

CALL FOR BIDS
No. NL13-01
(Area "C" - Flemish Pass)

**Exploration Licence in the Newfoundland and Labrador
Offshore Area**

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1.0 Canada-Newfoundland and Labrador Offshore Petroleum Board - Profile

The Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) is responsible, on behalf of the Government of Canada and the Government of Newfoundland and Labrador, for the regulation of petroleum-related activity in the Newfoundland and Labrador Offshore Area.

The Board's authority is derived from the legislation implementing the February 11, 1985 Atlantic Accord between the two governments. The *Canada-Newfoundland Atlantic Accord Implementation Act* and the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act* ("the Accord Acts") provide for joint management of the offshore area.

The Board's responsibilities include:

- Issuance and administration of petroleum exploration and development rights;
- Administration of statutory requirements regulating offshore exploration, development and production; and
- Approval of Canada-Newfoundland and Labrador benefits and development plans.

The Board consists of seven members who are appointed for fixed terms of office. The Government of Newfoundland and Labrador and the Government of Canada each appoint three members. The seventh member, the Chairman, must be jointly appointed.

The Board, which assumed its jurisdiction in 1987, has a multi-disciplinary staff of professional and support personnel located at its offices in St. John's, Newfoundland and Labrador.

The operational functions of the Board are divided among nine Departments, each headed by a Manager who reports to the Chairman. The Departments and their principal responsibilities are:

Support Services

- Provides support for the Board and its staff in the areas of general administration, financial services, human resources, and computer operations.

Environmental Affairs

- Administers environmental regulations and guidelines to ensure optimum protection of the marine environment;
- Monitors weather, ice and other environmental data to ensure compliance with operational safety requirements;
- Co-ordinates the Board's response to environmental emergencies.

Exploration

- Regulates the acquisition and submission of geophysical and geological data;
- Assesses the hydrocarbon potential of the Newfoundland and Labrador Offshore Area by conducting geophysical and geological studies;
- Assists in the review of oil and gas development and well drilling plans;
- Operates the Board's Core Storage and Research Centre to preserve, curate and facilitate public access to well materials including cores, cuttings, reservoir fluids and slides.

Industrial Benefits, Policy and Regulatory Co-ordination

- Reviews benefits plans to determine compliance with legislation intended to maximize industrial and employment benefits to Canada in general and Newfoundland and Labrador in particular;
- Monitors the industry's procurement, employment, research and development and education and training activities in order to determine compliance with related legislative requirements and benefits plans commitments.

Safety

- Assesses applications for authorization of exploration and production activities for regulatory compliance and the adequacy of applicants' safety management programs;
- Audits and monitors activities to ensure compliance with the regulations and adherence to the safety management system;
- Has regulatory oversight for occupational health and safety for worker activities in the Newfoundland and Labrador offshore area.

Operations

- Assesses applications for authorization of exploration and production activities for regulatory compliance and the adequacy of applicants' safety management programs;
- Audits and monitors activities to ensure compliance with the regulations and adherence to the safety management system;
- Administers the Certificate of Fitness Regulations whereby a recognized Certifying Authority ensures installations comply with regulations and are fit for their intended purpose.

Resource Management

- Evaluates reservoir data to determine the size and productive capacity of discovered resources;
- Reviews operators' oil and gas production plans to ensure reserves are exploited using good oilfield practice;
- Monitors petroleum production activities to ensure resources are produced without waste;
- Monitors reservoir data acquisition programs to ensure compliance with regulations.

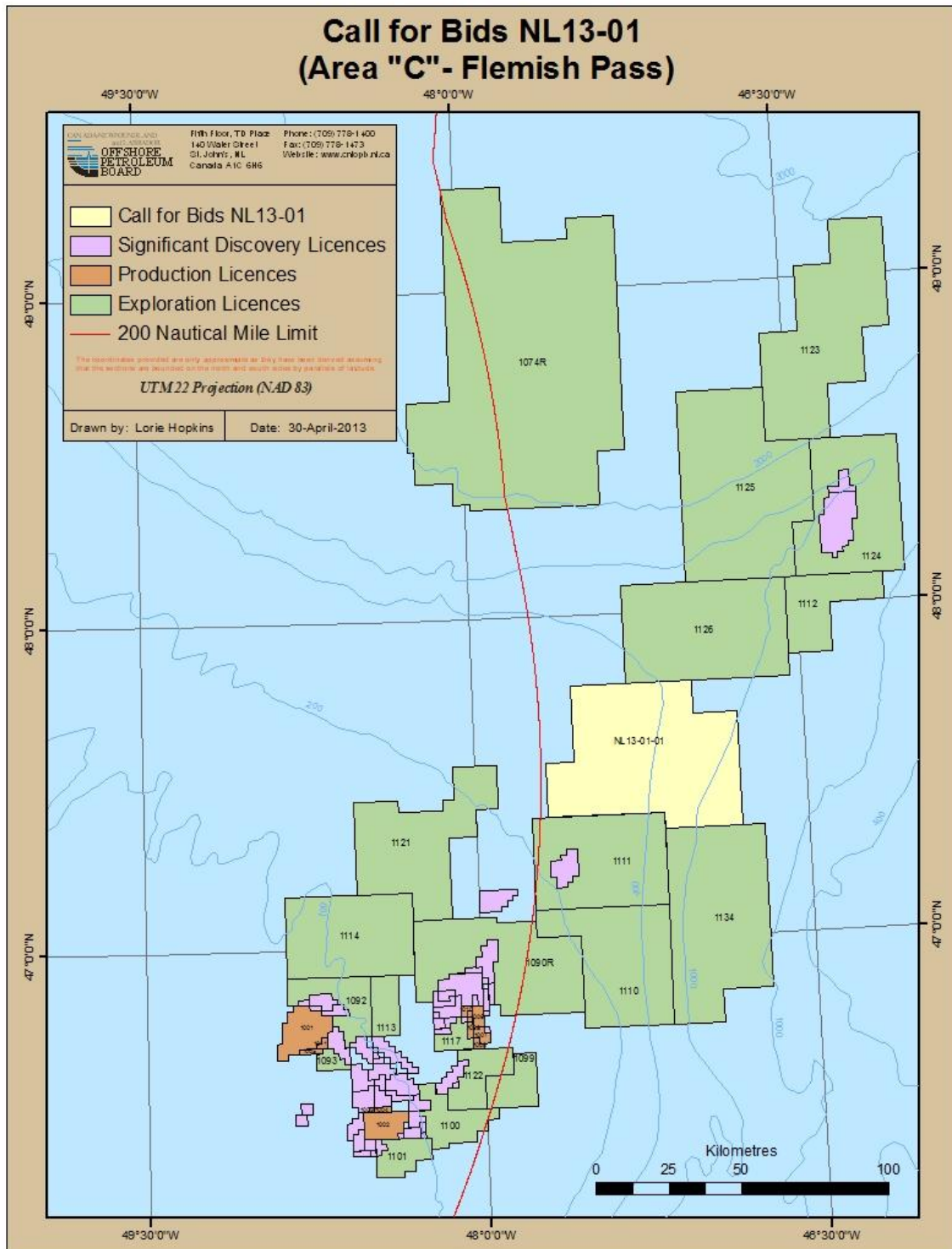
Public Relations

- Responsible for advising the Executive and staff on public relations and communications;
- Responds to inquiries from the Public and Media;
- Manages the Board's public relations, including maintaining the website content, preparing the Annual Report, liaison with industry and government.

Legal and Land

- Advises the Board and staff on legal and rights issuance matters;
- Maintains and administers a public register of land title documents registered in accordance with the legislation.

2.0 Call for Bids No. NL13-01- Land Plat (Area "C" - Flemish Pass)



3.0 Call for Bids No. NL13-01 (Area “C” - Flemish Pass)

3.1 Call for Bids

The Canada-Newfoundland and Labrador Offshore Petroleum Board (the Board) hereby makes a call for the submission of bids in respect of **one (1)** parcel of land in the Newfoundland and Labrador Offshore Area as described in Section 2.0 and Schedule I.

This call for bids is made pursuant and subject to the *Canada-Newfoundland Atlantic Accord Implementation Act*, S.C. 1987, c. 3, and the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act* R.S.N.L. 1990, c. C-2 ("the Acts").

The Board informs prospective bidders for this parcel, which is entirely beyond Canada's 200 nautical mile zone, that it has been advised by the Government of Canada that, in order to meet obligations arising pursuant to article 82 of the *United Nations Convention on the Law of the Sea*, additional terms and conditions may be applied through legislation, regulations, amendments to this licence or otherwise.

Any submission of a bid in response to this call for bids shall be made with the understanding that the person(s) submitting the bid accepts and agrees to the terms and conditions in this call for bids. Any bid submitted that does not conform to the terms and conditions provided in this call for bids will not be considered by the Board. Unless otherwise provided herein, all terms used in this call for bids will have the same meaning as provided under the Acts.

3.2 Submission of Bids

- a) Sealed bids will be received by the Board at the following address:

Canada-Newfoundland and Labrador Offshore Petroleum Board
Fifth Floor, TD Place
140 Water Street
St. John's, NL
A1C 6H6

ATTENTION: The Chairman

Bids must be received at the above address prior to the time of closing of this call for bids. Bids received after the time of closing will not be considered.

- b) The closing date for this call for bids shall be 120 days after the completion of the *Eastern Newfoundland Strategic Environmental Assessment (2013)* (the "Closing Date").

Notification of the Closing Date and time shall be published on the Board's website (www.cnlopb.nl.ca) under the heading "What's New!".

- c) All bids submitted in response to this call for bids must be in a sealed envelope clearly marked as follows:

**Call for Bids No. NL13-01
(Area “C” - Flemish Pass)
Newfoundland and Labrador Offshore Area**

- d) No submission received in response to this call for bids will be returned.
- e) Each bid shall be in the form and shall contain only the information required in the appropriate bid response form (i.e. Single Parcel Bid) attached hereto as part of Schedule II forming part of this call for bids.
- f) This call for bids may be amended at any time up until 10 days prior to the Closing Date specified in paragraph 3.2 (b). Any amendment made to the call for bids shall be published on the Board’s website (www.cnlopb.nl.ca) under the heading “What’s New!”.
- g) In addition to the environmental assessment requirements to be addressed in accordance with the issuance of an authorization for a work or activity, an Interest Owner must take action to ensure the identified mitigative measures identified in the *Eastern Newfoundland Strategic Environmental Assessment (2013)* are implemented.

3.3 Bid Selection Criterion

3.3.1 Work Expenditure Bid

- a) For the purpose of assessing and selecting a bid, the sole criterion to be used for the parcel will be the total amount of money the bidder commits to expend on exploration of the parcel and on research and development and education and training within Period I (“Work Expenditure Bid”);
- b) In submitting a Work Expenditure Bid, the bidder commits to spend at least 95% of the Work Expenditure Bid on exploration of the parcel;
- c) There is no obligation for the bidder to include or to commit to spend money during Period I on research and development or education and training, as part of the Work Expenditure Bid. However, in the event the bidder spends money for such purposes, a maximum of 5% of the Work Expenditure Bid may be applied for as an Allowable Expenditure in accordance with the terms and conditions more particularly described in the Sample Exploration Licence, annexed as Schedule IV of this Call for Bids NL13-01.

3.3.2 Minimum Bid

A Work Expenditure Bid of at least **\$1 million** for the parcel in the Flemish Pass will be required.

3.3.3 Deposits

a) **Bid Deposit**

- (i) For the parcel, the Work Expenditure Bid must be accompanied by a **bank draft or certified cheque** in the amount of \$10,000.00 made payable to the **Receiver General** ("Bid Deposit").
- (ii) The successful bidder will receive a refund, without interest, of the Bid Deposit when the Security Deposit (defined below) is posted within the time specified.
- (iii) Failure to post the Security Deposit within the specified time will result in forfeiture of the Bid Deposit and disqualification of the bid.
- (iv) Upon announcement of the bid results, the Bid Deposits of unsuccessful bidders will be returned, without interest, as soon as possible.

b) **Security Deposit**

- (i) For the parcel, the successful bidder will be required to provide, within fifteen (15) days of notification of being the successful bidder, a promissory note, accompanied by a bank acceptance letter, in the amount of twenty-five percent (25%) of the Work Expenditure Bid ("Security Deposit").
- (ii) A credit against the Security Deposit will be made following each anniversary date of the Exploration Licence on the basis of twenty-five percent (25%) of Allowable Expenditures more particularly described in the Sample Exploration Licence annexed as Schedule IV of this Call for Bids NL13-01. Any Security Deposit balance remaining:
 - (a) at the end of Period I, in the case of a well commenced and terminated within Period I, or
 - (b) following the termination of a well commenced in Period I which is pursued diligently and terminated within Period II, or
 - (c) upon surrender of rights,

will be forfeited.

Allowable Expenditures which are expended in Period II shall not be credited against the Security Deposit except in the case of expenditures related to a well referred to in subparagraph 3.3.3(b)(ii)(b) above.

- (iii) The Board will allow bidders submitting a joint bid to submit separate promissory notes, accompanied by separate bank acceptance letters, representing their proportionate shares of the required Security Deposit. **The bidders' designated representative will be responsible for collecting and submitting promissory notes and bank acceptance letters of the joint bidders.** A default in submitting the Security Deposit will result in forfeiture of the Bid Deposit, disqualification of the bid, and notification to the second place bidder, if one exists, that they are the successful bidder.
- (iv) The promissory notes and bank acceptance letters are to be submitted in a form attached hereto as Schedule III.

c) **Return of Bid Deposit**

Bid Deposits will be returned by courier service unless one of the following options is requested by the bidder, in writing, at the time of the bid submission:

- (i) The Board will hold the Bid Deposit at its office until it is picked up by the bidder or a designated representative or agent of the bidder; or,
- (ii) The Board will deposit, through the Board's bank, the Royal Bank of Canada, the Bid Deposits to the bidder's bank account. Bank charges will be paid by the bidder. Furthermore, the bidder must, at the time of bid submission, notify the Board of the bank and branch name, address, telephone numbers, and the number of the account to be credited.

3.4 Issuance Fee

A cheque in payment of the issuance fee required pursuant to the *Offshore Area Registration Regulations* and made payable to the **Receiver General**, must be submitted with each bid response in the respective amount indicated below:

Parcel No. 1 \$3,000

Cheques for issuance fees will be returned to unsuccessful bidders in accordance with paragraph 3.3.3.

3.5 Terms and Conditions

The Terms and Conditions for the Exploration Licence issued as a result of this Call for Bids NL13-01 can be found in the Sample Exploration Licence, annexed hereto as Schedule IV.

3.6 *Identity of Bidder*

All bids must identify the parties making the bid and their participating shares. The Board will accept bids from land brokers acting on behalf of bidders, provided the Board is notified of the identities of the bidders represented by the broker and their participating shares if the bid is successful.

The Board will disclose the identity of the successful bidder at the time of the public notice setting out the terms and conditions of the successful bid. The Board will also disclose the identity of unsuccessful bidders on a confidential basis to Ministers, if requested by a Minister, pursuant to section 18 of the Accord Acts.

3.7 *Notification to Bidders*

The Board will advise bidders of the outcome of their bids as soon as possible after the closing date of this call for bids.

3.8 *Canada-Newfoundland and Labrador Benefits Plan*

Before carrying out any work or activity in the offshore area, a benefits plan shall be submitted to the Board and approved in accordance with section 45 of the *Accord Acts*.

The successful bidder will be required to comply with the procurement, employment and reporting procedures established by the Board in its *Exploration Benefits Plan Guidelines* which can be found on the Board's website (www.cnlopb.nl.ca) under the heading "Publications".

3.9 *Environmental Studies Research Fund (ESRF)*

The Interest Owner resulting from this Call for Bids NL13-01 is required to pay the ESRF levy applicable for the two previous calendar years prior to the issuance of the resulting exploration licence for the respective parcel. **Once published by the Minister, levy rates will be posted on the Board's website in accordance with 3.2(f).**

Parcel 1: XXXX cents per hectare being the levy for Parcel 1 NL13-01-01 in ESRF Region 9 (148 434 hectares) and XXXX cents per hectare being the levy for Parcel 1 NL13-01-01 in ESRF Region 10 (117 705 hectares)

In addition, the owner of the Exploration Licence shall pay ESRF levies for each year of the term of the Exploration Licence in accordance with section 81 of the *Canada Petroleum Resources Act* during the term of the Exploration Licence.

3.10 *Surrender of Interest*

An interest may be surrendered, at any time, in accordance with the Acts or regulations promulgated thereunder.

3.11 *Acceptance and Rejection*

The Board is not obliged to accept any bid nor is the Board required to issue an interest as a result of this call for bids.

3.12 *Tied Bids*

In the event of two or more bids being tied, each bidder involved will be notified of the tie and will have the opportunity to submit a new bid in its proper form, within a time frame specified by the Board, which will not be more than 24 hours after being notified.

3.13 *Issuance of Interests*

Any Exploration Licence or Significant Discovery Licence that may be issued with respect to the lands described in Schedule I shall be in the form and contain the terms and conditions of the Sample Exploration Licence, annexed hereto as Schedule IV, and forming part of this call for bids, subject to such changes or additions as may be necessary to be consistent with the Acts or the regulations and the terms and conditions provided herein.

3.14 *Non-Compliance*

Failure to comply with any term or condition of the Exploration Licence or Significant Discovery Licence may result in cancellation of the respective Licence.

**SCHEDULE I - LAND DESCRIPTION
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)**

	<u>Latitude*</u>	<u>Longitude*</u>	<u>Sections</u>	<u>Hectares</u>
Parcel No. 1	47°50'N	46°45'W	21, 31, 41, 51, 61, 71, 81, 91	2 784
	47°50'N	47°00'W	1-7, 11-17, 21-27, 31-37, 41-47, 51-57, 61-67, 71-77, 81-87, 91-97	24 300
	47°50'N	47°15'W	1-7, 11-17, 21-27, 31-37, 41-47, 51-57, 61-67, 71-77, 81-87, 91-97	24 300
	47°50'N	47°30'W	1-7, 11-17	4 860
	47°40'N	46°45'W	21-100	27 856
	47°40'N	47°00'W	1-100	34 820
	47°40'N	47°15'W	1-100	34 820
	47°40'N	47°30'W	1-23, 31-33, 41-43, 51-53, 61-63	12 194
	47°30'N	46°45'W	21-100	27 944
	47°30'N	47°00'W	1-60, 64-70, 74-80, 84-90, 94-100	30 730
	47°30'N	47°15'W	4-10, 14-20, 24-30, 34-40, 44-50, 54-60, 64-70, 74-80, 84-90, 94-100	24 430
	47°30'N	47°30'W	4-10, 14-20, 24-30, 34-40, 44-50, 54-60, 64-70	17 101
			Total Hectares	266 139

*North American Datum 1927

**SCHEDULE II - BID RESPONSE FORM
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)**

SINGLE PARCEL BID

- | | | | |
|----|------------------------------------|---|-------------|
| 1. | Parcel No. _____ | | |
| 2. | Work Expenditure Bid | - | |
| 3. | Bid Deposit | - | \$10,000.00 |
| 4. | Issuance Fee | - | |
| 5. | Bidders, with Participating Shares | - | |
| 6. | Designated Representative | - | |

Signatures:

Designated Representative

Bidder 1

Bidder 2

Bidder 3

etc.

**SCHEDULE III - FORMS FOR PROMISSORY NOTES
AND BANK LETTER OF GUARANTEE
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)**

PART A - INFORMATION BANK LETTER OF GUARANTEE

A bank letter of guarantee must:

- be issued by one of the banks as defined in the Bank Act;
- be executed by an identified signing officer of the bank;
- be addressed to the Board;
- refer to the note being a guarantee of the note provided by the company;
- be explicit in agreeing to pay on demand to the Receiver General the sum named in the note;
- be either without an expiry date, or if stated, must not expire earlier than 180 days following expiry of the period for which the security is posted;
- be explicit as to address of the branch where the note may be presented in St. John's;
- contain conditions:
 - requiring the note to be signed by the company;
 - stating the words required in the note to indicate the bank's "Approved for Issue", including the names of persons authorized to sign.

**SCHEDULE III - FORMS FOR PROMISSORY NOTES
AND BANK LETTER OF GUARANTEE
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)
(Continued)**

PART B - SAMPLE BANK LETTER OF GUARANTEE

Bank Letterhead
(Address)

(Date)

C-NLOPB Address

It is our understanding that, in accordance with Para. 3.3.3(b) of the Call for Bids No. NL13-01, Parcel No. _____, _____ (CORPORATE NAME) is depositing with you its demand promissory note in the amount of \$ _____ and dated _____.

_____(BANK BRANCH) _____, engages to pay, on demand, to the Receiver General, the amount named in the said note upon the following conditions:

- 1) The said note is signed by _____ (CORPORATE NAME) and is payable to the Receiver General;
- 2) The said note is presented during normal banking hours at BANK NAME & FULL ADDRESS FOR SERVICE - ST. JOHN'S BRANCH:
- 3) The said note is presented not later than _____ (a date 180 days after the expiry date of the period for which security is required);
- 4) The said note bears the words "Approved for Issue" and is countersigned by or on behalf of the bank by a signing officer;

(BANK NAME)

SIGNING OFFICER & TITLE

SIGNING OFFICER & TITLE

**SCHEDULE III - FORMS FOR PROMISSORY NOTES
AND BANK LETTER OF GUARANTEE
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)
(Continued)**

PART C - INFORMATION PROMISSORY NOTE

A Promissory Note must:

- be identified as a non-interest bearing demand promissory note;
- be accompanied by a bank letter of guarantee;
- be executed by identified signing officers of the company;
- be dated;
- be payable on demand to the Receiver General;
- be payable at a clearly addressed branch of the bank in St. John's;
- refer to the Call for Bids and parcel number or the relevant licence or any condition therein giving rise to the posting of the security;
- be without an expiry date;
- be explicit as to the amount;
- be countersigned as "Approved for Issue" by an identified signing officer of the bank;
- be on corporate letterhead;
- be addressed to the Board.

**SCHEDULE III - FORMS FOR PROMISSORY NOTES
AND BANK LETTER OF GUARANTEE
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)
(Continued)**

PART D - SAMPLE PROMISSORY NOTE

Company Letterhead
(Address)

NON-INTEREST BEARING DEMAND PROMISSORY NOTE
(NUMBER, FILE, ETC.)
AMOUNT

(Date)

 (CORPORATE NAME) undertakes to pay, on demand, to the Receiver General the sum of
 dollars (\$) if this note is presented at the BANK NAME & FULL
ADDRESS FOR SERVICE - ST. JOHN'S BRANCH.

This demand promissory note is issued in accordance with para. 3.3.3(b) of the Call for Bids
No. NL13-01, Parcel No. ____.

CORPORATE NAME

SIGNING OFFICER & TITLE

SIGNING OFFICER & TITLE

APPROVED FOR ISSUE

SIGNING OFFICER & TITLE
(BANK BRANCH)

**SCHEDULE IV - SAMPLE EXPLORATION LICENCE
CALL FOR BIDS NO. NL13-01
(Area "C" - Flemish Pass)**

EXPLORATION LICENCE NO.

THIS LICENCE is effective as of the ____ day of _____, 201__.

ISSUED BY

The Canada-Newfoundland Offshore Petroleum Board/
Canada-Newfoundland and Labrador Offshore Petroleum Board.

TO THE INTEREST OWNER,
(Individually, the "Interest Holders")

WORK EXPENDITURE BID: \$XXXXX

WHEREAS the Board is empowered pursuant to the Act to issue an Exploration Licence (hereinafter called the "Licence") relating to the Lands described in Schedules I and II;

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

AND WHEREAS _____, in submitting such a bid has/have 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:

- (1) "**Act**" means the *Canada-Newfoundland Atlantic Accord Implementation Act* and the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act* and regulations thereto and any Acts or regulations made in substitution therefor; and
- (2) Any words or phrases defined in the Act shall have the same meanings in this Licence unless the context otherwise requires.

2. RIGHTS

- (1) This Licence confers the rights attaching to an Exploration Licence pursuant to the Act with respect to those Lands described in Schedules I and II;
- (2) Where Lands or a portion of the Lands described in Schedules I and II become subject to a declaration of significant discovery, a significant discovery licence as described in Schedule IV shall be granted upon application by the Interest Owner.

3. AGREEMENT

The submission of a bid by the Interest Owner in response to the Call for Bids No. NL13-01 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.

4. WORK COMMITMENT

The Interest Owner has successfully bid and committed to expend \$_____ on exploration of the Lands and on research and development and education and training within Period I.

5. TERM

- (1) The effective date to commence the term of this Licence is **XXXX, 201X**.
- (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 six (6) years commencing on the effective date of this Licence. Period I may be extended by one year, as described herein.
- (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 fulfil 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.

6. SECURITY DEPOSIT

- (1) As a condition of the issuance of this Licence, the Interest Owner has posted a security deposit with the Board in the amount of \$_____ (25% of its Work Commitment). The Security Deposit will be refunded to the extent of the 25% of allowable expenditures expended in Period I. Such expenditures must be submitted to the Board no later than thirty days after the end of Period I. Allowable expenditures which are expended in Period II shall not be credited against the Security Deposit. No interest will be paid on the Security Deposit.
- (2) The Interest Owner is not obligated to perform work under this Licence. However, if the Interest Owner does not meet its Work Commitment, the non-credited remaining balance of the Security Deposit will be forfeited to the Receiver General for Canada upon the termination of Period I.

7. ONE YEAR EXTENSION OF PERIOD I

The Interest Owner may at its option extend Period I from six (6) years to seven (7) years by providing to the Board before the end of the sixth year of Period I either:

- (i) a description of 50% contiguous Licence Lands to be surrendered together with a refundable drilling deposit of \$1,000,000.

OR

- (ii) a \$5,000,000 refundable drilling deposit.

A drilling deposit posted in accordance with paragraph 7(i) or 7(ii) above will be refunded in full if the Licence is validated for Period II by the drilling of a well on that licence. No interest will be paid on the drilling deposit.

If a validation well is not drilled, the drilling deposit will be forfeited to the Receiver General for Canada upon the termination of the Licence at the end of Period I. Allowable Expenditures cannot be applied against the drilling deposit.

No extension to Period I will be granted if there are unpaid ESRF levies.

8. ALLOWABLE EXPENDITURES

- (1) The Allowable Expenditures for any given year shall be the total calculated expenditures for that year (i.e. monies actually spent) based upon the following rates:
 - (i) Drilling costs shall be claimed “at cost” when carried out by a party at arm’s length from the operator. Drilling costs are subject to Board approval subject to the following conditions:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(1)(i)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.
 - (ii) Drilling costs in a non-arm’s length transaction shall be the lesser of cost or fair market value as established by an independent third party expert consistent with:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(1)(ii)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.
 - (iii) Seismic, Well-Site or Electromagnetic Survey costs shall be claimed “at cost” when carried out by a party at arm’s length from the operator. Seismic, Well-Site or Electromagnetic Survey costs are subject to Board approval subject to the following conditions:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(1)(iii)(a) above, and
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (iv) Seismic, Well-Site or Electromagnetic Survey costs in a non-arm's length transaction shall be the lesser of cost or fair market value as established by an independent third party expert consistent with:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 8(1)(iv)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (v) For the purposes of subparagraphs 8(1)(i), 8(1)(ii), 8(1)(iii) and 8(1)(iv), persons are not dealing at arm's length if they are not dealing at arm's length for the purposes of the Income Tax Act, section 251.

- (vi) Seabed & Other Surveys/Studies
 - (a) Environmental field studies when they are required to obtain an authorization for work or activity. At cost.
 - (b) Any other survey/study at a rate agreed to by the Board prior to the program commencement.

- (vii) Overheads
10% of the allowable expenditures in paragraphs 8(1)(iii), 8(1)(iv) and 8(1)(vi).

- (viii) Research & Development/Education & Training
 - (a) An Interest Owner will be permitted to apply for an maximum of 5% of the Expenditure Bid as an Allowable Expenditure during Period I for these purposes;
 - (b) Any Allowable Expenditure made in relation to research and development/education and training and applied for as a credit against the Security Deposit, must be approved by the Board;

- (2) The Interest Owner may submit an application for credit against the Security Deposit or rentals, as the case may be, in the form and manner required by the Board. The following conditions will apply:
 - (i) An application for credit against the Security Deposit must be received by the Board no later than thirty (30) days following the expiry of the relevant event referred to in subsection 5(4) above. Any expense which would otherwise be considered as an Allowable Expenditure, but was made prior to the effective date of the 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 I;

 - (ii) Applications for credit against rentals must be received by the Board no later than thirty (30) days following the anniversary date in Period II following the year in which the Allowable Expenditures were incurred;

- (iii) Failure to submit such applications within the appropriate time referred to above, shall be deemed to mean that no Allowable Expenditures were incurred.

The above rates of Allowable Expenditures will have application throughout Period I of the Exploration Licence. However, the rates of Allowable Expenditures will be reviewed, and may be amended at the expiration of Period I.

9. RENTALS

- (1) Rentals will be applicable only in Period II at the following rates:

Area “C” - Flemish Pass

1 st year	\$5.00 per hectare
2 nd year	\$7.50 per hectare
3 rd year	\$10.00 per hectare

- (2) If this Licence continues in force beyond Period II, rentals will be payable at the rates applicable during the last year of Period II.
- (3) Rentals shall be due on the anniversary date of this Licence and shall be paid annually in advance, no later than 30 days following the anniversary date of the Licence, and are to be submitted by bank draft or certified cheque payable to the **Receiver General**, except for rentals under subsection 9(2), which will be payable monthly, in advance, at the rate of one-twelfth (1/12) of the applicable annual rates.
- (4) 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.
- (5) 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, excepting Allowable Expenditures related to a well commenced and being pursued diligently but not terminated within Period I.
- (6) 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.
- (7) Rentals will apply to lands subject to a declaration of significant discovery during the term of the Licence at the rates and levels of refundability specified above.

10. ENVIRONMENTAL STUDIES RESEARCH FUND (ESRF)

Owners of exploration licences are liable for the payment of ESRF levies as may be made each year in accordance with section 81 of the *Canada Petroleum Resources Act*.

11. EXPLORATION PLAN

The Interest Owner must file an exploration plan within six months of the effective date of this Licence outlining the anticipated activities for the Lands. The plan shall be updated annually and filed by the anniversary date of the initial plan.

12. JOINT OPERATING AGREEMENT

In any instance where the Interest Owner is comprised of more than one interest holder, the Interest Owner must acknowledge in writing within six months of the effective date of this Licence that all interest holders have entered into an agreement in the nature of a joint operating agreement addressing voting procedures and a procedure to allow less than all participants to proceed with a program which is not approved pursuant to the voting procedures with provisions for maintenance of participant ownership and sharing of results within non-participant interest holders where a program proceeds and is successful.

13. LIABILITY

- (1) An interest holder shall be liable under the provisions of this Licence, the Act, and the Regulations for all claims, demands, losses, 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 Act and Regulations. 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.
- (2) This section shall survive this Licence and will be incorporated into any significant discovery licence and production licence that arises therefrom.

14. INDEMNITY

- (1) It is a condition of this Licence that the interest holders shall, in respect of that portion of the Lands to which each such interest holder's share relates, at all times, jointly and severally, indemnify and save harmless the Board as well as Her Majesty the Queen in right of Canada or in right of the Province of Newfoundland and Labrador from and against all claims, demands, losses, costs, damages, actions, suits or other proceedings by whomsoever made, sustained, brought or prosecuted, in any manner based upon, occasioned by, or attributable to, anything done or omitted to be done by, through, or under, or with the consent of the Interest Owner, or an interest holder, notwithstanding any agreement or arrangement entered into by an Interest Owner or interest holder which does or may result in the transfer, assignment or other disposition of the interest or share therein, in the fulfilment of the terms and conditions made herein or in the exercise of the rights or obligations contained herein.
- (2) For greater certainty, interest holders in this Licence who do not hold shares with respect to that portion of the Lands in relation to which a claim, demand, loss, cost, damage, action, suit or other proceeding arises are not liable to indemnify the Board,

Her Majesty the Queen in right of Canada or in right of the Province of Newfoundland and Labrador under subsection 14 (1) above.

- (3) For the purposes of subsections 14 (1) and 14 (2), "Her Majesty the Queen in right of Canada or in right of the Province of Newfoundland and Labrador" shall not include a Crown corporation.
- (4) This section shall survive this Licence and will be incorporated into any significant discovery licence and production licence that arises therefrom.

15. TIME LIMITATIONS

- (1) In the event any interest holder wishes to submit an application for a significant discovery declaration pursuant to the Act ("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.
- (2) Where any judicial review is explicitly stated to be available under any provision of the Act respecting any order, decision, or action by the Board, any application for such 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 Act.

16. SUCCESSORS AND ASSIGNS

Subject to sections 13 and 14, the Licence enures to the benefit of and is binding on the Board and the Interest Owner and their respective heirs, administrators, successors and assigns.

17. NOTICE

Any notice, communication or statement required under the Act shall be served on the Board or the Interest Owner, as the case may be, by personal delivery, facsimile or e-mail at that address specified in Schedule III hereof, or such other addresses as may be designated from time to time by the Board or the Interest Owner, as the case may be.

18. REPRESENTATIVE

The Interest Owner shall appoint a representative who shall be more particularly described in Schedule III. The representative may be changed from time to time during the term of the Licence.

ISSUED at St. John's, Newfoundland and Labrador this ____ day of _____, 201X.

**CHAIRMAN
THE CANADA-NEWFOUNDLAND
OFFSHORE PETROLEUM BOARD/
CANADA-NEWFOUNDLAND AND LABRADOR
OFFSHORE PETROLEUM BOARD**

(Schedule to Sample Exploration Licence)
SCHEDULE I - LANDS

LATITUDE/LONGITUDE*

SECTIONS

HECTARES

TOTAL: _____ HECTARES

*North American Datum 1927

(Schedule to Sample Exploration Licence)
SCHEDULE II - OWNERSHIP

INTEREST HOLDER

% SHARE

(Schedule to Sample Exploration Licence)
SCHEDULE III - REPRESENTATIVE(S) AND ADDRESSES FOR SERVICE

Representative:

Address:

Canada-Newfoundland Offshore Petroleum Board/
Canada-Newfoundland and Labrador Offshore Petroleum Board
Suite 500, TD Place
140 Water Street
St. John's, NL
A1C 6H6

Attention: The Chairman

(Schedule to Sample Exploration Licence)
SCHEDULE IV – RESULTING SIGNIFICANT DISCOVERY LICENCE WHERE A
SIGNIFICANT DISCOVERY IS DECLARED WITHIN THE LANDS
SIGNIFICANT DISCOVERY LICENCE No.

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

ISSUED BY

The Canada-Newfoundland Offshore Petroleum Board/
Canada-Newfoundland and Labrador Offshore Petroleum Board.

TO THE INTEREST OWNER

(Individually, the “Interest Holders”)

WHEREAS the Board is empowered pursuant to the Act to issue a Significant Discovery Licence (Hereinafter called the “Licence”) relating to the Lands described in Schedules I and II of this Licence;

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

- (1) “Act” means the *Canada-Newfoundland Atlantic Accord Implementation Act* and the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act* and regulations thereto and any Acts or regulations made in substitution therefore; and
- (2) Any words or phrases defined in the Act 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 pursuant to the Act with respect to those Lands described in Schedules I and II.

3. AGREEMENT

The submission of a bid by the Interest Owner in response to Call for Bids No. __ 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 Newfoundland and Labrador Offshore Area described in Call for Bids No. ____, Parcel No. _____ that becomes subject to a Declaration of Significant Discovery and this Licence. That agreement applies to any successors in interest of the Interest Owner.

4. ALLOWABLE EXPENDITURES

The Allowable Expenditures for any given year shall be the total calculated expenditures for that year (i.e. monies actually spent) based upon the following rates:

- (i) Drilling costs shall be claimed “at cost” when carried out by a party at arm’s length from the operator. Drilling costs are subject to Board approval subject to the following conditions:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 4(i)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (ii) Drilling costs in a non-arm's length transaction shall be the lesser of cost or fair market value as established by an independent third party expert consistent with:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 4(ii)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (iii) Seismic, Well-Site or Electromagnetic Survey costs shall be claimed "at cost" when carried out by a party at arm's length from the operator. Seismic, Well-Site or Electromagnetic Survey costs are subject to Board approval subject to the following conditions:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 4(iii)(a) above, and
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (iv) Seismic, Well-Site or Electromagnetic Survey costs in a non-arm's length transaction shall be the lesser of cost or fair market value as established by an independent third party expert consistent with:
 - (a) each claim must be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Board;
 - (b) the Board shall approve the Terms of Reference/Scope of Work in relation to any audit to be performed in accordance with 4(iv)(a) above; and,
 - (c) the Board reserves the right to conduct its own audit if for any reasons it deems it necessary to do so.

- (v) For the purposes of subparagraphs 4(i), 4(ii), 4(iii) and 4(iv), persons are not dealing at arm's length if they are not dealing at arm's length for the purposes of the Income Tax Act, section 251.

- (vi) Seabed & Other Surveys/Studies
 - (a) Environmental field studies when they are required to obtain an authorization for work or activity. At cost.
 - (b) Any other survey/study at a rate agreed to by the Board prior to the program commencement.

- (vii) Overheads

10% of the allowable expenditures in paragraphs 4(iii), (4)(iv) and 4(vi).

5. **RENTALS – EXPLORATION LICENCE TERM**

A Significant Discovery Licence issued during Period I or II of an Exploration Licence shall be subject to the rental rates applicable to that Exploration Licence until the natural expiry of the Exploration Licence.

6. **RENTALS – POST EXPLORATION LICENCE TERM**

Each Significant Discovery Licence shall be subject to the following rental regime after the expiration of the term of the Exploration Licence of origin:

- (a) Rentals on Significant Discovery Licences, following the expiry date of the Exploration Licence, shall be at the following base rates:

Year 1 to 5	\$0.00 per hectare
Year 6 to 10	\$40.00 per hectare
Year 11 to 15	\$200.00 per hectare
Year 16 to 20	\$800.00 per hectare

The rental rates applicable to any Significant Discovery Licence resulting from Call for Bids NL13-01 will be payable in constant (inflation adjusted) 201X dollars.

Commencing on December 31, 201X, the rental rates in the above-noted table will be adjusted by applying the annual change in the Consumer Price Index for Canada. The rental rates will be adjusted in the same manner on each December 31 thereafter. Pro-rated rental rates for year one of a Significant Discovery Licence shall be paid prior to the issuance of the Significant Discovery Licence with the applicable adjusted annual rental rate payable on or before June 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) 201X dollars until the Significant Discovery 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.
- (a) Rentals are to be submitted by bank draft or certified cheque payable to the **Receiver General**.
- (b) For greater certainty, rentals shall be calculated on the basis of the total hectarage of lands held as part of the Significant Discovery Licence, as of the anniversary date.
- (c) 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.

- (d) 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.

7. ANNUAL REPORT

The Interest Owner shall provide to the Board in writing an annual report describing activities undertaken to advance development of the Licence. The annual report shall be filed each year on the anniversary of the issuance of this Licence.

8. NON-COMPLIANCE

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

9. INDEMNITY

- (1) It is a condition of this Licence that the interest holders shall, in respect of that portion of the Lands to which each such interest holder's share relates, at all times, jointly and severally, indemnify and save harmless the Board as well as Her Majesty the Queen in right of Canada or in right of the Province of Newfoundland and Labrador from and against all claims, demands, losses, costs, damages, actions, suits or other proceedings by whomsoever made, sustained, brought or prosecuted, in any manner based upon, occasioned by, or attributable to, anything done or omitted to be done by, through, or under, or with the consent of the Interest Owner, or an interest holder, notwithstanding any agreement or arrangement entered into by an Interest Owner or interest holder which does or may result in the transfer, assignment or other disposition of the interest or share therein, in the fulfilment of the terms and conditions made herein or in the exercise of the rights or obligations contained herein.
- (2) For the purposes of subparagraphs (1), "Her Majesty the Queen in right of Canada or in right of the Province of Newfoundland and Labrador" shall not include a Crown corporation.
- (3) This section shall survive this Licence and will be incorporated into any production licence that arises therefrom.

10. LIABILITY

- (1) An interest holder shall be liable under the provisions of this Licence, the Act, and the Regulations for all claims, demands, losses, 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 Act and Regulations. 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.

- (2) This section shall survive this Licence and will be incorporated into any production licence that arises therefrom.

11. SUCCESSORS AND ASSIGNS

Subject to sections 9 and 10, the Licence enures to the benefit of and is binding on the Board and the Interest Owner and their respective heirs, administrators, successors and assigns.

12. NOTICE

Any notice, communication or statement required under the Act shall be served on the Board or the Interest Owner, as the case may be, by personal delivery, facsimile or e-mail at that address specified in Schedule III hereof, or such other addresses as may be designated from time to time by the Board or the Interest Owner, as the case may be.

13. REPRESENTATIVE

Unless otherwise designated in the prescribed manner, for the purpose of this Licence the representative or representatives, as the case may be, of the Interest Owner shall be as specified in Schedule III.

ISSUED at St. John's, Newfoundland and Labrador this ____ day of _____, 20__.

**CHAIRMAN
THE CANADA-NEWFOUNDLAND
OFFSHORE PETROLEUM BOARD/
CANADA-NEWFOUNDLAND AND LABRADOR
OFFSHORE PETROLEUM BOARD**

SCHEDULE I - LANDS

LATITUDE/LONGITUDE*

SECTIONS

HECTARES

TOTAL: _____ HECTARES

*North American Datum 1927

SCHEDULE II - OWNERSHIP

INTEREST HOLDER

% SHARE

SCHEDULE III - REPRESENTATIVE(S) AND ADDRESSES FOR SERVICE

Representative:

Address:

Canada-Newfoundland Offshore Petroleum Board/
Canada-Newfoundland and Labrador Offshore Petroleum Board
Suite 500, TD Place
140 Water Street
St. John's, NL
A1C 6H6

Attention: The Chairman