



GOVERNMENT OF
NEWFOUNDLAND
AND LABRADOR

2002-03 Annual Performance Report

Department of Mines and Energy



May 28, 2004

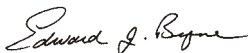
Honourable Harvey Hodder
Speaker of the House of Assembly
House of Assembly
P.O. Box 8700
St. John's, NL

Dear Honourable Speaker:

In accordance with government's commitment to accountability, I hereby submit the 2002-03 annual performance report for the former Department of Mines and Energy. This report was prepared under my direction, and addresses the department's activities and outcomes from April 1, 2002 to March 31, 2003.

This annual report documents our efforts to serve the people of our province. We are committed to continuing these efforts in the year ahead.

Sincerely yours,



EDWARD J. BYRNE, M.H.A.
Minister

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Departmental Overview

Vision and Mission

The Department of Mines and Energy's vision is that, through its leadership, Newfoundland and Labrador will realize the full potential and benefit from its mineral and energy resources.

The Department of Mines and Energy promoted and facilitated the sustainable development of the province's mineral and energy resources through its resource assessment, management and development activities for the overall benefit of the citizens of Newfoundland and Labrador.

Organizational Structure

Administratively, the Department operated under three branches in 2002-03: the Mines Branch (Mines), the Industrial Benefits Branch (Benefits) and the Energy Branch (Energy). The Department's 139 employees were primarily located in St. John's, with the exception of five Mines' positions located in Pasadena, Grand Falls-Windsor, Happy Valley-Goose Bay and Wabush.

Mines is responsible for the assessment, promotion, development and management of the province's geology, mineral resources and mineral potential in a manner that maximizes the contribution of this sector to the economic well-being of the province. The objective of the Branch is to attain a high level of sustained investment in mineral exploration and development. The Branch's expenditures were \$18.6 million with a staff complement of 89 persons. Its activities were carried out within three Divisions - Geological Survey, Mineral

Lands and Mineral Development.

Large scale resource development projects in the mining, petroleum and energy sectors often provide significant business and technology transfer opportunities for companies operating within Newfoundland and Labrador. The goal of the Industrial Benefits Branch is to maximize the benefits to the local economy from the development of these major projects. Focus is placed on securing a major share of development expenditures and employment and other value-added activities. Strategic positioning, benefits commitments negotiation and monitoring, strategy development and implementation, and the identification, enhancement and international promotion of industrial capabilities are essential elements of industrial benefits activities. The Branch had 11 employees in 2002-03 and its expenditure totalled \$767,626 including almost \$300,000 spent through the Offshore Fund for Research and Development.

Energy is responsible for promoting and facilitating the effective and efficient management of the province's electricity and petroleum resources from assessment through to development and production. Branch activities support the maximization of provincial benefits from energy resource production as well as the Ministerial accountability functions for the Newfoundland and Labrador Hydro (Hydro) group of companies and the Canada-Newfoundland Offshore Petroleum Board (C-NOPB). The Branch's operating budget for fiscal 2002-03 totalled \$4.0 million (including \$1.2 million for the C-NOPB) with a total staff complement of 38 persons. Activities were structured under four divisions - Petroleum Resource Development, Electricity Industry Development, Petroleum Projects Monitoring

and Policy and Strategic Planning.

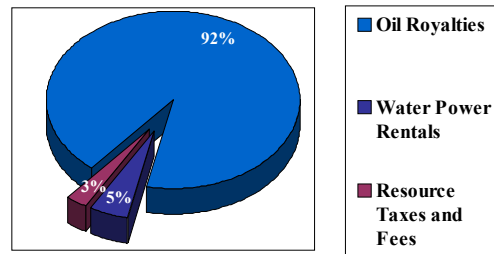
Revenue

The 2002-03 Public Accounts reported that the Department received \$78.9 million in revenue from the mining and energy sectors. This included oil royalties of \$72.3 million, \$4.3 million from water power rentals and \$2.3 million from quarry royalties and fees.

In addition, the Province also received \$14.5

2002-03 REVENUE

\$78.9Million



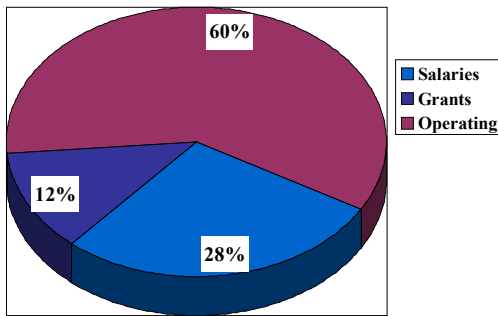
million from the C-NOPB in fees and forfeitures, dividends of \$49 million from Hydro, a further \$ 17.3 million in mining taxes and royalties and \$665,000 in Offshore Statutory Royalties.

In total, the mining and energy sector contributed \$160 million to the Provincial Treasury in 2002-03.

Expenditure

The Department spent \$25.5 million in 2002-03. Of this, salaries represented \$7.1 million and operating expenses were \$15.2 million. In addition, the Department provided \$3.1 million under various programs to support the exploration and development of the province’s mining and energy resources.

2002-03 EXPENDITURE
\$25.5 Million



Lines of Business

Five lines of business were carried out through the three Branches, with support from the centralized human resources, information technology and administration divisions of the Department of Forest Resources and Agrifoods. The lines of business were: resource assessment, resource development, resource management, project benefits optimization and policy and executive support.

Strategic Issues

In February 2000, the Department analyzed its environment, and given its vision, values and goals, determined that Department-wide strategic issues to be faced over the fiscal years 2001-02 to 2003-04 were:

- Increasing exploration investment in Newfoundland and Labrador;
- Optimizing benefits from mineral and energy resource development;
- Development of a comprehensive electricity policy;
- Promoting and enhancing resource assessment, development and management.

Transshipment Terminal located at Whiffen Head, Placentia Bay



SHARED COMMITMENTS

In 2002-03, the Department continued to work closely on shared commitments with other provincial, territorial and federal governments, government agencies, and industry players and associations.

Several federal government departments and agencies have mandates that complement our own. These include Natural Resources Canada (NRCan), the Geological Survey of Canada, Industry Canada, Environment Canada, Fisheries and Oceans, and the Canadian Environmental Assessment Agency. The Department worked closely with these departments and agencies on various issues that impacted resource development including regulatory review, legislative development and environmental assessment.

The Department and NRCan share responsibility for the C-NOPB, the joint offshore management board. The C-NOPB administers provisions of the parallel federal and provincial legislation dealing with offshore resource development and management, commonly referred to as the Atlantic Accord Acts.

Another government agency with whom the Department is in frequent contact is Newfoundland and Labrador Hydro (Hydro), a provincial crown corporation accountable to the Minister of Mines and Energy. Hydro is responsible for the generation and transmission of electricity throughout the province, and for some distribution services.

Throughout 2002-03, the Department maintained a high level of contact with individuals, companies and associations

involved in our mineral, electrical and petroleum resource sectors. Producers such as Wabush Mines, Iron Ore Company of Canada, Petro-Canada, Hibernia Management and Development Corporation and Husky Energy Inc. were but a few of the companies involved in the province's natural resource sector, along with 450 individual prospectors and 150 junior exploration companies.

These companies and individuals also have a voice through various industry associations. The Canadian Electricity Association, Newfoundland and Labrador Chamber of Mineral Resources, Newfoundland Ocean Industries Association (NOIA), the Prospectors and Developers Association of Canada (PDAC), the Mining Association of Canada (MAC), and the Canadian Association of Petroleum Producers (CAPP) were in constant contact with the Department in 2002-03 to ensure that the concerns of their members were known, understood and addressed. Also, the Department was a key participant in events, conferences, and trade shows, and once again celebrated mining week in Newfoundland and Labrador.

In addition to the other provincial / territorial and federal departments and agencies, the Department worked closely with many departments from this Province. Environment, Industry, Trade and Rural Development, Justice, Finance, Petroleum Products Pricing Commission, Executive Council, Labour, Labrador and Aboriginal Affairs, and Tourism, Culture and Recreation are just a few that worked with us on many things such as environmental issues, business development, taxation matters and the promotion of our mining, petroleum and electricity industries.

We also worked with educational institutions

such as the College of the North Atlantic, Memorial University and the Fisheries and Marine Institute of Memorial University. These institutions have developed educational and training programs targeting the needs of the province's growing mining and petroleum sectors.

The Department recognizes the significant role that these, and other, stakeholders provided in reaching goals and milestones achieved in 2002-03 and would like to express appreciation for their support.

IOCC Mining Operations in Labrador



Highlights and Accomplishments

Petroleum Sector

April 2, 2002: The arbitration tribunal in the Newfoundland and Labrador/Nova Scotia Offshore Boundary Dispute established a line that awarded almost 70 per cent of the area that was in dispute between the two provinces to Newfoundland and Labrador.

May 22, 2002: A meeting of Atlantic Energy Ministers was held as a first step in the establishment of an Atlantic Energy Ministers' Forum to provide an on-going opportunity for provinces to identify where they should focus their collective efforts to ensure that the energy sector in Atlantic Canada continues to grow into the future for the benefit of all Atlantic Canadians.

June 18 - 20, 2002: NOIA held their 18th Annual International Conference. Discussions centered on the renewed interest in exploration offshore and the activity provided to our region with resolution of the offshore boundary dispute.

July 17, 2002: The Department highlighted the Province's natural gas potential and promoted our petroleum resources to encourage exploration at the 2nd Annual Atlantic Gas Symposium in Halifax, Nova Scotia.

August 24-27, 2002: The Province hosted the Energy Council's North Eastern Energy Forum. Members of the U.S. Senate, the U.S. House of Representatives, provincial and federal governments, and industry discussed the principle market needs of U.S. energy customers.

September 30, 2002: Government and NOIA

co-hosted an offshore natural gas forum. Participants examined the offshore resource potential of the province, evaluated and considered new technologies for gas development, and analyzed market opportunities that could lead to early gas development offshore Newfoundland and Labrador.

October 29, 2002: The Province announced its continued support for climate change action, but reserved approval of the federal decision to ratify the Kyoto Protocol.

November 18, 2002: NOIA honoured the Government of Newfoundland and Labrador at their 25th anniversary celebrations through a special award which recognized this province's continuing commitment to developing offshore resources in a responsible manner, and in partnership with industry.

December 13, 2002: The first Onshore Request for Bids for the issuance of petroleum exploration permits in the onshore area of Newfoundland and Labrador since 1996 saw eight parcels of land covering an area in excess of 202,000 hectares selected. These bids amounted to just over \$3.3 million in work commitments over the next five years.

February 13, 2003: Petro-Canada and Encana commenced their deep water drilling program in the Flemish Pass Basin at a water depth of over 1,100 meters. This was the first deep water drilling program in the NL offshore area in more than a decade, and the first time exploratory drilling had ventured outside the Jeanne d'Arc Basin since the 1980s.

Mining Industry

May 13, 2002: Mining Week was declared in the province to recognize the importance of this sector in the Newfoundland and Labrador economy.

June 11, 2002: The Government of Newfoundland and Labrador and Inco Ltd. signed a Statement of Principles to develop the Voisey's Bay mineral deposit in northern Labrador and to establish an experimental and technologically advanced processing facility on the island at Argientia.

October 7, 2002: The Government of Newfoundland and Labrador and Inco Ltd. signed a Development Agreement and an Industrial and Employment Benefits Agreement for the Voisey's Bay Project. Over the life of the project, the total capital investment in the province will exceed \$2.9 billion and total employment benefits are estimated to be 76,000 direct and indirect person-years. Provincial Gross Domestic Product impact over the 30-year period is estimated to be approximately \$11 billion.

October 31, 2002: The 26th Annual Mines and Energy Review of Activities and Open House was held in conjunction with the 49th annual meeting of the Newfoundland Branch of the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) as part of the Department's promotional activities.

March 27, 2003: Funding was continued for the Mineral Incentive Program to help groups and individuals conduct exploration programs throughout the Province.

Other

July 22, 2002: The C-NOPB's 2001-2002 Annual Report was released outlining its accomplishments for the reporting period.

September 16-18, 2002: The 59th annual Mines and Energy Ministers' Conference provided an opportunity for the Departmental officials to gain a better understanding of industry concerns and interests that could affect current and future business opportunities in our province and to foster a stronger relationship with industry partners.

November 1, 2002: Government announced its intention to amend the province's Atlantic Accord Implementation Acts to strengthen the offshore occupational health and safety regime. This amendment will build upon and strengthen the current regulatory framework.

November 25, 2002: The board of Newfoundland and Labrador Hydro passed a resolution supporting the development of the Gull Island Hydro Electric Project.

December 3, 2002: A production rate increase was granted to the Terra Nova Project. This production rate increase will trigger the higher royalty rates earlier than expected, and will result in greater more royalty revenues for the province.

Key Achievements and Priorities

Fiscal year 2002-03 was a year of highlights and achievements for the Department of Mines and Energy. The following section outlines the Department's priorities in 2002-03 and the steps that were taken to meet these priorities.

Increasing Exploration Investment in Newfoundland and Labrador

Exploration is one of the key activities that leads to economic growth and development in the province. Some of the activities undertaken in 2002-03 to encourage new exploration investment in Newfoundland and Labrador were:

- The Province enhanced its promotional efforts at national and international oil and gas events. The Premier, the Minister of Mines and Energy and senior officials participated in these conferences and meetings to promote the resources of our Province.
- The Department continued to refine resource estimates, to publish technical reports and to focus its promotional efforts. The release of new geological maps increased exploration activities in various areas of the province.
- Development of the Mineral Rights Administration System continued in 2002. The system will be operational during the 3rd quarter of 2004 and will enable online staking of mineral claims via the Internet and allow clients to stake claims in Newfoundland and Labrador from anywhere in the world.
- In August 2002, the Energy Council hosted the North Eastern Energy Forum in St. John's which helped the province gain a better

understanding of the principle market needs of potential energy customers in the U.S.

- The Mineral Incentive Program (MIP) continued to receive \$2.23 million in funding. To the end of March 2003, it had funded 377 prospector assistance grants, 93 junior company exploration assistance grants and 21 dimension stone incentive program grants, and project expenditures had totaled over \$15 million.
- Production enhancements at Hibernia, production rate increases at Terra Nova and the start of construction on the White Rose project all demonstrated this province's positive investment climate. This, in conjunction with ongoing efforts regarding regulatory efficiencies, improved the province's competitive positioning and promoted this province as a good investment destination for business.
- The resolution of the Newfoundland and Labrador/Nova Scotia offshore boundary dispute set the stage for new exploration in the potentially petroleum-rich Laurentian Subbasin.

Optimizing Benefits from Mineral and Energy Resource Development

This year marked the third time in five years that Newfoundland and Labrador led the country in gross domestic product (GDP) growth. Much of this corresponds to the growth in the province's mining and energy sectors. The total value of output from these industries in 2002 was \$2.7 billion, for a total contribution to GDP of almost 22% ; 17.9% from mining and oil and gas extraction and 3.7% from electricity. The growth of these sectors over the past several years is impressive and new benefits continue to accrue to the people of the province.

Major resource development projects are highly capital intensive and, oftentimes, create significant opportunity for provincial benefits. The engineering, fabrication, construction, service and supply communities all have tremendous opportunity to benefit from multi-billion dollar mega-projects. Our expectations to achieve these benefits must be balanced with industry's need for stable regulatory and legislative regimes relative to cost competitiveness.

- The reporting year saw benefits opportunities arising from several resource development initiatives including White Rose and Terra Nova. The Department continued to seek out new investment opportunities in Newfoundland and Labrador.
- In 2002-03, royalties from Hibernia and Terra Nova totaled \$73 million.
- Other taxes, mainly from the mining industry, contributed a further \$19.7 million to Government revenue.
- Government became involved in a process with relevant federal departments, our Nova Scotia counterparts and the petroleum industry to address issues in the regulatory process. These changes would address industry's concerns and foster a stronger investment climate.

The commencement of work on the Voisey's Bay Project resulted in the expenditure of \$5.5 million between September 2002 and March 2003.

Development of a Comprehensive Provincial Electricity Policy

The responsible development of our electricity industry is vital to future economic growth in the province. In 2002-03, the Department continued to seek out new opportunities for electrical development and enhanced management of this important resource.

- Throughout the reporting period, the Department continued its review of electricity policy issues. A two week extension to the public consultation process of the discussion document that was released in March 2002 was announced. The electricity policy review was initiated in 1998 to examine the structure of the electricity industry, its regulation, the pricing of electricity, how electricity could contribute to the province's economic development, and future sources of electricity generation that may be available. The consultations provided opportunity for public and stakeholder input into the future direction of electrical policy.
- During 2002, construction continued on four generation projects which will supply electricity to the Hydro grid in 2003. These include hydroelectric projects at Granite Canal, Grand Falls and Bishops Falls with a co-generation project at Corner Brook.

Promoting and Enhancing Mineral and Energy Resource Assessment, Development and Management

Both the mineral and energy sectors are global in nature. The Province's business, regulatory and political environments must be internationally competitive. We must

continually send the message that we are open for business, while ensuring that the people of the province receive full and fair benefits from the development of their resources. The Department took several key steps in 2002-03 to improve our investment climate.

- The Industrial Benefits Branch was transferred to Mines and Energy, reflecting the Department's commitment to and the importance of maximizing benefits from resource development.
- Inco and the Province negotiated an agreement on the Voisey's Bay development.
- The Province remained steadfast in pushing its interest with respect to climate change and the Kyoto Protocol. Departmental policies were aimed at mitigating the negative potential competitiveness impacts on industry of some federal climate change initiatives under consideration at that time, while promoting our clean hydro electricity resources.
- In order to balance the interests of the people of Newfoundland and Labrador with the interests of industry, Government worked to ensure that provincial benefits commitments from the White Rose development would be realized.
- The Department, as well as relevant government departments from both the federal government and the Government of Nova Scotia, the Canada-Nova Scotia Offshore Petroleum Board and the C-NOPB, engaged in extensive discussions with industry on ways and means to improve the efficiency and effectiveness of our regulatory framework.

OPPORTUNITIES AND CHALLENGES AHEAD

Increasing Exploration

The Department will continue to promote exploration investment in the Province. New exploration will lead to new discoveries and new developments that will benefit the people of Newfoundland and Labrador. The challenge is to ensure that our investment climate is competitive with other jurisdictions. The Department must also work closely with stakeholders to come up with innovative solutions to hasten future resource developments.

Bay d'Espoir Hydro Facility



Lower Churchill River Project

Development of the Lower Churchill Hydro resource potential (Gull Island and Muskrat Falls) will provide 2,824 Megawatts of clean, renewable energy and significant benefits to the people of Newfoundland and Labrador. The key challenges associated with this opportunity include overcoming the long distance to markets, the \$4 billion investment required to fund the project and finding a long-term customer(s)/partner(s) investor who will help to facilitate project financing.

Natural Gas Development

Our offshore natural gas resources present a tremendous opportunity for the province. Discovered resources have been proven at 9.9 trillion cubic feet of gas (TCF) and our total offshore undiscovered potential has been estimated at greater than 50 TCF. The challenge for the Province is to advance natural gas development sooner rather than later. We have to promote greater exploration to find new discoveries, we have to work with all stakeholders in pursuing technology-based solutions, and we have to align our fiscal and regulatory regimes with industry's interest in order to promote economic gas development.

FINANCIAL STATEMENTS
DEPARTMENT OF MINES AND ENERGY
STATEMENT OF EXPENDITURE AND RELATED REVENUE - SUMMARY
FOR THE YEAR ENDED MARCH 31, 2003

	ACTUAL \$	ESTIMATES AMENDED \$	ESTIMATES ORIGINAL \$
1.1.01 Minister's Office	494,786	495,500	444,700
1.2.01 Executive Support	724,993	731,200	576,500
1.2.02 Major Projects Benefits Office	962,667	1,060,200	640,800
Less Revenue	(99,133)	(183,500)	(183,500)
2.1.01 Geological Survey	3,675,264	3,682,500	3,389,600
Less Revenue	(5,289)	(34,000)	(34,000)
2.1.02 Mineral Lands	884,285	886,200	873,400
Less Revenue	0	(5,000)	(5,000)
2.1.03 Mineral Development	14,456,209	15,711,000	13,482,000
Less Revenue	(392,741)	0	0
3.1.01 Policy & Strategic Planning	732,340	743,800	856,800
Less Revenue	0	0	0
3.1.02 Petroleum Resource Development	752,998	854,300	761,400
3.1.03 Canada/Newfoundland Offshore			
Petroleum Board	3,027,500	3,027,500	3,027,500
Less Revenue	(1,832,139)	(1,513,800)	(1,513,800)
3.1.04 Petroleum Projects Monitoring	999,383	1,025,100	1,207,500
Less Revenue	(15,000)	(30,000)	(30,000)
3.1.05 Electricity Industry Development	414,424	448,100	467,300
4.1.01 Industrial Benefits	602,000	609,005	441,305
4.1.02 Research and Development –			
Offshore fund	296,652	419,400	800,000
Less Revenue	(131,026)	(600,000)	(600,000)
TOTAL	<u><u>25,548,173</u></u>	<u><u>27,327,505</u></u>	<u><u>24,602,505</u></u>

Please refer to Volume III of the Public Accounts which were previously tabled in the House of Assembly, for detailed financial information.