Invitation to apply for Hydrocarbon Exploration and Exploitation Licences under the West Greenland Licensing Round 2004

As authorised by the Government of Greenland and the Danish Government and within the framework and terms of the Act on Mineral Resources in Greenland, Act No. 335 of 6 June 1991 with later amendments, cf. Consolidated Act No. 368 of 18 June 1998, the Bureau of Minerals and Petroleum (BMP) hereby invites applications for licences for exploration and exploitation of hydrocarbons in four designated areas offshore West Greenland, specified in section 1 and shown on the attached map.

The BMP shall receive applications for licences for exploration and exploitation by 1 October 2004 at 4 pm local time (GMT minus 3 hours). The applications shall be submitted to:

The Government of Greenland,
Bureau of Minerals and Petroleum,
P. O. Box 930,
DK-3900 Nuuk,
Greenland.

Fax: +299 324302
Tel. +299 346800
E-mail: bmp@gh.gl

The application, including enclosures, may be written in Danish or in English.

The application shall be submitted in 4 copies. In addition one (1) electronic copy of the application shall be submitted on CD-ROM. The electronic copy shall be in Adobe PDF-format. An application may be submitted by fax or electronically but must concurrently be sent by courier/ordinary mail.
1. Areas

The areas designated for licensing are:

**Area 1:** Parts of Lady Franklin Basin between approx. 63°N and 65°N covering approx. 10,500 km²

The area is limited by the boundaries between the following sets of coordinates:
A: 63°10' N, 57°51'30.20 W (*), B: 63°22'48.0''N, 57°57'24.0''W (*), C: 63°28'36.0''N, 57°59'42.0''W (*), D: 63°35'00.0''N, 58°02'00.0''W (*), E: 63°37'12.0''N, 58°01'12.0''W (*), F: 63°44'06.0''N, 57°58'48.0''W (*), G: 63°50'06.0''N, 57°57'12.0''W (*), H: 63°52'36.0''N, 57°56'36.0''W (*), I: 63°57'24.0''N, 57°53'30.0''W (*), J: 63°57'12.0''N, 57°51'24.0''W (*), K: 63°50' N, 57°00' W; back to A.

* Coordinates at the boundary with Canada, but licence areas are not awarded closer than 2 Nautic Miles from the boundary.

**Area 2:** Kangaamiut Basin and Ridge around 66°N covering approx. 4900 km²

The area is limited by the boundaries between the following sets of coordinates:
A: 65°30'N, 57°10'W; B: 65°30'N, 55°45'W; C: 66°10'N, 55°45'W; D: 66°10'N, 57°10'W; back to A.

**Area 3:** Parts of Ikermiut Fault Zone/Sisimiut between approximately 67°N and 68°N covering approx. 7000 km²

The area is limited by the boundaries between the following sets of coordinates:
A: 67°00'N, 57°15'W; B: 67°00'N, 56°W; C: 68°10'N, 56°W; D: 68°10'N, 57°15'W; back to A.

**Area 4:** Parts of the Atammik and Fylla Structural Complexes between approx. 63°N and 64°N covering approx. 11,200 km²

The area is limited by the boundaries between the following sets of coordinates:
A: 62°50'N, 54°00'W; B: 62°50'N, 53°00'W; C: 63°30 N, 53°00'W; D: 63°30 N 53°30'W; E: 64°00'N, 53°30'W; F: 64°40'N, 54°25'W; G: 64°30 N, 54°25'W; H: 64°30'N, 54°45'W; I: 63°30'N, 54°45'W; J: 63°30'N, 54°00'W; back to A.

The border with Canada is defined in an agreement between the Government of the Kingdom of Denmark and the Government of Canada of 17 December 1973. The designated areas are
shown on the attached map.

2. Outline of licence terms

Generally, licences will be granted for an exploration period of a maximum of 10 years with a right to a 30 year extension for areas where exploitation is intended, cf. section 11 of the Mineral Resources Act.

The main principles of the licence terms are listed below.

· The public owned company, Nunaoil A/S, will hold a 12.5 % share of all licences, with a carried interest in the exploration phase.

· A three tiers surplus royalty. The surplus royalty is calculated on a yearly basis of the pre-tax net cash flow, the first time being in the year in which the licensee requests extension of the licence for exploitation. Negative pre-tax net cash flow is then carried forward to the following year with an uplift. The uplift is calculated by compounding 21.75%, 29.25% and 36.75% plus the average discount rate published by Nationalbanken (the Danish Central Bank), weighed by time, and set off against positive surplus royalty from the following year. The surplus royalty calculated in this way is taxable with 7.5%, 10% and 12.5%.

· The licensee shall reimburse the BMP’s expenses for the administration of the licensees activities under a licence.

· A fee of DKK 200,000 upon granting of an exploitation licence.

· An annual fee of DKK 1,000,000 for each exploitation licence.

· Reimbursement of DKK 250,000 annually for the training of the Greenland authorities (BMP).

The general licence terms appear from the enclosed Model Licence.

The size of a licence area will depend on present seismic coverage of the area. New licence areas will normally cover areas up to 2,000 km². If an application is submitted for larger areas the reasons should be stated in the application. At the end of each subperiod 25% of the remaining area shall be relinquished.
3. Selection criteria

In evaluation of applications for exploration and exploitation, emphasis will be placed on the following criteria:

a) That the applicant has the necessary knowledge and adequate financial background.

b) That the proposed work programme and the attendant documentation demonstrate the applicant’s willingness and ability to explore thoroughly for hydrocarbons in the area comprising any licence awarded in the applied area.

In addition, importance will be attached to:

- How and to which extent the applicant is willing to secure opportunities for Greenlandic and Danish manpower to participate in the activities related to the licence.

- How and to which extent the applicant is willing to secure Greenlandic enterprises to participate in the activities related to the licence.

4. Contents of the application

The application must contain the information set out below and must be divided into sections as listed in items (a) - (g):

a) For each applicant in a group the following must be stated: Company name and address, name of contact person, as well as each individual participant’s percentage share of the licences applied for. It must specifically appear from applications from groups of companies which jointly apply for a licence which company is to undertake the operatorship.

b) For each applicant in a group the following must be stated:
   - The legal form and place in which the applicant is incorporated (a transcript from the register of companies and a certified translation into Danish or English to be attached), the location of its headquarters, composition of the board of directors and management, capital base, including size of share capital, the names and addresses of any shareholders holding at least one tenth of the share capital and the size of their holdings.
· The company’s organization, group structure, relations to associated companies, hydrocarbon reserves and production, as well as refining and marketing activities.

· Financial data about each participant and its parent company, if any, and about the group of which the participant or its parent company forms part. Annual reports and accounts for the three previous financial years are to be enclosed for each participant, including for any parent company and/or the group. If the following information does not appear from the annual accounts, it should be disclosed separately: annual turnover, annual investments and annual net income after tax broken down by:

  i: hydrocarbon activities
  ii: other activities

· The participants’ previous experience in exploring for and exploiting hydrocarbons.

· The participants’ previous experience in operations under physical conditions similar to those in the areas in question.

c) A drawing and/or map indicating which area(s) the application concerns, accompanied by a list of coordinates.

d) A description must be given of the work programme that is considered necessary to determine the hydrocarbon potential of the area or areas applied for, and which work the applicant undertakes to carry out. The work programme must indicate the proposed exploration activities and the attendant time schedule, see Appendix 3 to the Model Licence. A detailed account must be given of the prospects in the area(s) applied for, including a description of the play concept(s) and an assessment of the likelihood of making discoveries, with an indication of the values for the individual risk parameters. The description shall include a technical and economical evaluation of mapped prospects. Geological and geophysical maps and interpreted seismic lines should be attached.

e) The geological basis for selecting the area(s) applied for, including an outline of the applicant’s data bank.

f) If there are any conditions in an area applied for that may give rise to health and safety hazards (poisonous gases, abnormal pressure conditions, etc.) this must be disclosed. In addition, the applicant must state how such hazards will be handled.

g) Applicants must submit documentation for their objectives and organization for
environmental protection purposes, as well as their contingency plan for environmental emergencies and their previous experience in handling emergencies.

5. Fees

The following fees will be charged upon submission of an application and upon granting of an exploration and exploitation licence:

1) A fee of DKK 25,000 (twenty-five thousand) is to be paid on submission of the application.
   - Payment must be made free of charge by cheque to the Bureau of Minerals and Petroleum or by money transfer to BMP’s account in Bank of Greenland, (Grønlandsbanken), P. O. Box 1033, DK-3900 Nuuk, Greenland, account no. 6471 100117-2.
   - The fee is non refundable. A copy of the receipt for the fee paid is to be submitted with the application.

2) Upon the granting of an exploration and exploitation licence, an additional fee of DKK 100,000 (one hundred thousand) is to be paid by the licensee, cf. article 4 in the Model Licence.

6. Guarantee

In order to ensure fulfilment of the licensee’s obligations under the licence, the ultimate parent company (and/or ultimate owners of major shareholdings) of each company participating in a licence shall within 30 days following the granting of the licence sign the declaration of guarantee mentioned under section 7(4) of this letter.
7. Supplementary material

The following material is available from the BMP website (www.bmp.gl) or by direct request to the BMP for use in preparing an application:

(1) Act on Mineral Resources in Greenland (the Mineral Resources Act)

(2) Model Licence 2004


(4) Text of a Model Guarantee.

(5) GHEXIS Newsletters (Greenland Hydrocarbon Exploration Information Services) issued between 1997-2004 by the Geological Survey of Denmark and Greenland (GEUS) and BMP.

(6) Furthermore supplementary material on laws and regulations, taxes, environment and ice conditions etc. is available by request to the BMP.

(7) Information about the geology of the areas can be obtained from the Geological Survey of Denmark and Greenland (GEUS); website: www.geus.dk

8. Miscellaneous

Information regarding the applicant’s business affairs will be treated confidentially by the authorities. However, the BMP is entitled to pass such information, subject to the same duty of non disclosure, to other public authorities and the BMP’s consultants, as well as to communicate information of a general nature about the licences to the general public, e.g. in connection with official statements.

Applications will be accepted from groups of companies as well as from individual companies. If overlapping applications are received, and it is not possible to adjust the areas to comply with them, the selection criteria’s will be used to select between the applicants.

Licences will be considered and granted on the basis of the information contained in the applications. The BMP reserves the right to request supplementary information for use in considering the applications. No applicant is entitled to receive information about other applications submitted or their contents.
Applications will be processed by the BMP and will be presented to the Government of Greenland and the Danish Government who jointly will decide on the granting of licences. The Government of Greenland and the Danish Government plan to award licences at new year 2004/2005.

The authorities may decide not to grant a licence on the basis of any application received.

Yours sincerely

Hans Kristian Schønwandt
Deputy Minister
The four licence areas (1-4)
West Greenland Licensing Round 2004