

***Successor Significant Discovery Licence for the Arctic Islands of
Nunavut***

SIGNIFICANT DISCOVERY LICENCE No. SDLXXX

**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 a Significant Discovery Licence (hereinafter called the "Licence") relating to the Lands;

AND WHEREAS a Declaration of Significant Discovery was made on XXXXX , in respect of the XXXXX discovery;

AND WHEREAS, the interest owner of Exploration Licence No. ELXXX has made application on [date]for a Significant Discovery Licence pursuant to the Act

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) "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 - Terms & 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 owner or 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 licence is effective as of [*date of application for a Significant Discovery Licence*].

4. 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 shall be refunded annually at the rate set forth in Schedule III.

5. PLANNING REPORT

The interest owner shall provide to the Minister in writing annual reports describing activities planned to be undertaken to advance work on the Licence for the upcoming year as well as details of any activities undertaken in the preceding year. The annual report shall be filed each year on the anniversary of the effective date of the Licence.

6. NON-COMPLIANCE

Failure to pay rentals, file annual planning reports 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, 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 the purposes of subparagraph 7(a), "Canada" shall not include a Crown corporation.
- (c) This commitment to indemnify Canada shall survive the expiration of this Licence and will be incorporated into any 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 production licence that arises therefrom.

9. SUCCESSORS AND ASSIGNS

Subject to paragraphs 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. 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.

12. 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 _____ 20XX

Minister of Indian Affairs and Northern Development

**SCHEDULE I
LANDS**

Latitude* **Longitude*** **Section**

AREA: Hectares (more or less)

*North American Datum 1927 (NAD27)

EXAMPLE

**SCHEDULE II
OWNERSHIP**

Interest Holder(s)

Share %

EXAMPLE

**SCHEDULE III
TERMS AND CONDITIONS**

1. RENTALS

This Licence shall be subject to the following rental regime:

- (i) Rentals on this Licence will be applicable at the following rates:

Year 1 to 5	\$0.00
Year 6 to 10	\$50,000
Year 11 to 15	\$250,000
Year 16 to 20	\$1,000,000
Beyond year 20	Annual increase of \$100,000

Commencing on the anniversary date of year 11, 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 anniversary date thereafter.

- (ii) Rental rates beyond year 20 will increase annually by \$100,000, and will be payable until this Licence is terminated or converted to a Production Licence.
- (iii) Rentals will be payable annually, in advance of the anniversary date of the Licence, 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.
- (iv) Rentals will be offset annually, to a maximum of one hundred percent (100%) of the rentals payable in that year, on the basis of a dollar offset for each dollar of allowable expenditures for that year.
- (v) To the extent that allowable expenditures for a given year are greater than the amount of that year's rentals, the excess shall be carried forward to reduce rentals otherwise payable in ensuing rental years.

2. ALLOWABLE EXPENDITURES

Rentals will be offset 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 of 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) 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:)

Phone:
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: 819-997-0877
Facsimile: 819-953-5828

Rights@aandc.gc.ca

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