

Exploration Licence No. ELXXX
(updated January 2013)

**ISSUED BY THE
MINISTER OF INDIAN AFFAIRS AND
NORTHERN DEVELOPMENT**
(hereinafter called the "Minister")

TO THE INTEREST OWNER [name]

WHEREAS the Minister is empowered pursuant to the *Canada Petroleum Resources Act* to issue an Exploration Licence (hereinafter called the "Licence") relating to the Lands;

AND WHEREAS the Minister has selected the bid in the amount of \$ _____ submitted by _____ as the winning bid in respect of parcel No. ____ posted in the _____ Call for Bids published in Part I of the *Canada Gazette* on _____;

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

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

1. INTERPRETATION

- (a) In this Licence, including all Schedules annexed hereto, unless the context requires otherwise:
- (i) "Act" means the *Canada Petroleum Resources Act*, as amended from time to time;
 - (ii) "Operations Act" means the *Canada Oil and Gas Operations Act*, as amended from time to time;
 - (iii) "Lands" means the frontier lands described in Schedule I or such portion thereof that remains subject to this Licence from time to time;
 - (iv) "Period" means a segment or portion of the term described in Schedule III or, if no period is described therein, means the entire term of this Licence;
 - (v) "Regulations" means any and all regulations now made or that may be made at any time under the authority of the Act or the Operations Act, and any Acts passed in substitution therefor.
- (b) All words and phrases used in this Licence have the meaning given by the Act, the Operations Act, or the Regulations.
- (c) This Licence is issued under and subject to the Act, the Operations Act, and any Act passed in substitution therefor; the Regulations; and the provisions of any other Act of Canada and regulations made thereunder that relate to or affect this Licence, the Act, the Operations Act or the Regulations. The Act, the Operations Act, the Regulations and such other Acts and other regulations shall be deemed to be incorporated into this Licence as though specifically enumerated herein.
- (d) The following Schedules are attached and made part of this Licence:
- Schedule I - Lands;
 - Schedule II - Ownership;
 - Schedule III - Term and Conditions;
 - Schedule IV - Representative(s) and Addresses for Service.

2. RIGHTS

- (a) Subject to the Act and the Operations Act, this Licence confers, with respect to the frontier lands to which this Licence applies,
- (i) the right to explore for, and the exclusive right to drill and test for, petroleum;
 - (ii) the exclusive right to develop those frontier lands in order to produce petroleum; and
 - (iii) the exclusive right, subject to compliance with the other provisions of the Act, to obtain a production licence.
- (b) This Licence shall be held by the interest holders as to the Lands, in the shares as set forth and described in Schedule II, or as amended from time to time.
- (c) The rights under this Licence are subject to the right of any other Licence holder to enter on and use the area subject to this Licence to the extent necessary to enable that other Licence holder to exercise the rights under that other Licence.

3. EFFECTIVE DATE

This Exploration Licence is effective as of [date].

4. TERM

Subject to the Act, the term of this Licence is as set out in Schedule III.

5. RENTALS

- (a) Rentals, if any, shall be levied annually at the rate set forth in Schedule III.
- (b) Rentals, if levied, shall be paid in advance, in respect of the Lands. The payment may be submitted in the form of an irrevocable standby letter of credit, certified cheque or other negotiable financial instrument in a form satisfactory to the Minister.
- (c) Rentals paid shall be refunded annually at the rate set forth in Schedule III.

6. NON-COMPLIANCE

Failure to pay rentals or otherwise fail to comply with any terms and conditions of this Licence may result in the termination of the Licence.

7. INDEMNITY

- (a) It is a condition of this Licence that the interest owner or interest holders shall, in respect of that portion of the Lands to which such interest holder's share relates, at all times, jointly and severally, indemnify and save harmless Canada from and against all claims, demands, loss, 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.
- (b) 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 Canada under subparagraph 7(a).
- (c) For the purposes of subparagraphs 7(a) and 7(b), "Canada" shall not include a Crown corporation.
- (d) This commitment to indemnify Canada shall survive the expiration of this Licence and will be incorporated into any Significant Discovery Licence and Production Licence that arises therefrom.

8. LIABILITY

- (a) An interest holder shall be liable under the provisions of this Licence, the Act, the Operations Act and the Regulations 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 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.
- (b) Liability as set out in this paragraph shall survive the expiration of this Licence and will be incorporated into any Significant Discovery Licence and Production Licence that arises therefrom.

9. SUCCESSORS AND ASSIGNS

Subject to paragraphs 6, 7 and 8, this Licence enures to the benefit of, and is binding on, the Minister and the interest owner and their respective heirs, administrators, successors and assigns.

10. NOTICE

Any notice, communication or statement required under the Act or the Operations Act shall be served on the designated person, on behalf of the Minister or on the interest owner, as the case may be, by personal delivery, or by fax at that address specified in Schedule IV hereof, or such other addresses as may be designated from time to time by the Minister or the interest owner, as the case may be.

11. WAIVER AND RELIEF

Where the Minister is satisfied that the Licence requirements as described under paragraph 2 of Schedule III cannot be executed within the time periods or to the extent provided therein, the Minister may, subject to the Act, grant an extension or extensions thereof in writing, provided always that the Minister is also satisfied that the failure to execute the above requirements is for reasons beyond the reasonable control of the interest owner, and that the interest owner continues to diligently pursue a remedy for such situation.

12. REPRESENTATIVE

Unless otherwise designated in the prescribed manner under the Act, 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 IV.

13. AGREEMENT

The issuance of this Licence by the Minister affirms the acceptance thereof by the interest owner and comprises the agreement between the interest owner and the Minister as to the terms and conditions contained herein.

ISSUED at Gatineau, this _____ day of _____, _____.

MINISTER of Indian Affairs and Northern Development

**SCHEDULE I
LANDS**

SAMPLE

Latitude*	Longitude*	Section(s)
69° 40' N	133° 15' W	9-10,19-20,30
69° 50' N	133° 15' W	1-4,11-12,21,31

*North American Datum 1927 (NAD27)

(_____ hectares, more or less)

EXAMPLE

**SCHEDULE II
OWNERSHIP**

Latitude*	Longitude*	Section(s)	Interest Holder(s)	Share %
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*North American Datum 1927 (NAD27)

EXAMPLE

**SCHEDULE III
TERMS AND CONDITIONS**

1. TERM

This Licence has a term of nine (9) years commencing on [*date*].

Beaufort Sea & Mackenzie Delta:

For those parcel which lie south of Line A on the call map, the term shall comprise of two (2) consecutive periods of five (5) and four (4) years. Subject to the Licence, Period 2 shall follow Period 1.

For those parcels which lie north, or straddle, Line A on the call map, the term shall comprise of two (2) consecutive periods of seven (7) and two (2) years. Subject to the Licence, Period 2 shall follow Period 1.

Arctic Islands of Nunavut:

The term shall be comprised of two consecutive periods of six (6) and three (3) years. Subject to the Licence, Period 2 shall follow Period 1.

2. WORK PROGRAM

The drilling of one (1) exploratory or delineation well prior to the end of Period 1 of the term is a condition precedent to obtaining tenure to Period 2.

Such a well should reach a depth sufficient to evaluate a prospective horizon as described in the geological prognosis in the application for *Authority to Drill a Well*.

Where a well has been commenced and drilling is being pursued diligently, Period 1 shall continue until the well has been completed. Period 2 shall be reduced accordingly.

Failure to drill a well on the lands by the end of Period 1 will result in the termination of the Exploration Licence. Consequently, lands revert to the Crown as Crown reserve lands. Any remaining Work Deposit will be forfeited.

Drilling Deposit

The interest owner may, at its option, in order to meet the work requirement, extend Period 1 for one year by posting a Drilling Deposit before the end of the last year of Period 1. Where Period 1 is extended by the posting of a Drilling Deposit, Period 2 shall be reduced accordingly.

This Drilling Deposit shall be in the amount of one million dollars (\$1,000,000.00) and is to be submitted in the form of an irrevocable standby letter of credit, certified cheque or other negotiable financial instrument in a form satisfactory to the Minister.

If a Drilling Deposit is posted, it will be refunded in full if the licence is validated as required to obtain tenure for Period 2 by the drilling of a well. If a validation well is not drilled or has not been commenced within the one year extension, the Drilling Deposit will be forfeited to the Receiver General for Canada upon the termination of the licence at the end of Period 1. If a well has been commenced and drilling operations are being diligently pursued, Period 1 will continue until the well has been completed.

Allowable expenditures cannot be applied against the Drilling Deposit.

For Licences consisting of two consecutive periods of five (5) and four (4) years: as a result of the extension of Period 1 by the posting of a Drilling Deposit, rentals payable in Period 2 will be applicable at the following rates, for the first year after the extension, at \$5.50 per hectare and all subsequent years at \$8.00 per hectare.

For Licences consisting of two consecutive periods of either seven (7) and two (2) years or six (6) and three (3) years: as a result of the extension of Period 1 by the posting of a Drilling Deposit, rentals payable in Period 2 will be applicable at the rate of \$8.00 per hectare.

All other rental provisions remain applicable.

3. WORK DEPOSIT

This Licence is accompanied by a Work Deposit in the amount of twenty-five per cent (25%) of the bid submitted.

Work Deposits are refundable as expenditures are deemed allowable during Period 1 of the term of the Exploration Licence. A credit against the Work Deposit will be made on the basis of twenty-five per cent (25%) of allowable expenditures, referred to hereafter, as they are approved. Any Work Deposit balance remaining at the end of Period 1 will be forfeited.

Expenditures incurred in Period 2 of the term will not be credited against the Work Deposit.

4. RENTALS

Rentals paid during Period 2 are refundable as allowable expenses are incurred during Period 2. There are no rentals payable during Period 1 of the term.

In Period 2, rentals will be applicable at the following rates:

	Beaufort Sea & Mackenzie Delta		Arctic Islands of Nunavut
	5 & 4 years	7 & 2 years	6 & 3 years
1 st year of Period 2	\$3.00	\$8.00	\$5.50
2 nd year of Period 2	\$5.50	\$8.00	\$8.00
3 rd year of Period 2	\$8.00	N/A	\$8.00
4 th year of Period 2	\$8.00	N/A	N/A

Rentals will be payable annually, in advance, and are to be submitted in the form of an irrevocable standby letter of credit, certified cheque or other negotiable financial instrument in a form satisfactory to the Minister.

When an Exploration Licence continues in force beyond Period 2 due to the drilling of a well deemed to be pursued diligently in accordance with section 27 of the *Canada Petroleum Resources Act*, rentals will be payable at the rate of \$8.00 per hectare. Such rentals will be payable monthly, in advance, at the rate of one twelfth (1/12) of the applicable annual rates.

Beaufort Sea & Mackenzie Delta:

Rentals may be payable on lands included in a Significant Discovery Licence.

Arctic Islands of Nunavut:

Rentals will be payable on lands included in a successor Significant Discovery Licence to an Exploration Licence issued after 2012.

5. ALLOWABLE EXPENDITURES¹

Work Deposits and rentals will be refunded on the following basis, subject to further clarification by the Rights Administrator.

Costs related to the following classes of exploratory work undertaken as part of a program authorized by the National Energy Board may be claimed at cost:

Data acquisition: by means of reflection seismic surveys or other geophysical, geo-technical or geological surveys, including costs relating to field acquisition and processing, inspection and clean-up.

Data purchase: from vendors at arm's length for re-processing and/or interpretation, to the extent that the data assists the evaluation of the specific licence.

Drilling operations: Costs relating to construction of access routes, preparation of drilling sites, transportation to and from well location and staging areas, onsite drilling and evaluation, support vessels, helicopters, site clean-up and restoration. Drilling operations involved in an exploratory or delineation well may entail waiting on weather, logging, well testing and completion. Extended formation flow testing will not be regarded as an allowable expenditure.

Mobilization and demobilization: equipment and supplies, and any incurred stand-by charges deemed reasonable by the Rights Administrator.

Notwithstanding the above, the Minister may agree to costs claimed with respect to classes of work or activity, or the use of innovative technology not contemplated by this schedule.

General and Administrative: Ten percent (10%) of the above allowable expenditures to reflect other costs not specifically itemized above, and including program specific consultations, data interpretation, regional office support, management and pre- and post program costs.

All claims are subject to approval by the Minister and may be subject to a post audit if ordered by the Rights Administrator.

¹ Notes:

- (a) Claims should be made by letter from the Representative to the Rights Administrator, Northern Petroleum Resources Directorate, and contain a statement certified by an officer of the company or a professional engineer, geologist or geophysicist that the information in the statement is true and accurate to the best of their knowledge. The statement should provide a breakdown of actual costs for at cost items and may be subject to post-audit. Claims for drilling operations and related charges should be accompanied by a cost statement prepared and certified by an external auditor satisfactory to the Minister.
- (b) Costs must be incurred by the explorer, and must fairly and reasonably reflect the expense to the explorer of exploratory work.
- (c) Claims are subject to approval by the Minister.
- (d) Approval is subject to confirmation that program reporting requirements have been met to the satisfaction of the Regulator.
- (e) Costs related to exploratory work within Period 1 of the Exploration Licence must be incurred prior to the end of Period 1. Costs related to exploratory work within Period 2 of the licence must be incurred prior to the end of Period 2.
- (f) Costs attributed to exploratory work must be related to the evaluation of the specific licence. Costs which apply to more than one licence or program must be fairly apportioned.
- (g) Guidance Notes on Claiming Allowable Expenditures as published on the Aboriginal Affairs and Northern Development Canada website and as amended from time to time are intended to assist the interest owner with a submission for a claim for allowable expenditures.

**SCHEDULE IV
REPRESENTATIVE(S) AND ADDRESSES FOR SERVICE**

Company Name

Address
(Attention:)

Telephone:
Facsimile:

**Northern Petroleum Resources Directorate
Northern Petroleum and Mineral Resources Branch**
Department of Indian Affairs and Northern Development
10 Wellington
Gatineau, Quebec
Postal Address:
Ottawa ON K1A 0H4
(Attention: Director)

Telephone: 819-953-2087
Facsimile: 819-953-5828

Rights@aandc.gc.ca

www.aadnc-aandc.gc.ca/nth/og/index-eng.asp