Licensing Rounds in the Greenland Sea Area

Invitation to apply for Hydrocarbon Exploration and Exploitation Licences

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 subsequent amendments, cf. Consolidated Act No. 368 of 18 June 1998, the Bureau of Minerals and Petroleum (BMP) hereby invites companies to apply for hydrocarbon exploration and exploitation licences for the offshore area in the Greenland Sea Area, specified in Section 3 and Enclosure 1.

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

An application may be submitted by fax or electronically but must concurrently be sent by courier or ordinary mail. The application, including enclosures, may be written in Danish or English.

The application shall be submitted in two (2) 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.
1. The KANUMAS Project

This Letter of Invitation outlines the terms of licensing rounds in offshore area in Northeast Greenland (the Greenland Sea Area). The area has been a part of the so-called KANUMAS project. The main elements of the KANUMAS project are outlined in this section.

The KANUMAS project was a regional seismic program that was initiated at the end of 1989. It included preliminary studies for hydrocarbons offshore Northwest and Northeast Greenland.

The KANUMAS project implied that a prospecting licence was granted to the “KANUMAS Group”, comprising Exxon, Statoil, BP, Japan National Oil Corporation (JNOC), Texaco, Shell and NUNAOIL A/S. The prospecting licence did not contain an exclusive right for the licence holders. The KANUMAS Group acquired 6.839 km of seismic data in Northeast Greenland in the years 1991, 1992, 1994 and 1995. In Northwest Greenland, 4.071 km of seismic data were acquired in 1992. NUNAOIL A/S was a carried partner and operator for the consortium.

The prospecting licence involved a substantial exploration obligation. In return, the companies in the KANUMAS Group were granted a special preferential position. The preferential position was to be activated if a call for tenders was made for licences for exploration and exploitation of hydrocarbon in Northeast and Northwest Greenland.

However, the KANUMAS Group has agreed only to exercise its preferential position in the area of Northeast Greenland (the Greenland Sea Area). The licensing round for the area of Northwest Greenland (the Baffin Bay Area) ended May 1st 2010 and 7 exclusive licences for exploration and exploitation have December 2nd 2010 been awarded to the following groups of companies:

ConocoPhillips, DONG Energy and NUNAOIL ("Qamut")
Shell, Statoil, GDF Suez and NUNAOIL ("Anu" og "Napu")
Cairn Energy and NUNAOIL ("Pitu", "Naparigaq" og "Ingoraq")
Maersk Oil and NUNAOIL ("Tooq")

With regards to the Northeast Greenland area (the Greenland Sea Area), the licensing rounds will accommodate the preferential position of the KANUMAS Group following a two-phased procedure as outlined below and in sections 2-9. The licensing rounds in the Northeast Greenland area (the Greenland Sea Area) will thus consist of a pre-licensing round and an ordinary licensing round.

The pre-licensing is reserved for the members of the KANUMAS licences offshore Northeast Greenland. The members of the KANUMAS Group are: StatoilHydro, BP, ExxonMobil, ChevronTexaco, Shell, Japan Oil, Gas and Metals National Corporation and NUNAOIL A/S.

Thereafter, a call for tenders is made in an ordinary licensing round for selected areas which, after the completion of the pre-licensing round, are not covered by licenses. This ordinary licensing round is open to all interested parties.
2. **The Greenland Sea Licensing Rounds – Timetable and milestones**

Pre Round for consortiums with participation of KANUMAS Group companies

2.1 On **1st May 2011**, the Greenland Government will determine and announce the designation of the 50,000 km² licensing area for the 2012 and 2013 Licensing Rounds.

2.2 On **1st September 2011**, the KANUMAS Group shall nominate the Pre Round Area of 30,000 km².

2.3 On **1st January 2012**, the Greenland Government shall (1) determine and announce the designation of the Pre Round Area of 30,000 km².

2.4 Deadline for submission of non-obligating Pre-Qualification application is on **1st March 2012**.

2.5 On **15th April 2012** a decision on the Pre-Qualification can be expected from the Greenland authorities.

2.6 Deadline for licence applications in the Pre Round is on **15th December 2012**.

2.7 Granting of licences in the Pre Round is reserved for companies or groups of companies (maximum three (3) companies plus NUNAOIL A/S). The application has to include at least one of the Paying KANUMAS Group Member or an Affiliate of a Paying Group Member of the KANUMAS Group. It is a condition for the exercise of this preferential right that companies which are members of a company group participating in the Pre Round fulfil the general requirements of an organizational nature for companies participating in such round, including such requirement following from laws, regulations, model licence terms, this letter of invitation and licensing round practice. It is also a condition for the exercise of the preferential right that the operator of a group participating in the Pre Round is a KANUMAS Group Member or an Affiliate thereof. The Greenland Government may demand that the operator of a group participating in the Pre Round has a participating interest of at least 20% (calculated without the public participation of NUNAOIL A/S) and does not have a lower percentage of participating interest than any other company in the group. It is furthermore a condition for the exercise of the preferential right that a real competitive situation exists in the Pre Round.

A company or group of companies applying for a licence shall be or include an approved Operator.

2.8 The offers received in the Pre Round will be evaluated and negotiated by the Greenland Government on the basis of fair and reasonable, generally used criteria.

2.9 On **15th March 2013**, the Greenland Government shall determine whether any licences shall be awarded in the Pre Round.
Ordinary licensing round open to all interested parties

2.10 After completion of the Pre Round, those parts of the total area of 50,000 km$^2$ which are not covered by licences shall be offered in the subsequent Ordinary Round.

2.11 Any company and group of companies may participate without limitations in the Ordinary Round. Groups which participated in the Pre Round, but whose offers were not accepted, may sustain their offers in the Ordinary Round.

2.12 On 15th June 2013, the Greenland Government will formally open the Ordinary Round.

2.13 Deadline for submission of non-obligating Pre-Qualification application is on 1st July 2013.

2.14 On 15th August 2013 a decision on the Pre-Qualification can be expected from the Greenland authorities.

2.15 Deadline for licence applications is on 15th October 2013 for companies or groups of companies (maximum three (3) companies plus NUNAOIL A/S).

A company or groups of companies applying for a licence shall be or include an approved Operator.

2.16 On 15th January 2014, the Greenland Government shall determine whether any licences shall be awarded in the Ordinary Round.
3. **The Greenland Sea Licensing Rounds – Area**

The 50,000 km² Licensing Area for 2012 and 2013 Licensing Rounds is shown below:

![](image)

The coordinates of the Licensing Areas are listed in Enclosure 1.
4. **The Greenland Sea Licensing Round – Outline of licence terms and fees**

Licences will be granted for an exploration period of up to 16 years with a right to a 30-year extension for areas where exploitation is intended, cf. section 11 of the Mineral Resources Act.

The exploration period of 16 years can be divided into a number of subperiods (following the Model Licence the exploration period is expected to be subdivided into 3 subperiods). A work programme is to be agreed for each subperiod before the Licence is granted.

At the end of each subperiod 30% of the total area at the start of the first subperiod of each Licence Block shall be relinquished.

The licensee may before the end of each subperiod choose either to surrender the Licence or to accept the work programme for the next subperiod.

Fiscal terms and fees:

- A fee of DKK 25,000 is to be paid upon submission of the application. A copy of the receipt for the fee paid is to be submitted with the application. The fee is non-refundable.

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

- The publicly 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 yearly on the 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 (for exact calculation see the Model Licence 2006). A surplus royalty of 7.5%, 10% and 12.5%, respectively, of the calculation basis shall be paid (see article 11 in the Model Licence for a detailed description).

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

- A fee of DKK 200,000 is to be paid by the licensee upon granting of an extension of a licence for the purpose of exploitation.

- An annual fee of DKK 1,000,000 is to be paid by the licensee for each exploitation licence.

- Reimbursement of DKK 250,000 annually is to be paid by the licensee for training of the Greenland authorities (BMP).

Fees must be paid free of charge by cheque to the Bureau of Minerals and Petroleum or by
money transfer to BMP’s account in the Bank of Greenland, (Grenlandsbanken), P. O. Box 1033, DK-3900 Nuuk, Greenland, account no. 6471 100117-2.

The licence terms are described in more detail in the Greenland Sea documents: Model Licence with appendices 1-7, Model Guarantee, Model Affidavit, and Model Joint Operating Agreement with appendices A and B.

5. **Licensing Round in the Greenland Sea Area - Pre-Qualification**

A company which wants to be the Operator under a licence to be applied for in the **Greenland Sea Area Licensing Round – Pre Round** must submit a non-binding Pre-Qualification application no later than 1st March 2012. A decision on the pre-qualification can be expected on 15th April 2012.

A company which wants to be the Operator under a licence to be applied for in the **Greenland Sea Area Licensing Round – Ordinary Round** must submit a non-binding Pre-Qualification application no later than 1st July 2013. A decision on the pre-qualification can be expected on 15th August 2013.

The purpose of Pre-Qualifying operators is to document at an early stage:

- that a subsequent operator can carry out activities in accordance with good international practice, as established for hydrocarbon activities carried out under similar conditions,
- that the HSE-organization of the operator is in line with internationally recognized standards, and
- that the collective licence group has the necessary financial capability to carry out exploration and exploitation in the Licence Block(s) applied for.

For the avoidance of doubt it must be emphasized that the Pre-Qualification is not directed towards any specific block or blocks. It is a general non-binding registration and assessment covering the whole licensing area. This also means that there is no obligation to forward a licence application afterwards.

A company or group of companies applying for an exploration and exploitation licence shall be or include an approved Operator.

On the above-mentioned deadlines, potential Operators are kindly required to submit the following information to BMP. The data must be divided into the following categories:

- Company name and address, name of contact person.
- The legal form and place in which the company is incorporated (a transcript from the register of companies and a certified translation into Danish or English to be attached), the registration number of the company, the location of its headquarters, composition of the board of directors and management and 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 the company and its parent company, if any. Annual reports and accounts for the three previous financial years are to be enclosed, including for any parent company.

- The company's previous experience in exploring for and exploitation of hydrocarbons.

- The company's previous experience in operations under physical conditions similar to those in the areas in question.

- The company must submit documentation for their general objectives and organization for environmental protection purposes, as well as their standard contingency plan for environmental emergencies and their previous experience in handling emergencies.

6. **Licensing Round in the Greenland Sea Area - Selection criteria**

When applications for licences for exploration and exploitation are assessed and licences are granted, the evaluation of applications will be based on the following primary selection criteria which will be given equal weighting:

(a) The applicant's technical capability, including:

- the applicant’s previous experience in exploration for and exploitation of hydrocarbons, and

- the applicant’s previous experience in exploration for and exploitation of hydrocarbons in similar areas (areas with similar conditions).

(b) The applicant’s financial capability.

(c) The way in which the applicant intends to explore and begin exploitation of (bring into production) the area comprised by the application (any and all proposed licence area(s)), including:

- the applicant's systems and procedures in relation to Health, Safety and Environment (HSE), and

- the applicant’s willingness and ability to explore thoroughly for hydrocarbons in the area comprised by the application (any and all proposed licence area(s)) as demonstrated by the quality and scope of the proposed work programme and attendant documentation.

If, following evaluation under the primary selection criteria stated above under letters (a), (b)
and (c), two or more applications have equal merits, the final selection among them will be made on the basis of the following secondary selection criterion: The applicant's willingness and ability to contribute to the Greenland authorities' continued development of a strategic environmental impact assessment.

7. **Licensing Round in the Greenland Sea Area - Content of the application for Hydrocarbon Exploration and Exploitation Licences**

The application must contain the information set out below and must be divided into sections as listed in the below items.

a) The name of the Pre-Qualified Operator.

b) The Licence Block number(s) applied for. Licence Blocks must be prioritized if more than one Licence Block is applied for.

c) 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 description must be given of probable leads and prospects in the area(s) applied for, including an outline of the play concept(s) and an assessment of the likelihood of making discoveries. Geological and geophysical maps must be attached.

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

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

Information given in the Pre-Qualification application shall not be included again (please refer to the Pre-Qualification).

**Information regarding the operating applicant in a group (i.e. the Pre-Qualified Operator)** (to the extent the said information has not been given in the Pre-Qualification application):

f) Financial data about the company 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, 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
Information regarding the non-operating applicants in a group (i.e. non-operators):

g) For each applicant (non-operator) 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.

h) For each applicant (non-operator) 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 registration number of the company (if any), 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 (non-operator) organization, group structure, relations to associated companies, hydrocarbon reserves and production, as well as refining and marketing activities.

- Financial data about each participant (non-operator) 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’ (non-operator) previous experience in exploring for and exploiting hydrocarbons.

- The participants’ (non-operator) previous experience in operations under physical conditions similar to those in the areas in question.

- Applicants (non-operator) must submit documentation for their general objectives and organization for environmental protection purposes, as well as their standard contingency plan for environmental emergencies and their previous experience in handling emergencies.
8. Guarantee

In order to ensure fulfilment of the licensees' 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 12(d) of this letter.

9. Supplementary material

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

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

b) Model Licence Greenland Sea

c) Model Joint Operating Agreement

d) Text of a Model Guarantee

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

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

10. 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 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 (maximum three (3) companies plus NUNAOIL A/S) as well as from individual companies.

Applications will be assessed and licences will be granted on the basis of the information contained in the applications. The BMP reserves the right to request supplementary information for use in assessing the applications. No applicant is entitled to receive information about other applications submitted or their content.

Applications will be processed by the BMP and will be presented to the Governments of Greenland and Denmark who will jointly decide on the granting of licences, if the decision making competence regarding mineral resources is still shared at the given time. If the decision making competence regarding mineral resources has been fully transferred to the Greenland Government at the given time, the decision on the granting of licences will be made by the Greenland Government.

The authorities may decide not to grant a licence on the basis of any application received.
The Government of Greenland and the Bureau of Minerals and Petroleum have taken care to provide accurate information in this letter of invitation with enclosures. No legal obligations shall be made by or arise out of any errors, omissions or inaccuracies in this letter of invitation with enclosures or the Greenland Sea licensing rounds documents (Model Licence with appendices 1-7, Model Guarantee, Model Affidavit, Model Joint Operating Agreement with appendices 1 and 2).

The Government of Greenland and the Bureau of Minerals and Petroleum may, in their sole discretion, amend this letter of invitation with enclosures and the licensing round documents in order to correct any errors, omissions or inaccuracies. The Government of Greenland and the Bureau of Minerals and Petroleum shall not be responsible or liable in any manner for any errors, omissions or inaccuracies in this letter of invitation with enclosures or the licensing round documents or any damage, loss or cost directly or indirectly caused by or arising out of such errors, omissions or inaccuracies.

Yours sincerely

[Signature]

Jørn Skov Nielsen
Director of the Bureau of Minerals and Petroleum
Enclosure 1

The coordinates of the Licensing Area of the Greenland Sea Area are listed below:

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The area comprises 50.000 km².