



THE PREMIER

GOVERNMENT OF
NEWFOUNDLAND AND LABRADOR

June 10, 2004

Dear Prime Minister Martin:

I am writing further to our telephone conversation of Saturday past, June 5, 2004, at which time you advised me of your commitment that Newfoundland and Labrador has to be the principal beneficiary of our offshore resources and your acceptance and support of the proposal my government made to you for a new Atlantic Accord Offset Mechanism. Once again, I thank you for your support on this and other matters that are important to the people of our Province. An important task for both of us now is to ensure that Newfoundlanders and Labradorians have a clear and precise understanding of your commitments and what has been agreed to.

The proposal my government made to you and your Minister of Natural Resources provides for 100 % of direct provincial revenues generated by the petroleum resources in Newfoundland and Labrador Offshore Area, to accrue to the government of Newfoundland and Labrador and be sheltered from the clawback provisions of the equalization formula, (currently at 70%). Direct provincial revenues include royalties, provincial corporate income tax, and fees, forfeitures and bonuses. Our proposal is for the current time limited and declining offset provisions in the Atlantic Accord to be replaced by a new offset provision continuing over the life of the offshore petroleum production which would provide a payment equal to 100% of the amount of annual direct provincial offshore revenues, which are clawed back by the equalization program. The mechanism for this payment would continue to be through the Department of Natural Resources Canada.

The Right Honourable Paul Martin
Prime Minister
House of Commons
Langevin Block
80 Wellington Street
Ottawa, ON K1A 0A6

Prime Minister Paul Martin

June 10, 2004

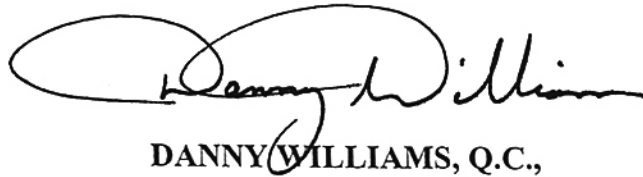
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To ensure clarity within the senior public service of both levels of government, I ask that you please confirm in writing our mutual understanding on this very important issue.

In conclusion, I am very pleased with your acceptance of our proposal that Newfoundland and Labrador be the principal beneficiary of the oil and gas resources off its shores and receive 100% of net direct provincial offshore revenues from these resources after the impact of the equalization program is taken into account. It is also important there be clarity and no misunderstandings or equivocations when our Ministers and officials meet to prepare for the implementation of what has been agreed to.

I look forward to receiving your positive response.

Sincerely,

A handwritten signature in black ink, appearing to read "Danny Williams". The signature is fluid and cursive, with a large loop at the beginning and a long tail that extends to the right.

DANNY WILLIAMS, Q.C.,