

February 27, 2012

**BY COURIER**

Corridor Resources Inc.  
#301, 5475 Spring Garden Road  
Halifax, NS B3J 3T2


**Attention: Mr. Phil Knoll**  
**President and CEO**

Dear Mr. Knoll:

**Re: Application for Prohibition Order**

The Board has considered your application for a Prohibition Order and has made a Decision, a copy of which is attached.

Yours truly,

  
Max Ruelokke, P. Eng.  
Chairman and CEO

Reasons for Decision

In the Matter of

Corridor Resources Inc.

Application for Prohibition Order  
in respect of Exploration Licence 1105

February 2012

## Table of Contents

1. Introduction .....	1
2. The Exploration Licence .....	2
3. Application for Extension of Period I .....	4
4. Application for Prohibition Order .....	4
5. Analysis of the Application.....	6
(a) Work or Activity .....	6
(b) Ongoing Environmental Investigations.....	6
(c) Terms of EL 1105 .....	7
6. Decision.....	7

## 1. Introduction

The Canada – Newfoundland and Labrador Offshore Petroleum Board (the “Board”) was created by the *Canada-Newfoundland Atlantic Accord Implementation Act* and the *Canada Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act*. For the purpose of this decision report, reference will be made to the federal version of the legislation (the “*Accord Act*”).

The Board is responsible for petroleum resource management in the Newfoundland and Labrador Offshore area (the “offshore area”). As part of that mandate, the Board is responsible for the administration of statutory requirements with respect to exploration, development and production in the offshore area. Pursuant to the *Accord Act*, the Board administers the land rights granted in the offshore area. In that regard, the Board issues calls for bids to grant exploration licences in the offshore area. The sole criterion for selection of the bid is the work commitment to be made during the first period of the licence term.

The Board is also responsible for the regulation of all petroleum-related activities conducted within the Newfoundland and Labrador offshore area. No such work or activity can commence without an authorization issued by the Board.

Successful bidders become interest owners and are issued an exploration licence which has a nine year term consisting of two Periods, I and II. Period I is for a number of years, described in the Call for Bids, within which a well must be drilled or diligently pursued. This activity validates the exploration licence and is a pre-requisite for the continuation to Period II, which is the remainder of the 9 years of the exploration licence term. Failure to validate a licence results in the lands reverting to the Crown. An exploration licence grants the interest owner the “exclusive” right to explore during the term of the licence.

## 2. The Exploration Licence

On January 15, 2008, Corridor Resources Inc. was issued Exploration Licence 1105 (“EL 1105”) by the Board. EL 1105 contains the following provisions:

5. **TERM**
  - (1) The effective date to commence the term of this Licence is **January 15, 2008**.
  - (2) This Licence shall have a term of nine (9) years, consisting of two periods referred to as Period I and Period II. Period I shall commence as of the effective date. Period II shall immediately follow Period I and consists of the balance of the term of this Licence.
  - (3) Period I is a period of five (5) years commencing on the effective date of this Licence. Period I may be extended by one year if a Drilling Deposit, as described herein, is posted before the end of the fifth year.
  - (4) In order to validate this Licence for Period II, the drilling of a well must be commenced within Period I and diligently pursued to termination in accordance with good oilfield practice. Failure to fulfill this drilling requirement will result in the termination of this Licence at the end of Period I.
  - (5) The validation well must adequately test a valid geological target to be declared to the Board by the interest owner prior to the commencement of the well.
  - (6) Upon the expiration of Period II, 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.

On February 21, 2011, Corridor filed a Project Description pursuant to the *Canadian Environmental Assessment Act* respecting its plans to drill an exploration well on EL 1105. On February 25, 2011, the Board published a draft scoping document respecting the Environmental Assessment (the “EA”) and invited public comments. Over 50 comments were submitted. As a result of the number of comments received, the Board made a recommendation to the Minister of the Environment that the proposed project be reviewed by a mediator or a panel. On August 15, 2011, Minister Kent wrote to Mr. Ruelokke, Chair and CEO of the Board, and stated:

I have reviewed carefully your recommendations and considered the comments that were sent to the Board and comments that I received directly. A large number of the concerns raised in these comments relate to the broader policy issue as to whether there should be oil and gas activities in the Gulf of St. Lawrence, and to the potential environmental effects at the regional level of such activities. A project specific environmental assessment under the Act, no

matter if it is a screening or a review panel, is not the most appropriate mechanism to consider and address these types of generalized issues that go well beyond the project being reviewed.

As such, I have reached the conclusion that a two-pronged approach that will address the broader concerns raised in the public comments received, and allow the completion of the environmental assessment of the project is warranted.

First, with regard to the broader public concerns about oil and gas activities in the Western Offshore area of Newfoundland and Labrador in general, my federal and provincial natural resources colleagues, the Honourable Joe Oliver and the Honourable Shawn Skinner, both agree that the strategic environmental assessment for the Western Newfoundland and Labrador Offshore area, that the Board completed in 2007, is due to be updated. This work should include thorough public consultation that would address the concerns highlighted to date and better examine the broader environmental effects of oil and gas activities in this area. ...

Second, with respect to the project, I have determined that the environmental assessment should be continued and completed as a screening by the Board. I am confident that a screening environmental assessment that will include extensive public consultation can adequately address the issues associated with the project. ...

I am confident that the update of the strategic environmental assessment by the Board, together with the strategic environmental assessment that the Government of Quebec is currently conducting, will result in a comprehensive set of data on the environmental conditions in the relevant area of the Gulf of St. Lawrence.

The Board commenced the update of the 2007 Strategic Environmental Assessment (“SEA”) of the Western Newfoundland and Labrador offshore area.

The Board appointed an independent reviewer to conduct the public consultation portion of the screening of the EA submitted by Corridor.

On October 28, 2011, Corridor filed with the Board its “Environmental Assessment of the Old Harry Prospect Exploration Drilling Program” along with the “Old Harry Drilling Mud and Cuttings Dispersion Modelling Final Report” and “Modeling in Support of Corridor Resources Old Harry Exploratory Drilling Environmental Assessment”.

### 3. Application for Extension of Period I

By letter dated September 16, 2011, Corridor applied to the Board, pursuant to s. 68(1) of the *Accord Act*, for an amendment to EL 1105 such that the term of Period I would be extended from 5 years to 7 years. Corridor stated that the extension was required so that it would have sufficient time to source a drill rig and obtain an Authorization following the completion of the screening level EA review and updated SEA. On September 21, 2011, the Board approved the amendment to EL 1105 and sought approval for its decision from both the Provincial and Federal Ministers pursuant to s. 31- s. 40 of the *Accord Act* (fundamental decision). On November 23, 2011, the terms of EL 1105 were amended as follows:

5. **TERM**

- (1) The effective date to commence the term of this Licence is **January 15, 2008**.
- (2) This Licence shall have a term of nine (9) years, consisting of two periods referred to as Period I and Period II. Period I shall commence as of the effective date. Period II shall immediately follow Period I and consists of the balance of the term of this Licence.
- (3) Period I is a period of seven (7) years commencing on the effective date of this Licence. Period I may be extended by one year if a Drilling Deposit, as described herein, is posted before the end of the seventh year.

***Fundamental Decision 2011.05***

### 4. Application for Prohibition Order

On January 12, 2012, Corridor applied to the Board for a Prohibition Order pursuant to s. 55 of the Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act (the “NL Act”), which is the equivalent to s. 56 of the *Accord Act*. Section 56(1) of the *Accord Act* gives the Board the power to order that work or activity be prohibited in the offshore in limited circumstances. Section 56(1) states:

56. (1) *Subject to subsection (2), the Board may, in the case of*
- (a) an environmental or social problem of a serious nature, or*
  - (b) dangerous or extreme weather conditions affecting the health or safety of people or the safety of equipment,*

*by order, prohibit any interest owner specified in the order from commencing or continuing any work or activity on the portions of the offshore area or any part thereof that are subject to the interest of that interest owner.*

The corresponding section of the NL Act has slightly different wording. Section 55(1) states:

55. (1) *The board may, in the case of*  
    (a) *an environmental or social problem of a serious nature; or*  
    (b) *dangerous or extreme weather conditions affecting the health or safety of people or the safety of equipment,*  
*by order, prohibit an interest owner specified in the order from beginning or continuing work or activity on the portions of the offshore area or a part of the offshore area that are subject to the interest of that interest owner.*

In support of the application for a prohibition order, Corridor submitted the following to the Board for consideration:

1. Letter of January 12, 2012;
2. Letter of February 2, 2012;
3. Letter of February 13, 2012;
4. Other documentation:
  - a. Canada – Nova Scotia Offshore Petroleum Board Prohibition Order dated December 11, 2000
  - b. Bill 18 – An Act to Limit Oil and Gas Activities, the National Assembly of Quebec, assented to June 13, 2011

Corridor submitted that its application was made in the context of the ‘unprecedented and extraordinary regulatory measures’ that were imposed subsequent to Corridor’s registration of the project under the *CEAA* and by reason of the impending update to the 2007 SEA. Corridor submitted that Minister Kent’s decision to suggest that the Board undertake the update of the 2007 SEA identified “an environmental or social problem of a serious nature” within the meaning of s. 55(1) of the NL Act and as such the threshold requirements for issuance of a prohibition order were met. Corridor stated in its letter of February 2, 2012:

As set out in the Prohibition Order Application, it is Corridor’s position that the threshold of the “environmental or social problem of a serious nature” required to ground an order under section 55 is satisfied by *either* (a) the Minister’s determination that the SEA is necessary to consider the appropriateness of the future issuance of licences for petroleum-related exploratory, developmental and/or petroleum drilling and other activities in the Western Newfoundland and Labrador offshore area, *or* (b) the unprecedented public interest and concern about this issue (which was the nature of the concern found in the Cape Breton Prohibition Order to constitute an environmental or social problem of a serious nature). [emphasis in original]



Corridor has acknowledged that the operative effect of a prohibition order is to temporarily prohibit, or suspend work or activities under EL 1105 and would result in the term of EL 1105 being extended for the period of time equal to the time that the order is in force.

## **5. Analysis of the Application**

### **(a) Work or Activity**

In order to be carrying out “work or activity” in the offshore, an interest owner must have a licence, an operating licence and an authorization. Corridor has an exploration licence and an operating licence however has yet to apply for and/or receive an authorization for the drilling of a well as described in the Project Description. We conclude that Corridor is not presently engaged in work or activity in the offshore as contemplated by the Act.

In its letter of January 12, 2012, Corridor stated that it “is the proponent of a single well exploratory drilling project proposed to be conducted upon the Old Harry prospect within the area of EL 1105”. Corridor however is not currently engaged in any work or activity in the offshore nor does it hold an authorization which would permit them to engage in any work or activity in the offshore. Corridor only proposes to conduct an exploratory drilling program. An exploratory drilling program would only be considered by the Board for authorization after an environmental assessment is completed. The conduct of an environmental assessment is not a work or activity as contemplated in the *Accord Act*. The fact that Corridor is not presently engaged in work or activity, and is not presently the holder of an authorization in respect of EL 1105, were important factors considered by the Board when deciding whether or not to consider the application for a prohibition order.

### **(b) Ongoing Environmental Assessments**

In order for the Board to prohibit the work or activity in the offshore it must determine that there is an ‘environmental or social problem of a serious nature’. Corridor’s evidence of an

‘environmental or social problem of serious nature’ includes the recommendation of Minister Kent that the Board update the SEA of the Western Newfoundland and Labrador Offshore area, and the Board’s decision to perform an independent review (IR) of the proposed EA.

The Board has in fact directed that an updated SEA be completed for the Western Newfoundland and Labrador Offshore area and this process is ongoing.

The IR process associated with the EA had commenced but was advised to “stand down” upon the Board learning of Corridor’s application for a prohibition order.

Both the updated SEA and/or the IR will provide the board with information that will inform it as to whether or not there is an ‘environmental or social problem of a serious nature’ in the Western Newfoundland and Labrador offshore area. This is another significant factor considered by the Board when deciding whether or not to consider the application for a prohibition order.

### **(c) Terms of EL 1105**

EL 1105 is an exploration licence which has a term of nine years consisting of two periods, Period I and Period II. The drilling of a well must be commenced within Period I. Period I of EL 1105 was originally five years however on November 23, 2011, the Board extended Period I to seven years (which decision was ratified by the Ministers). Corridor is able to further extend Period I by an additional year by posting a refundable drilling deposit. In considering whether or not to consider the application for a prohibition order, the Board was cognizant of the amended terms of EL 1105 and the ability of Corridor to apply for a further extension of Period I.


## **6. Decision**

The power of the Board to issue a prohibition order is discretionary. In considering all of the relevant factors in this matter, including: (a) the requirements of s. 56 of the Accord Act and the nature of Corridor’s application, (the fact that there is not currently an authorization for work or activity in respect of EL 1105), (b) the purpose of the ongoing updated SEA process and/or IR

process and (c) the terms of Corridor's licence, the Board has concluded that Corridor's application is premature and that it is not appropriate for the Board to further consider the exercise of its powers under s. 56.

The Board has decided that Corridor is not engaged in any work or activity in respect of EL 1105 which the Board could prohibit and that the updated SEA process, which will inform the Board of any environmental or social problems, is ongoing. Therefore the application is premature. If the updated SEA and/or IR determine that there are social or environmental issues of a serious nature in the Western Newfoundland and Labrador offshore then the Board can consider issuance of a prohibition order against interest owners in that region which would be effective to suspend any authorized work or activity.

Application Dismissed.

  
Max Ruelokke, P. Eng.  
Chairman  
For the Board

St. John's, Newfoundland and Labrador  
February 27, 2012