

CALL FOR BIDS NS14-1

FORM OF SIGNIFICANT DISCOVERY LICENCE

SIGNIFICANT DISCOVERY LICENCE No. _____

THIS LICENCE is effective as of the _____ day of _____, 20____.

ISSUED BY The Canada-Nova Scotia Offshore Petroleum Board.

TO THE INTEREST OWNER

WHEREAS the Board is empowered pursuant to the Acts to issue a Significant Discovery Licence (hereinafter called the "Licence") related to the Lands described in Schedule A of this Licence;

AND WHEREAS the Board selected the bid submitted by _____ as the winning bid in respect of the Call for Bids No. NS14-1, Parcel No. _____;

AND WHEREAS _____, in submitting such a bid agreed to the terms and conditions of this Licence;

NOW THEREFORE this Licence is issued upon the following **terms and conditions**:

1. INTERPRETATION

In this Licence, including all Schedules annexed hereto, unless the context requires otherwise;

- (a) **"Acts"** means the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act* and the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act* and regulations thereto and any Acts or regulations made in substitution therefore;
- (b) Any words or phrases defined in the Acts shall have the same meanings in this Licence unless the context otherwise requires.

2. RIGHTS

This Licence confers the rights attaching to a Significant Discovery Licence (SDL) pursuant to the Acts with respect to those Lands described in Schedule A.

3. AGREEMENT

The submission of a bid by the Interest Owner in response to Call for Bids No. NS14-1 and its selection by the Board as the winning bid constitutes an agreement between the Interest Owner and the Board as to the terms and conditions contained herein relating to the portion of the Nova Scotia Offshore Area described in Call for Bids No. NS14-1, Parcel No. _____ that becomes subject to a Declaration of Significant Discovery and this Licence.

4. RENTALS – EXPLORATION LICENCE TERM

Should this Licence be issued in Period 1 or 2 of the preceding Exploration Licence, it shall be subject to the rental rates applicable to that Exploration Licence until the natural expiry of the Exploration Licence.

5. RENTALS – POST EXPLORATION LICENCE TERM

- (a) This Licence shall be subject to the following refundable Rentals after the expiration of the term of the Exploration Licence:

Year 1 to 5	\$0.00 per hectare
Year 6 to 10	\$40.00 per hectare
Year 11 to 15	\$100.00 per hectare
Year 16 to 20	\$800.00 per hectare

The Rentals applicable will be payable in constant (inflation adjusted) 2014 dollars.

Commencing on December 31, 2014, Rentals in the above noted table will be adjusted by applying the annual change in the Consumer Price Index for Canada. Rentals will be adjusted in the same manner on each December 31 thereafter. Pro-rated Rentals for year one of this Licence shall be paid prior to the issuance of this Licence with the applicable adjusted annual Rentals payable on or before January 15 of each year thereafter.

- (b) Rental rates of \$800.00 will increase by \$100.00 for each year beyond year 20, and will be payable in constant (inflation adjusted) 2014 dollars until this Licence is relinquished or converted to a Production Licence. For greater certainty, the Interest Owner may relinquish lands to reduce future Rental payments.
- (c) There shall be no carry forward of excess Allowable Expenditures from Exploration Licences.
- (d) Rentals are to be submitted by wire deposit, bank draft or certified cheque payable to the Receiver General for Canada.
- (e) 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 expiry of this Licence.
- (f) For greater certainty, Rentals shall be calculated on the basis of the total hectarage of Lands held as part of this Licence, as of the anniversary date.
- (g) Rentals will be refunded annually, to a maximum of one hundred percent (100%) of the Rentals paid in that year, on the basis of a dollar refund for each dollar of Allowable Expenditures for that year.
- (h) To the extent that Allowable Expenditures for a given year are greater than the amount of the applicable refund, the excess shall be carried forward to reduce the Rentals otherwise payable in ensuing Rental years.

6. ALLOWABLE EXPENDITURES

Allowable Expenditures shall be determined in accordance with the rates and allowances set out in Schedule B.

7. ANNUAL REPORT

The Interest Owner shall provide to the Board in writing an annual report that is satisfactory to the Board describing activities undertaken to advance the development of this Licence. The annual report shall be filed each year on or before the anniversary of the issuance of this Licence. Failure to submit an annual report may result in the cancellation of this Licence.

8. ENVIRONMENTAL PROTECTION

(a) 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.

(b) **Please note an additional provision will apply with respect to the SDL for Parcel 1 Call for Bids NS14-1:**

The Lands include a portion of Shortland Canyon, which has been designated as critical habitat area under the *Species at Risk Act* respecting the endangered Northern Bottlenose Whale, Scotian Shelf population. Any approved activity within or near this area may require enhanced mitigation and may require certain limitations for the protection of this species and the prevention of the destruction of critical habitat.

(c) **Please note an additional provision will apply with respect to the SDL for Parcel 2 Call for Bids NS14-1:**

The Lands include a portion of Haldimand Canyon, which has been designated as critical habitat area under the *Species at Risk Act* respecting the endangered Northern Bottlenose Whale, Scotian Shelf population. Any approved activity within or near this area may require enhanced mitigation and may require certain limitations for the protection of this species and the prevention of the destruction of critical habitat.

9. CANADA-NOVA SCOTIA BENEFITS PLAN

The Legislation requires that a Canada-Nova Scotia Benefits Plan must be submitted to, and approved by, the Board prior to the approval of any development plan, or the authorization of any other work or activity in the Nova Scotia Offshore Area. Canada-Nova Scotia Benefits Plan Guidelines can be found on the Board's website www.cnsopb.ns.ca.

10. 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 Legislation, its regulations, and Board guidelines and policies.

11. NON-COMPLIANCE

Failure to comply with any term or condition of this Licence may result in cancellation of this Licence.

12. 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 12 shall survive this Licence and will be included in any Production Licences that may result from this Licence.

13. LIABILITY

An Interest Holder shall be liable under the provisions of this Licence and the Acts, for all claims, demands, loss, costs, damages, actions, suits or other proceedings in respect of any work or activity conducted, or caused to be conducted, by, through, or under, or with the consent of such interest holder. Any transfer, assignment, or other disposition of the interest, or of a share therein, shall not have the effect of discontinuing such liability in respect of such

work or activity, related to the interest, or share therein, so disposed, that was conducted before that transfer, assignment, or other disposition was registered pursuant to the Acts. For greater certainty, liability, as aforesaid, does not relate to any work or activity conducted after such party ceases to be an Interest Holder in this Licence.

14. SUCCESSORS AND ASSIGNS

Subject to sections 12 and 13, this Licence enures to the benefit of and is binding on the Board and the Interest Owner and their respective heirs, administrators, successors and assigns.

15. NOTICE

Any notice to the Interest Owner or any Interest Holder required or permitted under the Acts 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.

16. 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.

IN WITNESS WHEREOF the Board has issued this Licence to be effective as of the ____ day of _____, 20____.

CANADA-NOVA SCOTIA OFFSHORE
PETROLEUM BOARD

Chief Executive Officer

SCHEDULE A – SDL

LANDS

INTEREST HOLDERS

SHARE

Grid area ° ' N ° ' W
Sections _____

_____ %

All petroleum substances in all geological formations.

TOTAL AREA: _____ Hectares

REPRESENTATIVE: _____

ADDRESS FOR SERVICE:

SCHEDULE B – SDL

ALLOWABLE EXPENDITURES

1. The Interest Representative is encouraged to have any expenditure it would like to have considered as an Allowable Expenditure reviewed by the Board, prior to the Interest Owner 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 as defined in the Income Tax Act R.S.C., 1985, c. 1 (5th Supp.).

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

(b) Expenses related to the third-party audit referred to in paragraph 2(c) and/or the independent third party expert referred to in paragraph 2(a) are the responsibility of the Interest Owner and shall not be included as an Allowable Expenditure.

(c) 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 for any given year shall be the total calculated expenditures on the Lands for that year (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.**

4. The Interest Representative may submit an application for credit against Rentals in the form and manner required by the Board. The following conditions shall apply to such application:

(a) 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;

(b) Applications for credit against Rentals must be received no later than thirty (30) days following the expiry, surrender or cancellation of this Licence; and

(c) Failure to submit such applications within the appropriate time referred to above, shall mean that no Allowable Expenditures were incurred for that period.