

APPENDIX III

CALL FOR BIDS NO. NS11-1

FORM OF EXPLORATION LICENCE

EXPLORATION LICENCE NO. _____

The Canada-Nova Scotia Offshore Petroleum Board (the "Board") hereby issues this Exploration Licence ("Licence") to the interest holders set out in Schedule A, in the respective shares set out opposite the name of each interest holder. This Licence is issued pursuant to the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, S.C. 1988, c. 28, as amended, and the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*, S.N.S. 1987, c. 3, as amended (the "Legislation") and shall be subject to the following terms and conditions:

1. **INTERPRETATION**

Any words or phrases defined in the Legislation shall have the same meanings in this Licence unless the context otherwise requires.

2. **RIGHTS AND LANDS**

This Licence confers the rights attaching to Exploration Licences under the Legislation with respect to those portions of the offshore area described in Schedule A (the "Lands").

3. **TERM**

- (a) The effective date of this Licence is March 1, 2012.
- (b) Subject to paragraph 3(j) below, the term of this Licence is nine (9) years, consisting of two consecutive periods referred to as Period 1 and Period 2.
- (c) Period 1 is a period of six (6) years commencing on the effective date of the Exploration Licence. This period will be extended by one year if:
 - (i) A well is commenced prior to the end of the sixth year of Period 1 and is still being pursued diligently into the seventh year; or,

- (ii) A Drilling Deposit in the amount of \$500,000 is posted in accordance with section 5 of this Licence before the end of the sixth year of Period 1.
- (d) No extension to Period 1 will be granted if there are unpaid Environmental Studies Research Fund Levies.
- (e) 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.
- (f) Period 2 immediately follows Period 1 and consists of the balance of the nine (9) year term of this Licence.
- (g) In order to validate this Licence for Period 2, the drilling of a well must be commenced within Period 1 and diligently pursued to termination in accordance with good oilfield practice. Failure to fulfill this drilling requirement will result in the cancellation of this Licence at the end of Period 1.
- (h) The geological objectives of the validation well are determined by the Interest Owner and declared to the Board prior to the commencement of the well.
- (i) Upon the expiration of Period 2 this Licence shall terminate and all Lands shall revert to the Crown except those which have been converted to a Significant Discovery Licence or a Production Licence.
- (j) If a well has been commenced before the expiration of this Licence, this 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.

4. WORK DEPOSIT

- (a) The total Work Deposit required as security for the performance of work is 25% of the Work Expenditure Bid as set out in Schedule A (the "Work Deposit"). No interest will be paid on the Work Deposit. Failure to post the Work Deposit as security for the performance of work will result in forfeiture of the Bid Deposit.
- (b) This Work Expenditure Bid is based on the amount of money proposed to be expended on the exploration of the respective parcel and on research & development and education & training within Period 1 of the term of this

Licence, determined in accordance with the Schedule of Allowable Expenditures set out in Schedule B.

- (c) In submitting a Work Expenditure Bid, the bidder commits to spend at least 95% of the Work Expenditure Bid on exploration of the respective parcel.
- (d) There is no obligation for the bidder to include or to commit to spend money during Period 1 on research & development or education & training as part of the Work Expenditure Bid. However, in the event the bidder spends money on such purposes, a maximum of 5% of the Work Expenditure Bid may be applied for as an Allowable Expenditure as defined in Schedule B.
- (e) Allowable Expenditures approved in the first three (3) years of this Licence will be credited at a rate of 150% and carried forward to offset the Work Deposit.
- (f) Allowable Expenditures that are expended in Period 2 shall not be credited against the Work Deposit.
- (g) The Interest Owner is not obligated to perform work in the full dollar value of the Work Expenditure Bid under this Licence. However, if the Interest Owner does not perform work in the full amount of its Work Expenditure Bid, the unrefunded balance of the Work Deposit will be forfeited to the Receiver General for Canada upon the expiry, surrender or cancellation of Period 1.

5. DRILLING DEPOSIT

- (a) An Interest Owner may, at its option, extend Period 1 from six (6) years to seven (7) years if:
 - (i) A well is commenced prior to the end of the sixth year of Period 1 and is still being pursued diligently into the seventh year; or,
 - (ii) A Drilling Deposit is posted in the amount of \$500,000 before the end of the sixth year of Period 1.
- (b) The Drilling Deposit shall be in the amount of \$500,000 and shall be in a form acceptable to the Board. No interest will be paid on the Drilling Deposit.
- (c) Should a Drilling Deposit be posted, it will be refunded in full if this Licence is validated for Period 2 by the drilling of a well.

- (d) If a validation well is not drilled, the Drilling Deposit will be forfeited to the Receiver General for Canada upon the expiry, surrender or cancellation of Period 1.
- (e) Allowable Expenditures cannot be applied against the Drilling Deposit.

6. RENTALS

- (a) No Rentals are payable in respect of Period 1.
- (b) Refundable Rentals are payable during each year of Period 2 at the following rates:

Year	Amount per Hectare
7	\$2.50
8	\$5.00
9	\$7.50

- (c) For great certainty, Rentals shall be calculated on the basis on the total hectarage of Lands held as part of this Licence as of the anniversary date.
- (d) Rentals are payable annually, in advance, and should be paid by wire deposit, certified cheque or bank draft payable to the Receiver General for Canada. Failure to pay Rentals within ninety (90) days of notice of default will result in cancellation of this Licence.
- (e) 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 this 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.
- (f) If this Licence continues in force beyond Period 2, Rentals will be payable at the rates applicable during the last year of Period 2.
- (g) Rentals will be refunded upon annual application to the Board 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 forward for the purpose of reducing Rentals paid in 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.

- (h) Rentals are not refunded as a result of a cancellation, surrender or partial surrender of this Licence.

7. COST RECOVERY

The interest owner shall comply with the CNSOPB Cost Recovery Guidelines, attached as Schedule C, as amended from time to time, unless and until cost recovery regulations are promulgated by the governments.

8. ALLOWABLE EXPENDITURES

Allowable Expenditures shall be determined in accordance with Schedule B.

9. EXPLORATION PLAN

- (a) The Interest Representative must submit an Exploration Plan within ninety (90) days of the effective date of the Exploration Licence outlining the anticipated exploration of the Lands.
- (b) The Interest Representative must provide annual reports updating the Exploration Plan on the first anniversary of the Exploration Licence and each anniversary thereafter.

10. INDEMNITY

- (a) Holders of shares in this Licence shall at all times jointly and severally indemnify the Board and Her Majesty the Queen in right of Canada and in right of the Province of Nova Scotia against:
 - (i) all actions, claims and demands that may be brought or made by any person by reason of anything done or omitted to be done under this Licence by, through or under the Interest Owner or an interest holder, in relation to those portions of the Lands with respect to which they hold shares; and
 - (ii) all costs that the Board or Her Majesty the Queen may incur in connection with any such action, claim or demand.
- (b) For purposes of this section, the expression "Her Majesty the Queen" shall not include any Crown corporation.

- (c) This section 10 shall survive this Licence and will be included in any Significant Discovery Licences and Production Licences that may result from this Licence.

11. SUBMISSION OF GEOSCIENCE DATA

Upon expiry, surrender or cancellation of this Licence, the Interest Owner shall, if it is not already done so, immediately submit to the Board all geoscience data acquired with respect to the exploration of the Lands. This data will be subject to disclosure in accordance with the Legislation and the Board's Data Disclosure Policy.

12. REPRESENTATIVE

Unless otherwise designated in the prescribed manner, the representative of the Interest Owner for all purposes of Part II of the Legislation shall be as specified in Schedule A.

13. NOTICES

Any notice to the Interest Owner or any interest holder required or permitted under the Legislation may be given by personal delivery or single registered mail to the representative of the Interest Owner at the address specified in Schedule A, or such other address as may be designated to the Board by the representative from time to time, and shall be deemed to have been received by the representative at the time of delivery if personally delivered, or on the fifth day after mailing if sent by registered mail.

14. ENVIRONMENTAL PROTECTION

In accordance with the Legislation, prior to the authorization of any petroleum related activities on the Lands the operator must demonstrate to the satisfaction of the Board that such activities can be conducted in an environmentally safe manner. Special precautions, such as enhanced environmental assessments, more stringent mitigation measures and environmental effects monitoring may be required in some cases.

15. ACTIVITY AUTHORIZATION

- (a) Before carrying out any work or activity in the offshore area, an operator must first obtain an Operating Licence.

- (b) No activities related to the exploration for, development of or transportation of petroleum on the Lands can be conducted without a specific authorization issued by the Board. Operators are required to meet certain regulatory requirements before the Board can approve offshore petroleum related activities. The regulatory framework which governs offshore petroleum operations consists of the Accord Acts, its regulations, and Board guidelines and policies.

16. TIME LIMITATIONS

- (a) In the event any interest holder wishes to submit an application for a Declaration of Significant Discovery pursuant to the Legislation (“Application”), unless the Board otherwise agrees in writing, such Application shall be submitted within six (6) months following rig release of the drilling unit respecting the prospective discovery well, or six (6) months prior to the scheduled expiry date of this Licence, whichever occurs later.
- (b) Where any judicial review is explicitly stated to be available under any provision of the Legislation respecting any order, decision, or action by the Board, any application for such a judicial review shall be made no later than thirty (30) days following the date upon which such order, decision or action is effective pursuant to the Legislation.

17. DEEMED AGREEMENT

The acceptance of this Licence by the Interest Owner shall be deemed to constitute agreement by the interest holders to the terms and conditions contained herein.

IN WITNESS WHEREOF the Board has issued this Licence to be effective as of the 1st day of March, 2012.

CANADA-NOVA SCOTIA OFFSHORE
PETROLEUM BOARD

Chief Executive Officer

SCHEDULE B – EL
ALLOWABLE EXPENDITURES

1. The Interest Representatives is encouraged to have any expenditure it would like to have considered as an Allowable Expenditure reviewed by the Director, Resources and Rights, prior to the Interest Owner(s) commencing the work.

2. (a) Work shall be carried out by a party at arm's length from the Interest Owner. In the event that costs incurred are non-arm's length from the Interest Owner, the lesser of cost or fair market value as established by an independent third party expert will be considered for Allowable Expenditures.

(b) The definition of "arm's length" is that which is defined in the Income Tax Act.

(c) Each claim must be accompanied by a cost statement prepared and certified by a third-party auditor satisfactory to the Board.

(d) Expenses related to the third-party audit are the responsibility of the Interest Owner and shall not be included as an Allowable Expenditure.

(e) The Board shall approve the Terms of References/Scope of Work in relation to any audit to be performed in accordance with the requirements of this Schedule. The Board reserves the right to conduct its own audit if for any reason it deems it necessary to do so.

3. The Allowable Expenditures shall be the total calculated expenditures on the Lands (i.e. monies actually spent) based upon the following rates:
 - (a) Drilling: At cost.

 - (b) Seismic, Well-Site and Electromagnetic Surveys:
 - (i) 2-D, 3-D and Ocean Bottom Cable seismic: At cost.

 - (ii) Wellsite and seabed survey: At cost.

 - (iii) Resistivity or Controlled Source Electromagnetic (CSEM) surveys or any other survey of this type: At cost.

 - (c) Seabed & Other Surveys/Studies:

- (i) Environmental field studies that are required to obtain an authorization for work or activity: At cost.
 - (ii) Other surveys/studies agreed to by the Board: At an agreed rate.
 - (d) Research & Development and Education & Training: Maximum of 5% of the Work Expenditure Bid over the course of Period 1.
4. The Interest Representative may submit an application for credit against the Work Deposit or Rentals, as the case may be, in the form and manner required by the Board. The following conditions shall apply to such application:
- (a) Applications for credit against the Work Deposit must be received by the Board no later than thirty (30) days following the end of Period 1. Any expense which would otherwise be considered as an Allowable Expenditure, but was made prior to the effective date of this Licence and after the date upon which the Board selected the Interest Owner's bid, shall be considered for inclusion as an Allowable Expenditure for Period 1;
 - (b) Applications for credit against Rentals must be received annually by the Board no later than thirty (30) days following the anniversary date of this Licence in Period 2;
 - (c) Applications for credit against the Work Deposit or Rentals must be received no later than thirty (30) days following the expiry, surrender or cancellation of this Licence;
 - (d) Failure to submit such applications within the appropriate time referred to above, shall mean that no Allowable Expenditures were incurred for that period.

SCHEDULE C – EL
COST RECOVERY GUIDELINES

CNSOPB



CANADA-NOVA SCOTIA
OFFSHORE PETROLEUM BOARD

COST RECOVERY GUIDELINES

FOR MORE INFORMATION, PLEASE CONTACT

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APRIL 1999

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**Guidelines Prescribing
the Time And Manner for Recovering
the Cost of Services Provided
by the Canada-Nova Scotia Offshore Petroleum Board to
Companies Holding an Interest or Carrying Out
Oil and Gas Activities in the
Nova Scotia Offshore Area**

Short Title

1. These Guidelines may be cited as the *Canada – Nova Scotia Offshore Petroleum Board Cost Recovery Guidelines*.

Interpretation

2. In these Guidelines:

(a) “Acts” mean *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act* and *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*;

(b) “Board” means the Canada – Nova Scotia Offshore Petroleum Board (CNSOPB);

(c) “Budget” means the Board’s annual operating budget approved by the Federal Minister and the Provincial Minister;

(d) “Company” means companies or operators holding an interest or carrying out oil and gas activities in the Nova Scotia offshore area;

(e) “Fiscal year” means the fiscal year of the Board;

(f) “Federal Minister” means the Minister of Natural Resources Canada;

(g) “Provincial Minister” means the Minister of Energy;

(h) “Recovery Charge” means the assessments described in Section 5;

(i) words in the singular include the plural, and words in the plural include the singular.

Principles

3. (1) Companies and governments recognize that they require a competent, efficient and effective regulator for the offshore area.
- (2) Companies and governments recognize that the Board requires stable and adequate resources and expertise to carry out its regulatory responsibilities.
- (3) These guidelines reflect the objectives of the Federal Minister and Provincial Minister in respect of recovery charges.
- (4) Recovery charges must be related to regulatory services rendered and be allocated in a fair manner.
- (5) Funding of core regulatory and resource management activities of the Board is the responsibility of both governments.

Budgetary Process

4. (1) The Board shall meet with the oil and gas industry on an annual basis to review the anticipated level of industry activity for the coming year(s) and the associated Board services required by industry.
- (2) The Board shall submit an annual operating budget to the Federal Minister and Provincial Minister for consideration and approval.
- (3) The Board shall also submit a three-year rolling business plan supporting the annual operating budget. The business plan shall include the Boards objectives for each year.
- (4) Following ministerial approval of the Board's budget, Governments shall remit to the Board their respective portion of the approved budget.

Recovery Charge

5. (1) The Board will calculate for each Company a Recovery Charge.
- (2) The Recovery Charge will be calculated by determining Board costs associated with:
 - (a) approvals and work authorizations;
 - (b) inspections within the offshore area;
 - (c) review of development and benefit plans and amendments thereto;

- (d) other activities or services not provided for in Section 5(4) hereof;
- (e) administrative costs associated with the foregoing; and
- (f) costs associated with administering interests based on work expenditure bids.

(3) For any given fiscal year of the Board, the total Recovery Charge shall not exceed fifty percent (50%) of the Budget.

(4) The Recovery Charge does not include the costs for the following activities which will be recovered 100% directly from a Company which initiates the required regulatory service:

- (a) inspections and audits conducted out of jurisdiction at the request of the Company;
- (b) public reviews required for offshore activities, development plans and amendments thereto;
- (c) hiring of outside consultants required to address extra-ordinary regulatory/technical matters associated with exploration and development issues; and
- (d) oil and gas committees and support services.

Invoicing and Interest

6. (1) The Board shall invoice Companies for Recovery Charges as they become due.

(2) Companies shall pay all Recovery Charges to the Board within 45 days of the receipt of the invoice.

(3) All recovery charges shall be made payable to the Board.

(4) The Board shall remit fifty percent (50%) of the Recovery Charge collected pursuant to subsection 2, including interest pursuant to subsection 5, to the Government of Canada and fifty percent (50%) to the Province of Nova Scotia within five (5) days of receipt, to a maximum of fifty percent (50%) of the Budget.

(5) Where a Company fails to pay any amount invoiced by the Board, the Company shall pay interest at 1½% per month on the outstanding amount beginning on the 45th day after the date of issuance of the invoice.

(6) In the event that cost recovery billings in one year exceed 50% of the Board's actual expenditures, the Board shall reimburse the companies in an equitable manner.

Coming into Force

7. (1) These Guidelines shall be effective on April 1, 1999.

(2) These Guidelines are subject to a review within five (5) years.

Until the Acts are amended in order to provide for a statutory power allowing these guidelines to be made into regulations, they will form the basis for such regulations.