

GUIDELINES ON THE ISSUANCE OF EXPLORATION LICENCES
OCTOBER 5, 1993

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Allowable Expenditures SCHEDULE A

1. PURPOSE

This Guideline sets out the policies and procedures of the Canada-Nova Scotia Offshore Petroleum Board (the "Board") with respect to the issuance of Exploration Licences. These policies and procedures are subject to change without notice. In addition, the making of a call for bids and the issuance of an Exploration Licence are "fundamental decisions" within the meaning of the legislation, and as such are subject to review by the Minister of Natural Resources for Canada and the Minister of Natural Resources for Nova Scotia. The legislation and any regulations made thereunder and the terms and conditions contained in any licence or call for bids will prevail in the event of any inconsistency with the contents of this Guideline.

2. APPLICABLE LEGISLATION

Petroleum rights in the offshore area of Nova Scotia are issued and administered by the Board pursuant to Part II of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, S.C. 1988, c.28, as amended, and Part II of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*, S.N.S. 1987, c.3, as amended.

3. CALLS FOR BIDS

Exploration Licences are issued pursuant to published calls for bids. Bidding will be solely on the basis of proposed work expenditure and no other factors will be considered in selecting the winning bid.

4. MINIMUM BID

The minimum bid that will be considered is \$1,000,000 of work expenditure.

5. TERM AND DRILLING REQUIREMENT

5.1 Subject to paragraph 5.9 below, the term of an Exploration Licence is 9 years (the maximum permitted by the legislation), consisting of two consecutive periods referred to as Period 1 and Period 2.

5.2 Period 1 is a period of 5 years commencing on the effective date of the licence. This period will be extended by one year if a well is commenced or a Drilling Deposit is posted before the end of the fifth year, as described in section 7 below.

5.3 If the drilling of a well has been commenced during Period 1 and continues beyond the sixth year of Period 1, Period 1 will be further extended for so long as the drilling of that well is being pursued diligently.

5.4 Period 2 immediately follows Period 1 and consists of the balance of the 9 year term of the Exploration Licence.

5.5 In order to validate an Exploration Licence for Period 2, the drilling of a well must be commenced within Period 1 and diligently pursued to termination. Failure to fulfill the drilling requirement will result in termination of the licence at the end of Period 1.

5.6 The geological objectives of the validation well are determined by the interest owner. The Board will not require the well to be drilled to any predetermined depth or horizon, provided that it adequately tests a valid geological target as declared by the interest owner.

5.7 There are no work requirements during Period 2, but refundable rentals are payable during Period 2 as described in section 10 below.

5.8 Upon the expiration of Period 2 the licence terminates and all lands revert to the Crown except those which have been converted to a Significant Discovery Licence or a Production Licence.

5.9 If a well has been commenced before the expiration of the licence, the licence will continue in force while the drilling of that well is being pursued diligently and for so long thereafter as may be necessary to determine the existence of a significant discovery based on the results of that well.

6. WORK DEPOSIT

6.1 The successful bidder will be required to post security for the performance of work in the amount of 25% of its work expenditure bid. The successful bidder must post this Work Deposit within 15 days of being notified that its bid was successful, as a condition of issuance of the Exploration Licence.

6.2 Upon the completion of work an interest owner may apply to the Board for approval of allowable expenditures incurred. The Work Deposit will be refunded to the extent of 25% of approved allowable expenditures.

6.3 An interest owner is not obligated to perform work. However if an interest owner does not perform work in the full amount of the bid, the unrefunded balance of the Work Deposit will be forfeited upon termination of Period 1.

7. DRILLING DEPOSIT

An interest owner may at its option extend Period 1 from 5 years to 6 years by commencing a well or posting a Drilling Deposit in the amount of \$250,000 before the end of the fifth year of Period 1. If a Drilling Deposit is posted, it will be refunded in full if the licence is validated for Period 2 by the drilling of a well. If a validation well is not drilled, the Drilling Deposit will be forfeited upon termination of the licence. Allowable expenditures cannot be applied against the Drilling Deposit.

8. FORM OF WORK DEPOSITS AND DRILLING DEPOSITS

8.1 Work Deposits and Drilling Deposits must be in the form of cash or promissory notes payable on demand to the Receiver General for Canada that a Canadian chartered bank has agreed to honour on presentment for payment. The form of security documents must be acceptable to the Board. An acceptable form of promissory note and bank guarantee will be included as part of the bid documents. No interest is paid on Work Deposits or Drilling Deposits.

8.2 Parties submitting a joint bid may post separate securities representing each party's proportionate share of the required Work Deposit or Drilling Deposit. However the Board will only deal with the representative appointed by the parties in accordance with section 56 of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act* and section 59 of the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*. The failure of any party to submit its share of the Work Deposit or Drilling Deposit will be considered the failure of all parties comprising the interest owner.

9. ALLOWABLE EXPENDITURES

9.1 The Work Deposit and rentals are refundable to the extent of allowable expenditures incurred. Allowable expenditures are reviewed from time to time and a current schedule of allowable expenditures will be published as part of each call for bids.

9.2 The schedule of allowable expenditures published in a call for bids will have application throughout the term of the Exploration Licence resulting from that call for bids even if allowable expenditure rates are subsequently revised for other calls for bids.

9.3 Allowable expenditures presently applicable are set out in Schedule A.

10. RENTALS

10.1 No rentals are payable in respect of Period 1.

10.2 Refundable rentals are payable in respect of each year of Period 2 at the rates set out in the call for bids. Rentals are currently \$2.50 a hectare for each year of Period 2. Rentals are payable annually, in advance, and should be paid by cheque or draft payable to the Receiver General for Canada. Failure to pay rentals within 90 days of notice of default will result in cancellation of the licence.

10.3 When Period 1 is extended beyond the sixth year due to the drilling of a well, the first year of Period 2 will be a partial year ending the day before the next anniversary date of the Exploration Licence. Rentals for the first year of Period 2 shall nevertheless be payable at the full annual rate and shall be paid in advance at the commencement of Period 2 .

10.4 No rentals are payable after the ninth year of the term of an Exploration Licence in cases where the licence continues in force beyond the end of the ninth year due to the drilling of a well.

10.5 Rentals will be refunded upon application to the extent of approved allowable expenditures incurred during Period 2. Allowable expenditures incurred in a particular year of Period 2 that are in excess of what is required to reduce rentals to zero in that year may be carried backward or forward for the purpose of reducing rentals paid or payable in previous or subsequent years of Period 2. Allowable expenditures incurred in Period 1 after completion of the first well may also be carried forward for this purpose into Period 2 to the extent that they have not been taken into account in refunding all or part of the Work Deposit.

10.6 Rentals are not refunded as a result of a surrender or partial surrender of the Exploration Licence.

11. RIGHTS ISSUANCE CYCLE

The Board has established a semi-annual cycle for the issuance of Exploration Licences as follows:

June Call Cycle

- **March 31** - Last day to submit nominations of lands to be considered for next call for bids.
- **June** - Calls for bids, if any, will be made during June . Depending on nominations received, calls may not always be made.
- **November** - Closing of calls for bids (specific date will be specified in call). Selection of bids by Board and notification of successful bidders.
- **January 1** - Issuance of Exploration Licences to successful bidders (effective date of Exploration Licences).

December Call Cycle

- **September 30** - Last day to submit nominations of lands to be considered for next call for bids.
- **December** - Calls for bids, if any, will be made during December. Depending on nominations received, calls may not always be made.
- **May** - Closing of calls for bids (specific date will be specified in call). Selection of bids by Board and notification of successful bidders.
- **July 1** - Issuance of Exploration Licences to successful bidders (effective date of Exploration Licences).

12. Nomination of Lands

12.1 Portions of the offshore area in respect of which no interest is in force are referred to as "Crown reserve area." Any person may request the Board to make calls for bids in relation to particular parcels of Crown reserve area or lands subject to an interest which are expected to become Crown reserve area. Such requests shall be considered by the Board but the Board is not bound to proceed with a call for bids in respect of any lands nominated.

12.2 Nominations need not be in any particular form. Nominated lands should be described in accordance with the Land Division Guideline. To the extent possible, each nomination should be comprised of contiguous full sections.

12.3 Calls for bids will ordinarily be for parcels no larger than 200 sections in the area of significant discoveries around Sable Island or 800 sections elsewhere. Nominated parcels should therefore be sized accordingly. The size and shape of a parcel which is the subject of a call for bids will not necessarily be as nominated.

12.4 No fee or deposit is required to nominate lands.

12.5 Nominations should be submitted before the closing date in sealed envelopes marked "LAND NOMINATION," addressed to:

Canada-Nova Scotia Offshore Petroleum Board
6th Floor, Toronto Dominion Centre
1791 Barrington Street
Halifax, Nova Scotia
B3J 3K9
Attention: Manager, Resources and Rights

12.6 The identities of persons nominating lands and the contents of the nominations will be kept confidential. Nominations become the property of the Board and will not be returned.

13. IDENTITIES OF BIDDERS

13.1 Under the legislation, if an Exploration Licence is issued as a result of a call for bids, it must be issued to the person who submitted the winning bid. Bids made in response to a call for bids must therefore identify the parties making the bid and their participating shares. The Board will publicly announce the identities of the successful bidders and the amount of the winning bid.

13.2 The identities of unsuccessful bidders and the amounts of their bids will not be disclosed.

14. BID DEPOSIT

14.1 Each bid must be accompanied by a Bid Deposit in the form of a bank draft or certified cheque in the amount of \$10,000 made payable to the Receiver General for Canada. Upon the announcement of the bid results, the Bid Deposits of unsuccessful bidders will be returned, without interest.

14.2 The successful bidder will receive a refund of the Bid Deposit, without interest, if the Work Deposit is posted within the time specified.

14.3 Failure to post the Work Deposit within the specified time will result in forfeiture of the Bid Deposit and disqualification of the bid.

15. ENVIRONMENTAL STUDIES RESEARCH FUND

15.1 Upon issuance of an Exploration Licence, the interest owner must pay Environmental Studies Research Fund (ESRF) levies under Part VII of the Canada Petroleum Resources Act for the year in which the licence is issued, and retroactive levies for the two preceding years (less any levies paid in respect of the same lands for the two preceding years by a previous interest owner). The amount of such retroactive levies will be specified in the call for bids. Thereafter, ESRF levies as fixed from time to time by the federal Minister of Natural Resources will be payable unless the interest owner surrenders the licence prior to the payment due date.

15.2 ESRF matters are not administered by the Board, but are the responsibility of the federal Minister of Natural Resources, who has delegated administrative responsibility to

the National Energy Board. ESRF levies are determined by multiplying the number of hectares of land included in the licence by the regional ESRF rate.

16. BENEFITS PLAN

Operators proposing to conduct work in the offshore area will ordinarily be required to submit a Canada-Nova Scotia benefits plan to the Board for approval. This is a plan required by the legislation for the employment of Canadians, and in particular, members of the labour force of Nova Scotia, and for providing manufacturers, consultants, contractors and service companies in Nova Scotia and other parts of Canada with a full and fair opportunity to participate on a competitive basis in the supply of goods and services.

17. MAILING LIST

Upon request the Board will add any person to the mailing list to receive notices of calls for bids. Notices of calls for bids will also be published in the Canada Gazette and the Royal Gazette (Nova Scotia) and such other newspapers and publications as the Board may deem appropriate.

18. CONTACT PERSON

Enquiries regarding the subject of this Guideline may be directed to the Manager, Resources and Rights.

SCHEDULE A (Amended October 9, 1998) **ALLOWABLE EXPENDITURES**

Drilling **\$ 450,000 / day for Jackup Rig** (includes mobilization, demobilization, logistical support, supply vessels and helicopters)

\$600,000 / day for Semi-submersible Rig or Drillship (includes mobilization, demobilization, logistical support, supply vessels and helicopters)

Seismic **At Cost** (Costs are subject to Board approval. Included are wellsite seabed surveys, 2D, 3D and Ocean Bottom Cable Seismic and purchased or reprocessed seismic. Included in the determination of actual costs of new seismic is mobilization, demobilization, field acquisition, processing, interpretation and preparation of final report.)

Overheads **Included in above rates**

Note:

1. Allowable Expenditures incurred between the bid award date and the effective date of the Exploration Licence will be allowable.

2. Notwithstanding the above rates, the Board and the interest owner(s) may mutually agree to apply any rate with respect to any work or activity not contemplated by those rates specified above.

(Allowable expenditures are reviewed from time to time and a current schedule of allowable expenditures will be published as part of each call for bids.)

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