administration

somewhat and Brent stood at US\$60.12/barrel as of April 21, 2015. The recent decline in oil prices has resulted from a combination of slowing global demand for oil, high inventory levels and increasing supply from U.S. shale oil production.

Hibernia

Hibernia, located in the Jeanne d'Arc Basin 315 kilometres (km) southeast of St. John's, was the first offshore oil project to be developed in Newfoundland and Labrador. Hibernia production occurs by means of a stand-alone concrete gravity based structure (GBS). Over the past few years, Hibernia production has expanded into two satellite areas south of the main field: the AA Blocks and the HSE Unit which together make up what is referred to as the Hibernia South Extension. Production from the AA Blocks and the HSE Unit started in November 2009 and June 2011, respectively. When it was initially proposed for development, the project proponents estimated that the Hibernia field contained 520 million barrels of recoverable oil. On December 16, 2014, the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) announced a further increase in reserves for the entire Hibernia development area (including the AA Blocks and HSE Unit) from 1,395 million barrels to 1,644 million barrels.¹ Hibernia is the largest offshore project in the province and among the largest conventional oil discoveries in Canada. The Province, through Nalcor Energy, has a 10% equity stake in the HSE Unit.

Hibernia's total production decreased 14.7% (7.2 million barrels) in 2014 to 42.2 million barrels, with 3.5 million barrels extracted from the AA Blocks and 1.1 million barrels from the HSE Unit. Cumulative production at Hibernia, since first oil in November 1997 to December 2014, was 919 million barrels, worth an estimated \$63 billion. Approximately 725 million barrels, or roughly 44% of estimated reserves, were remaining as of December 31, 2014.

As of December 31, 2014, there were a total of 2,892 people working on the Hibernia project (all locations) of which 2,497 (86.3%) were residents of the province.

Terra Nova

The Terra Nova field was the second offshore oil discovery in the province to reach production, with first oil in January 2002. Terra Nova, located just southeast of the Hibernia field in the Jeanne d'Arc Basin, is operated by Suncor Energy Inc. using a floating production, storage and offloading vessel (*Terra Nova FPSO*). Currently, the C-NLOPB's reserve estimate for the Terra Nova field is 506 million barrels.

Terra Nova produced 16.8 million barrels of oil in 2014, an increase of 3.0 million barrels (21.7%) over 2013. The increase was due primarily to reduced downtime. The FPSO was taken out of production for roughly four weeks for planned maintenance in 2014 compared to approximately 10 weeks downtime in 2013. Cumulative production from Terra Nova since first oil in January 2002 to December 31, 2014 was 366 million barrels with an estimated value of \$26 billion. Approximately 140 million barrels, or roughly 28% of estimated reserves, were remaining as of December 31, 2014.

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.

As of December 31, 2014, there were 1,026 people working on the Terra Nova project (all locations), of which 939 (91.5%) were residents of the province.

White Rose (including North Amethyst)

The White Rose project is the province's most recent offshore oil development to be brought into production. The White Rose project, which is also located in the Jeanne d'Arc Basin, is operated by Husky Energy using the *SeaRose FPSO*. Since its initial discovery, White Rose has expanded to include several satellite areas (North Amethyst, South White Rose Extension and West White Rose). First oil from the South Avalon Pool (main field) occurred in November 2005 and first oil from North Amethyst occurred in May 2010.

When initially proposed for development, the project proponents estimated that the White Rose project contained 230 million barrels. The current estimated reserves for the entire White Rose project are 313 million barrels.

On June 5, 2013, the C-NLOPB announced its approval of a White Rose Development Plan amendment incorporating the South White Rose Extension (SWRX). The SWRX pools, which are estimated to contain approximately 33 million barrels of recoverable oil, will be developed via a subsea tieback to the *SeaRose FPSO*. All production equipment is now in place and, subject to rig availability, first oil is anticipated in mid-2015.

On December 17, 2014, Husky Energy announced that, in light of reduced oil prices, it was deferring the final investment decision on the West White Rose extension project by one year. Husky also announced that it will be considering alternative modes of development to the wellhead platform, including a sub-sea development concept. Despite the delay in the final investment decision, Husky has indicated it remains committed to the development of West White Rose as the project remains an important part of its long-term portfolio.

White Rose (including North Amethyst) produced 19.9 million barrels in 2014, down 2.3% (471,000 barrels) from 2013. Cumulative production from White Rose since first oil in November 2005 to December 31, 2014 was 237.9 million barrels with an estimated value of \$21.7 billion. Approximately 75 million barrels, or roughly 24% of estimated reserves, were remaining as of December 31, 2014.

As of December 31, 2014, there were a total of 2,371 people working on the White Rose Project (all locations), of which 1,730 (73%) were residents of the province.

Hebron

The Hebron field was discovered in 1981 and is estimated to contain in excess of 700 million barrels of recoverable oil, making it the second largest oil field in the province after Hibernia. Hebron is located just nine kilometres northwest of Terra Nova in the Jeanne d'Arc Basin in a water depth of approximately 92 metres. The Hebron project received official sanction on December 31, 2012, becoming the province's fourth stand-alone offshore oil project. The Hebron field will be developed using a stand-alone GBS similar to, but on a smaller scale, than Hibernia. The GBS is being designed for an oil production rate of 150,000 barrels of oil per day with the capability to withstand sea ice, icebergs and harsh meteorological and oceanographic conditions. The GBS will support an integrated topsides deck that includes living quarters and facilities to perform

drilling and production operations. In addition to the GBS itself, two of the four topsides modules are also being built in the province—fabrication is taking place at several locations in the province including Bull Arm, Torbay, Argentia, Stephenville, Port aux Basques and Marystow.

GBS construction at the Bull Arm dry dock began in October 2012. After pouring the GBS base slab, slip forming (a method of continuously pouring concrete) was used to construct the GBS to a height of 27.5 metres. On July 22, 2014, the 180,000 tonne GBS was towed from the dry dock to the deepwater site at Bull Arm where further construction activities are continuing (see photo on page 26). Further slip forming will bring the GBS to a height of approximately 120 metres. After GBS construction is completed, the topsides will be attached to the GBS to form the complete platform that will be installed at the Hebron field. ExxonMobil is the operator of the Hebron project. The Province, through Nalcor Energy, holds a 4.9% equity stake in the project. Hebron's capital cost is estimated at \$14 billion and first oil is expected before the end of 2017. According to the Hebron Q4 2014 Benefits Report, there were a total of 9,425 people working on the Hebron project (all locations) during the fourth quarter of 2014, of which 6,018 (63.9%) were provincial residents.

Recent Discoveries

In 2013, Statoil announced two new discoveries in the deep water (approximately 1,100 metres) Flemish Pass Basin. The Harpoon discovery (whose resource potential has yet to be determined) was announced in June 2013 and the Bay du Nord discovery (estimated to contain between 300 and 600 million barrels of recoverable oil) was announced in August 2013. Bay du Nord was the world's largest conventional oil discovery of 2013 and the largest Statoil-operated discovery outside of Norway. The Harpoon and Bay du Nord discoveries are in close proximity to the 2009 Mizzen discovery which is estimated to contain around 100 million barrels of recoverable oil. Statoil holds a 65% interest in the Mizzen, Harpoon and Bay du Nord fields, and Husky Energy holds the remaining 35% interest.

Statoil is an international energy company with operations in 36 countries around the world and more than 40 years of experience in oil and gas production on the Norwegian continental shelf, a comparable environment to the Newfoundland and Labrador offshore area. Husky Energy is one of Canada's largest integrated energy companies, operating worldwide with upstream and downstream business segments. The company's foundation in heavy oil and Western Canada supports major growth opportunities in the Asia Pacific Region, the oil sands and the Atlantic Region.

Despite current low oil prices, Husky and Statoil are very bullish on the tremendous potential in the Newfoundland and Labrador offshore area, as evidenced by their current 18-month exploration program in the Flemish Pass Basin and recent public statements. Statoil's President and CEO Ståle Tungsevik was recently quoted as saying, "Offshore Newfoundland has the potential to sustain petroleum activity for decades" and "Statoil is committed to playing a significant role in that equation."² Husky's President and CEO Asim Ghosh was quoted as saying, "It's a major position we've got there [in the Flemish Pass] and that's a very core part of our business." Furthermore, Statoil has indicated that the Flemish Pass Basin is a strategic part of its global exploration portfolio and has the potential to become a core producing area for the company post-2020. The company has formed a task force to assess the feasibility of an accelerated development of the Bay du Nord discovery to reduce the time to first oil.

² Source: Magazine "Natural Resources Oil, Gas, Mining & Alternative Energy in Atlantic Canada" Vol. 17 No. 1 Spring 2015

Exploration

Offshore

Over the past decade, oil and gas companies have exhibited an increasing interest in Newfoundland and Labrador's offshore oil potential as evidenced by substantially higher licensing rounds (see chart on page 25). From 2003 to 2014, offshore licensing rounds totalled approximately \$2.4 billion in comparison to roughly \$900 million over the 1988 to 2002 period. Currently, there are outstanding work commitment bids totalling \$1.2 billion in the Newfoundland and Labrador offshore region.

Geoscience acquisition programs (seismic, gravity, electromagnetic resistivity and seabed sampling) have been robust in 2014. Exploration activity is taking place in the Flemish Pass Basin; Orphan Basin; Eastern, South Eastern and Southern Newfoundland regions; and offshore Labrador. Ongoing assessment of recently acquired seismic and electromagnetic data has delineated new basins as well as extensions to existing offshore Labrador basins, and significant prospectivity in deepwater areas in the Newfoundland and Labrador offshore region. Over the past three years, Nalcor, in partnership with global seismic companies TGS and Petroleum Geo-Services, has conducted one of the largest seismic programs in the world. The 2-D seismic program collected over 80,000 line kilometres of seismic data off Labrador and down the southeast coast over the Orphan Basin, Flemish Pass, and Flemish Cap, much of which had never been imaged before. The investment in geoscience exploration and scientific analysis has resulted in the delineation of three new deepwater basins off Labrador (Chidley, Holton, and Henley) and the expansion of the previously discovered Hawke Basin.

Statoil and its partner Husky Energy are following up on the recent discoveries in the Flemish Pass Basin, including the Bay du Nord and Harpoon discoveries. A 12,863 square kilometre 3-D seismic acquisition program was completed in late September and is being followed by an 18-month drilling program. In mid-February 2015, Statoil completed the drilling of two wells (F-67 and F-67Z) in the Bay de Verde area (adjacent to Bay du Nord) using Seadrill's *West Hercules* semi-submersible drill rig. Since then the rig has been moved back to Bay du Nord area to delineate its oil discovery. As of March 30, 2015, well operations were continuing at the Bay du Nord site.

Husky Energy completed drilling the Aster C-93A well southeast of the Central Ridge/Flemish Pass Basin in early-February 2015. Husky also has several drill ready exploration and delineation prospects in the Newfoundland and Labrador offshore area and has a newly built semi-submersible drill rig (Seadrill's *West Mira*), contracted and scheduled to be utilized in the province's offshore area beginning in mid-late 2015.

On the province's west coast, there are plans to target the Green Point formation with several onshore-to-offshore wells, including a well by Shoal Point Energy into EL1070 in the Port-au-Port Bay. In addition, Corridor Resources and Black Spruce have indicated their intentions to drill at prospects in the Western Newfoundland and Labrador offshore region, including Corridor's Old Harry Prospect. These plans are subject to various regulatory approvals, including strategic and project specific environmental assessments.

Onshore

Investcan Energy Corp. continues to maintain its land rights in the Bay St. George Basin while the Province completes its review of hydraulic fracturing (see below).

Black Spruce Exploration (BSE) has acquired 100% working interest in the exploration permit lands previously held by Deer Lake Oil & Gas in the Deer Lake Basin. BSE are completing a regional study and basin analysis with intentions of high grading areas for seismic acquisition and subsequent drilling. Enegi Oil Plc continues to produce intermittently at Garden Hill South.

Hydraulic Fracturing Review

In November 2013, the Minister of Natural Resources announced that any applications for petroleum exploration involving hydraulic fracturing will not be accepted pending a Department jurisdictional review, geological review and public engagement process. On October 10, 2014, the Minister of Natural Resources announced the selection of an independent panel of five individuals, representing the fields of environment, engineering, geology, economics, and public health, to conduct a review of the socio-economic and environmental implications of hydraulic fracturing in Western Newfoundland. At the end of the review, the panel will prepare a report which will be made available to the public. The final report is due within one year.

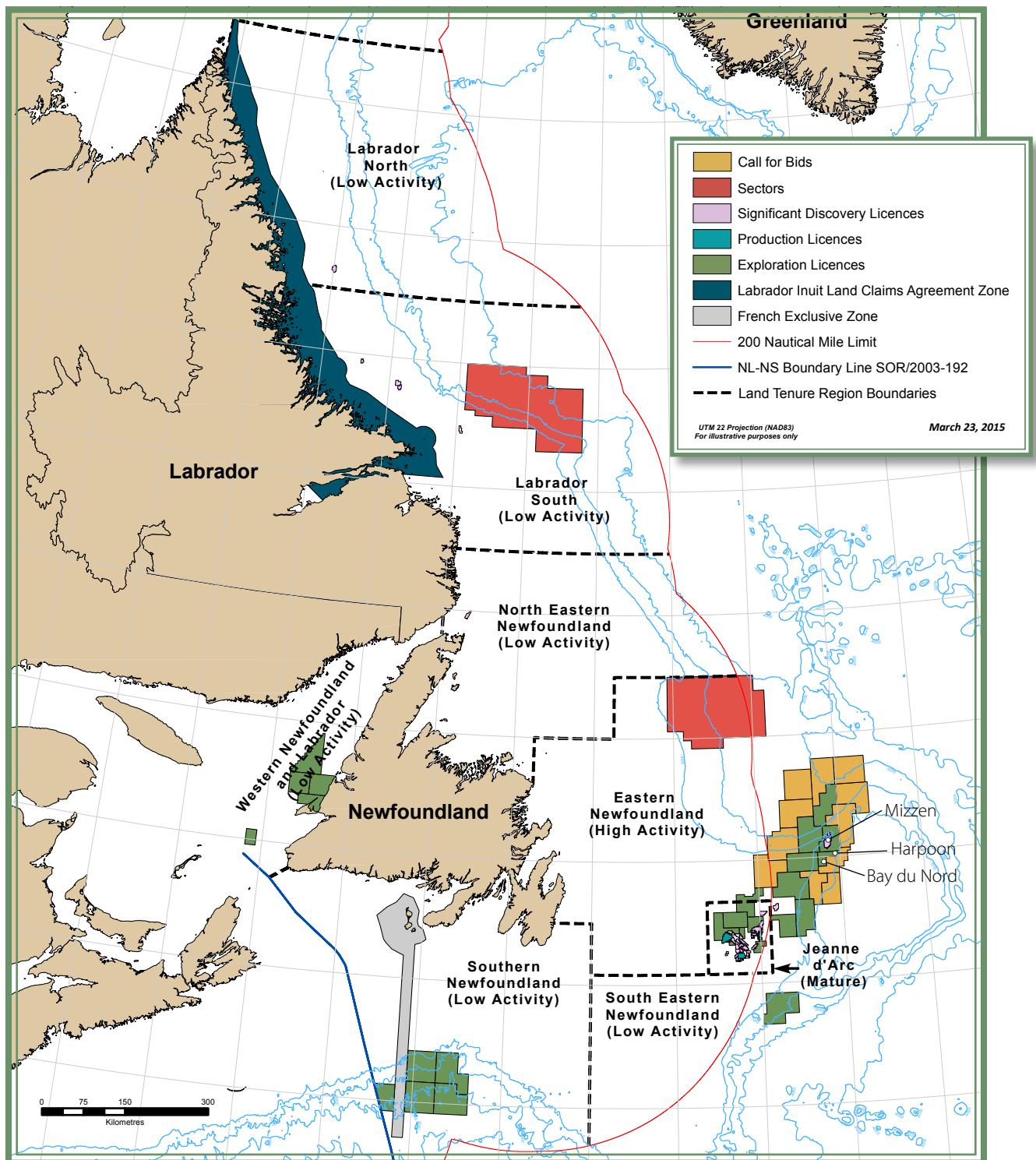
Scheduled Land Tenure System

On December 19, 2013, the C-NLOPB announced the implementation of a new scheduled land tenure system which will provide longer lead times for exploratory work in frontier areas and improve transparency, predictability and opportunity for industry input. Under the new system, the Newfoundland and Labrador offshore area is divided into eight regions (see map), each of which are designated as either low activity, high activity, or mature depending on variances in the volume of data collection in the basins and geoscientific knowledge of the region. The activity designation of each region will determine the amount of time available to interested parties to assess its hydrocarbon prospects before a Call for Bids is announced.

The first step in the land tenure process for a scheduled region is a Call for Nominations (Areas of Interest [AOI]) which will provide companies with the opportunity to identify prospective exploration areas (see Timeline on page 24). The nominations for areas of interest can be no greater than two million hectares (20,000 km²). The C-NLOPB will use the AOI nominations in conjunction with internal geoscientific assessments to define a sector that will be identified publicly via the Sector Identification announcement. A sector will define the geographic location for which parcels will be offered in the Call for Bids. Subsequently, the C-NLOPB will issue a Call for Nominations (Parcels), the results of which will be used to determine the parcels to offer in the final stage of the process, the Call for Bids.

For low activity regions, the land tenure process will follow a 4-year cycle providing interested parties at least 48 months from the initial Call for Nominations (AOI) to the closing of the respective Call for Bids to explore and assess the area. These land tenure cycles will be introduced annually in selective low activity regions.

Land Tenure Regions



Source: Canada-Newfoundland and Labrador Offshore Petroleum Board

Active Land Call Rounds

Timeline

Call for Nominations (AOI)	Sector Identification	Call for Nominations (Parcels) open for 6 weeks	Call for Bids	Issuance of Licences
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2015 South Eastern Newfoundland (Low Activity)

Cycle	Open	Close	Jul 2015	Feb 2018	Open	Close	Jan 2020
	Feb 3, 2015	Apr 30, 2015			Aug 2018	Nov 2019	
4-yr							

2015 Labrador South (Low Activity)

Cycle	Open	Close	Jul 2015	Feb 2018	Open	Close	Jan 2020
	Feb 3, 2015	Apr 30, 2015			Aug 2018	Nov 2019	
4-yr							

2014 Eastern Newfoundland (High Activity)

Cycle	Open	Close	Feb 24, 2015 (NL-02EN)	Sep 2015	Open	Close	Jan 2017
	Aug 21, 2014	Nov 28, 2014			Feb/Mar 2016	Nov 2016	
2-yr							

2013 Labrador South (Low Activity)

Cycle	Open	Close	May 22, 2014 (NL-01LS)	Feb 2016	Open	Close	Jan 2018
	Dec 19, 2013	Mar 15, 2014			Aug 2016	Nov 2017	
4-yr							

2013 Eastern Newfoundland (High Activity)

Cycle	Open	Close	May 22, 2014 (NL-01EN)	Aug 21, 2014	Open	Close	Jan 2016
	Dec 19, 2013	Mar 15, 2014			Mar 31, 2015 (11 parcels/ 2,581,655 hectares)	Nov 2015	
2-yr							

Source: Canada-Newfoundland and Labrador Offshore Petroleum Board

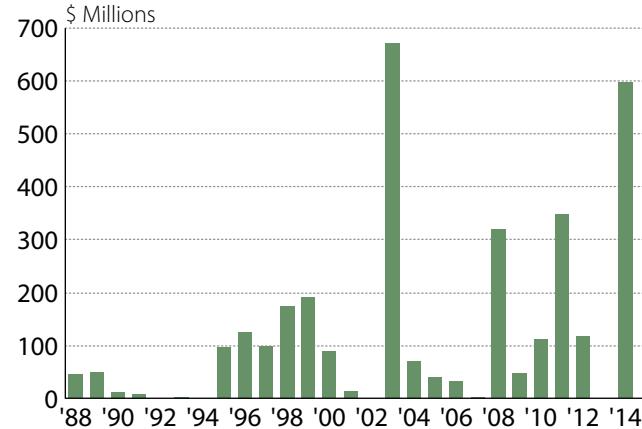
In high activity regions, there will be at least 24 months from the initial Call for Nominations (AOI) to the closing of the respective Call for Bids. These land tenure cycles will be repeated annually in high activity regions. For mature regions, a one-year cycle will be maintained where a Call for Nominations (Parcels) will go out in the fall of the year; the Call for Bids will be announced in the following spring and close in the fall of the same year.

In the second and subsequent Call for Bids for a given region, land parcels which were previously offered, but not awarded, will be re-assessed and, if deemed prospective, re-posted in the next Call for Bids. This will allow for a cumulative increase of land availability under the scheduled land tenure system.

The specific timelines for the land tenure process within each area is announced in advance when the initial Call for Nominations (AOI) is issued (see chart). The new land tenure system is designed to attract more interest in the Newfoundland and Labrador offshore area by allowing exploration companies additional time to conduct geoscientific assessments of the hydrocarbon potential of lesser explored basins. In turn, this is expected to support increased exploration activity, new discoveries and subsequent new developments.

On December 12, 2014, the C-NLOPB announced the results of Call for Bids NL13-01 (Flemish Pass), Call for Bids NL13-02 (Carson Basin) and Call for Bids NL14-01 (Jeanne d'Arc Region). Successful bids were received for three of six parcels. The bid for NL13-01 made by ExxonMobil Canada Ltd., Suncor Energy Inc. and ConocoPhillips Canada Resources Corp. was \$559 million, the highest bid ever on a land parcel in the Newfoundland and Labrador offshore area. Bids were also received for NL13-02 (Parcel 2) and NL14-01 with the highest bids from ExxonMobil Canada Ltd. and Suncor Energy Inc. at \$21 million and ExxonMobil Canada Ltd. at \$16.7 million, respectively. The high level of these bids highlight the increasing interest multinational oil and gas companies have in the Newfoundland and Labrador offshore and their recognition of tremendous growth potential of the area (see chart on Offshore Land Bids).

Offshore Land Bids*



* Chart shows the total value of bids (for all parcels) for the years in which the bid results were announced. While the total value of bids received was highest in 2003, these bids were divided among more parcels than in 2014. The highest bid on record for a single parcel was \$559 million and occurred in 2014.

Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Outlook 2015

Oil and Gas

- Oil production is expected to decrease 0.7% to 78.3 million barrels.
 - Hibernia (including the AA Blocks and HSE Unit) is expected to produce 42.5 million barrels in 2015, an increase of 0.3 million barrels in comparison to 2014.
 - Terra Nova is expected to produce 17.0 million barrels, an increase of 0.2 million barrels from 2014. A 28-day turnaround of the *Terra Nova FPSO* is scheduled to begin in June 2015, and a concurrent 90-day inspection of the vessel's main power generator are expected to curtail 2015 production.
 - White Rose (including North Amethyst) is expected to produce 18.8 million barrels, a decrease of 1.1 million barrels from 2014. An 18-day turnaround of the *SeaRose FPSO* is scheduled for the third quarter of 2015.
- Annual average Brent crude prices are expected to decline by approximately 40% to around US\$58.75 per barrel (US\$62 on a fiscal year basis).
- Hebron construction will continue at Bull Arm, Marystow and other fabrication facilities in the province. This will be the largest development project in the province in 2015 and provide a substantial boost to the construction and manufacturing sectors.
- Exploration activity is expected to be strong.
 - Statoil plans to drill several wells in the Flemish Pass Basin to delineate the Bay du Nord discovery.

