



REGULATORY EXCELLENCE FOR **20 YEARS.**

CNSOPB



CANADA-NOVA SCOTIA
OFFSHORE PETROLEUM BOARD

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Diana Dalton, Chair and Stuart Pinks, Chief Executive Officer.

Report from the Chair & Chief Executive Officer

The year 2010 marks the 20th anniversary of the Canada-Nova Scotia Offshore Petroleum Board (CNSOPB). During these past years, we have seen considerable advancements in technology, as well as in health, safety, environmental protection and geoscience capabilities. Therefore, the Board must embrace change while striving to achieve regulatory excellence, clarity and efficiency on a continuing basis. We have placed a special section in this Annual Report which gives some of the highlights of the last 20 years. We think this aptly demonstrates the capacity and capabilities of our Board.

As we recognize our past, we look to the future and to moving forward on many fronts. To that end, we are pleased to report on the Board's activities in 2009-10.

This year we continued our strategic focus on optimizing resource management, regulatory modernization and organizational excellence. This included a strong emphasis on interpreting and disseminating geoscientific information, and further refining the Board's rights management regime. In addition to posting industry nominated parcels in its latest Call for Bids, the Board also proactively identified land parcels for inclusion in its previous Call for Bids which resulted in the granting of two new exploration licences in 2009-10.

With regard to regulatory modernization, the Board continued its participation and leadership in the joint government/regulator Frontier and Offshore Regulatory Renewal Initiative (FORRI). The objective of FORRI is to modernize the regulations governing offshore oil and gas activities to those that are goal-oriented in nature. This will allow for technological innovation and changes to be addressed in a more flexible manner, while maintaining a high standard of safety, environmental protection and resource conservation. The first new regulations – the Drilling and Production Regulations – came into force in December 2009. At the same time, the Board issued four associated draft guideline documents to assist operators in complying with these new regulations. Building on the success of the Drilling and Production Regulations project, the FORRI is now moving forward with a project to incorporate and update all the other regulations pertaining to offshore oil and gas activities in a similar goal-oriented manner.

A highlight in our continuum of organizational excellence is the Board's commitment to ensuring staff attends and participates in national and international training courses and technical conferences. This is to maintain an understanding of the latest exploration and development technology and practices and to ensure that we are part of this global industry in a very real way.

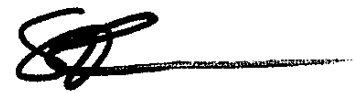
As we continue our journey into the future, our Board is committed to maintaining the standards of excellence with which we approach the regulation of the Nova Scotia offshore. We believe that we have made the Nova Scotia offshore an international example of good practice and regulation and we are proud of our Board's contribution in this regard. We will work with both governments to ensure this continues to be our direction and our commitment.

Our hope is that the next twenty years will hold a promising future for Nova Scotia's offshore.

Sincerely,



Diana Dalton
Chair



Stuart Pinks
Chief Executive Officer



“As we recognize our past,
we look into the future and to
moving forward on many fronts.”

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Celebrating 20 years of employment with the Board:
front (L-R) Brent Smith, Mary Jean Verall, Bob Hale
back (L-R) David Brown, Carl Makrides, Steve Bigelow
missing: Dave Scratch

Highlights from the Past 20 Years

Milestones

- The Board was established on January 6, 1990 as a successor to the Canada Oil and Gas Lands Administration (COGLA).
- On February 14, 1990, the Board issued its first Call for Bids for Exploration Licences in the Nova Scotia Offshore Area.
- In August 1990, the Board approved the Benefits Plan and Development Plan for the Cohasset – Panuke Project.
- On April 1, 1991, the Board issued the first Production Licences in the Nova Scotia offshore area to LASMO Nova Scotia Limited and Nova Scotia Resources (Ventures) Limited (NSR(V)L) in respect of the Cohasset and Panuke Fields. This was Canada’s first offshore oil project.
- On June 3, 1992, the Board issued an authorization to LASMO and NSR(V)L to commence oil production from the Cohasset – Panuke Project. Initial production officially began June 5, 1992.
- In December 1997, the Board approved the Benefits Plan and the Development Plan for the Sable Offshore Energy Project.
- In 1998, the Board issued its largest Call for Bids (NS98-2) – 20 parcels covering 2.2 million hectares.
- On December 17, 1999, production ceased at the Cohasset-Panuke Project after producing 44 million barrels of oil over eight years. That same day, the Board issued an authorization to Sable Offshore Energy Inc. to begin producing natural gas from the Sable Offshore Energy Project – Canada’s first offshore natural gas project. Gas production began from the Tier I fields of Thebaud, Venture and North Triumph.
- In 1999, the Board issued several new Exploration Licences for deep water areas where no exploration had previously taken place.
- In 2001, a public review was held regarding the effects of potential oil and gas exploration offshore Cape Breton.

Wilvestones

- In 2001, the boundary between the Nova Scotia and Newfoundland areas was adjusted to the southwest.
- In 2001, the Board authorized the drilling of the first modern deep-water well in the Nova Scotia Offshore Area.
- In 2001, record high work expenditure bids of \$177 million and \$194 million were received for two deep water Exploration Licences.
- In 2003, gas production started from the Alma Tier II field of the Sable Offshore Energy Project.
- In 2004, the second Sable Offshore Energy Project Tier II field, South Venture, began producing gas.
- In 2006, the compression deck was installed at the Thebaud complex of the Sable Offshore Energy Project.
- In 2007, the Board issued two Significant Discovery Licences to EnCana Corporation related to the Panuke PP-3C significant natural gas discovery.
- In 2007, the Data Archive, Core Storage and Laboratory and storage facility was renamed the Geoscience Research Centre and expanded to establish a world-class Data Management Centre. The purpose is to provide free internet access to high-quality, digital petroleum data from anywhere in the world.
- In 2007, the Board issued a Call for Bids for Exploration Licences for two Board nominated parcels with new terms and conditions which reduced cost of entry for exploration.
- In September 2007, the Board approved the Benefits Plan and the Development Plan for the Deep Panuke Offshore Gas Development Project.
- In 2009, new goal oriented Drilling and Production Regulations were promulgated by governments. The Board, through the Frontier Offshore Regulatory Renewal Initiative (FORRI), continues to provide support to governments' work in updating all existing petroleum regulations.



1.0 Core Regulatory Responsibilities

The Board's core regulatory responsibilities span the full life-cycle of offshore activities ranging from resource assessments, exploration, development, production and abandonment. These core regulatory responsibilities are aligned with the Board's mandate which is described below.

Board Mandate

The Board is the independent joint agency of the Governments of Canada and Nova Scotia responsible for the regulation of petroleum activities in the Nova Scotia Offshore Area, including:

- health and safety for offshore workers;
- protection of the environment during offshore petroleum activities;

- management and conservation of offshore petroleum resources;
- compliance with the provisions of the Accord Acts that deal with Canada-Nova Scotia employment and industrial benefits;
- issuance of licences for exploration and development and
- resource evaluation, data collection, curation and distribution.

The Board's mandate and core regulatory responsibilities are guided by a regulatory framework which consists of: legislation, regulations, guidelines, decision reports, memoranda of understanding and other regulatory documents.

1.1

Strategic Direction

In addition to delivering on its core regulatory mandate and providing support to government-led initiatives, the Board focused on the following three strategic priorities in 2009-10:

- i. Optimizing Resource Management
- ii. Regulatory Modernization
- iii. Organizational Excellence

Progress has been made in each of these areas, and includes:

- Successful Calls for Bids for both industry

and Board nominated parcels;

- Ongoing interpretation and sharing of geological and geophysical information;
- Continued collaboration with governments and other regulators on the modernization of the regulations and guidelines that govern offshore petroleum activities and
- Further development and maintenance of the Board's Performance Management System.

The Board will build on the successes from 2009-10 and continue its focus on these three strategic priorities in the coming fiscal year.





The Operations/Health, Safety and Environment Team front to back (L-R) Keith Landra, Kim Hilchie, Gerald Sheehan, Elizabeth MacDonald, Bob Hale, Eric Theriault, Robert Normore, missing: Dave Scratch

2.0 Operations/Health, Safety & Environment

The health and safety of offshore workers and the protection of the environment is paramount for the Board. As part of an application for authorization to conduct petroleum related activities in the offshore, an operator must demonstrate that it has robust safety and environmental management systems in place. An operator must also demonstrate that it has properly identified the health, safety, and environmental hazards associated with the proposed work activities, and that the associated risks have been evaluated and can be appropriately mitigated and managed.

Activities authorized by the Board are subject to a monitoring program which evaluates operator compliance with health, safety and environmental requirements. Operators must submit a variety of reports to the Board providing information on the status of their work programs and to confirm compliance with regulatory requirements. Operational status reports are provided daily for drilling and production activities, and weekly for other activities. Reports filed with the Board are reviewed by staff to identify health, safety and environmental compliance issues. The Board also routinely reviews minutes from Joint Occupational Health & Safety Committee (JOHSC) meetings held offshore to ensure that health and safety matters raised through this forum are dealt with appropriately by the operator.

Operators are required to report all accidents and other hazardous incidents that occur at their offshore work locations in accordance with established criteria. In each case, the Board verifies that the operator takes appropriate action to determine the causes of the accidents or incidents and to prevent recurrence. The Board reviews this information, as well as information from other independent sources, to determine possible trends and to identify specific areas for improvement.

Board staff regularly conduct health, safety and environmental compliance audits and inspections at offshore work sites. They also undertake pre-inspections of vessels and installations prior to issuance of an authorization for offshore activities. During the past year, Board staff made 11 visits to vessels and installations to conduct such audits and inspections.

The Board has an established compliance and enforcement policy to address regulatory non-compliance. Under this policy, the Board will normally seek voluntary compliance from the operator, but other possible actions may include: issuance of orders, directives or notices, suspension or revocation of approvals and authorizations, and prosecution.

Figure 1 provides a summary of work authorization applications that were submitted and approved between April 1 and March 31 over the last three fiscal years.

FIGURE 1: Summary of Work Activities

ACTIVITY APPROVED	NUMBER OF APPLICATIONS APPROVED		
	07/08	08/09	09/10
DRILLING			
Drilling Program Authorization	-	-	2
Approval to Drill a Well	-	-	3 ^I
GEOPHYSICAL/GEOTECHNICAL/GEOCHEMICAL			
Seismic	-	-	-
Seabed/Geological Evaluations	1	1	-
INSTALLATIONS			
Authorization to Install:			
• Flowline section clearance and ROV survey (Deep Panuke)	-	1	-
• Export Pipeline Construction, Phase 1; pre-lay survey (Deep Panuke)	-	1	-
• Export Pipeline Construction, Phase 2; pipelay, trenching and pre-commissioning (Deep Panuke)	-	-	1
• Wellhead protection structures and associated pile driving (Deep Panuke)	-	-	1
DIVING			
Diving Program Authorization	1	-	-
PRODUCTION			
Production Operations Authorization (SOEP):			
• Renewal of Authorization	-	1	-
Application to Alter a Well (SOEP)	-	2	2
TOTAL	2	6	9

^I - Comprises two wells plus one sidetrack.

2.1

Occupational Health and Safety Accord Acts Amendments

Provincial and federal governments continue to finalize proposed amendments to the Accord Acts regarding offshore occupational health and safety. While this process continues, the Board's Occupational Health & Safety (OHS) Requirements remain in place to provide protection for offshore petroleum workers and direction to operators. The Board's OHS Requirements are a condition of all activities authorized by the Board.

2.2

Injury Statistics

In the 15 month reporting period encompassing the 2009 calendar year and the first quarter of 2010, there were 1,589,088 person hours worked under Board authority in the Nova Scotia Offshore Area. During that period, there were eight disabling injuries (see Figure 2 for greater detail). This represents an increase in incident frequency due in part to additional construction activities and a return of offshore drilling.

The Board has been monitoring these incidents, and has investigated and followed up on corrective actions.

FIGURE 2: Disabling Injury Statistics

YEAR	2005	2006	2007	2008	2009/10**
NUMBER OF DISABLING INJURIES*					
Installations	1	4	0	1	4
Vessels	1	1	0	0	4
Aviation	0	0	0	0	0
TOTAL	2	5	0	1	8
PERSON HOURS					
Installations	601,669	740,755	274,080	230,880	551,033
Vessels	163,877	182,173	98,547	87,993	1,003,901
Aviation	45,635	54,620	29,424	27,312	34,154
TOTAL	811,181	977,548	402,051	346,185	1,589,088
FREQUENCY RATE (per 200,000 person hours)					
Installations	0.33	1.08	0	0.87	1.45
Vessels	1.22	1.10	0	0	0.80
Aviation	0	0	0	0	0
TOTAL	0.49	1.02	0	0.58	1.01

* The term "disabling injury" means an employment injury or an occupational disease that

(a) prevents an employee from reporting for work or from effectively performing all the duties connected with the employee's regular work on any day subsequent to the day on which the disabling injury occurred, whether or not that subsequent day is a working day for that employee,

(b) results in a loss by an employee of a body member or part thereof or in a complete loss of its usefulness, or

(c) results in the permanent impairment of a body function of an employee.

** The disabling injury statistics for 2009-10 are based on 15 months (inclusive of Q1 2009 – Q1 2010); this is to align with the fiscal-year reporting period.

2.3 Sable Offshore Energy Project (SOEP)

In addition to its daily monitoring of production operations, the Board also focused its oversight on the installation of Additional Living Quarters (ALQ) on the Thebaud Platform, the continuation of a coatings repair project and the three week scheduled maintenance shutdown that occurred in August.

In May of 2009, ExxonMobil brought the newly built Seajacks Kraken to Nova Scotia. The Kraken is a purpose-built, jack-up accommodations vessel which served as a hotel for offshore workers. The Kraken was situated alongside the Thebaud Platform for approximately four months. It provided

accommodation for up to 90 additional offshore workers to install the ALQ, perform coatings repair and complete the scheduled shutdown work, as well as other maintenance tasks including internal pressure vessel inspections.

The installation of the ALQ is the largest facility modification project since the compression platform was added to the Thebaud complex in 2006. Installed on the Thebaud Platform, it will accommodate an additional 10 people, increasing the on-board capacity to 50 people and thus providing for additional support to ongoing facilities maintenance programs. The ALQ is currently in the final commissioning stage and will be ready for use in Q2 2010.



In 2009, ExxonMobil carried out significant inspections and repairs to coatings on structural steel, piping and pressure vessels on the Thebaud Platform. The use of the Kraken enabled up to 60 people to work on the coatings repair program.

In August, ExxonMobil switched from construction and coatings efforts to focus on a 20 day scheduled field shutdown. This saw all five offshore fields shutdown as well as the two onshore plants. A significant portion of the shutdown included 82 internal pressure vessel and tank inspections at the five offshore work locations. These inspections are mandatory for regulatory compliance. Adding to the complexity of the job, a hurricane forced the complete evacuation of the offshore facilities near the end of the shutdown. The job resumed a day later and the shutdown was completed without any personnel safety incidents. The Certifying Authorities' (Lloyds Register North America) pressure vessel specialists were present, as required, for internal vessel inspections and they reviewed results as required by the Board.

The Board completed a number of on-site compliance monitoring activities in 2009. Prior to the Kraken going offshore, the Board completed two pre-use surveys of the unit along with Transport Canada. The Board also completed an offshore inspection of the Thebaud complex with the Certifying Authority focusing on the inspection and coatings program, the ALQ installation, and firewater pumps.

With regard to drilling, ExxonMobil identified a need to drill an additional well in the Alma field in order to improve recovery, using the Rowan Gorilla III jack-up rig. The rig was surveyed by the Board, and also by ABS, the Certifying Authority, so that they could issue a certificate of fitness. In May 2009, the rig arrived in Halifax; final surveys were performed to ensure that items identified earlier were complete. The authorization to drill using the Rowan Gorilla III and the approval to drill Alma 4 was granted by the Board and the rig was towed to Alma on June 1. The Alma 4 well was directionally drilled to within 300 meters of total depth to 3985 m. by late July, but unfortunately the main section of the hole could not be re-entered due to wellbore problems. The well was plugged and a successful side track well (Alma 4A) was drilled from out of the surface casing. The Alma 4A well was completed and put into production in October 2009.

It should be noted that Board and ExxonMobil assessments concluded that ExxonMobil safety representative(s) should be on board the Rowan Gorilla III at all times to oversee and report on OHS concerns. This enhanced safety for all workers and allowed the drilling supervisors more time to concentrate on their activities. Also, in August the Rowan Gorilla III was safely and efficiently evacuated due to concerns of Hurricane Bill.



2.4 **Deep Panuke Offshore Gas Development**

The Deep Panuke Development Project is progressing towards its first production. EnCana began installing major elements of the Deep Panuke project offshore Nova Scotia in 2009 and drilling activities have been completed at the acid gas injection well.

The Board approved two programs in 2009 related to installation of the export pipeline (Phase 1: pre-lay survey and Phase 2: pipelay, trenching and pre-commissioning). The Allseas vessel Manta was engaged to perform the detailed pre-lay pipeline surveys. The Allseas vessel Lorelay, a 600' long pipelay vessel, arrived in Nova Scotia in July to begin pipelay operations supported by the Manta, which was providing survey assistance with

a remote operated vehicle. From August to December, the Allseas vessel Calamity Jane performed trenching and burying operations along the pipeline. In July, the Board authorized the installation of the Wellhead Protection Structures by the Boa Deep C. Prior to the start of work, all vessels were inspected by the Operator, and then surveyed by the Board in cooperation with Transport Canada to ensure they were acceptable for use.

Construction of the Production Field Center (PFC) is progressing. The main structures of the Hull, Topside and Accommodations components is close to completion. As of March 31, the Certifying Authority has completed approximately 65% of its design appraisal activities for the PFC in accordance with a scope of work approved by the Board.

In March of 2010, EnCana informed the Board that the PFC will not be installed in 2010 as scheduled. The schedule is being updated and EnCana expects the PFC to arrive in Nova Scotia sometime in 2011 with installation at the site contingent on weather conditions.

As a result of offshore incidents that occurred during pipelay operations, the Board assigned safety officers to undertake two separate investigations on the Lorelay and Calamity Jane. The Lorelay incident was the result of a severe weather event that damaged the pipelay vessel and dragged the pipeline off course. The Board completed an investigation into the incident as well as a survey of the vessel damage and subsequent repairs. Before the

vessel was allowed to return to work, the Board conducted a review of operational changes that were implemented to ensure that an event of this type would not reoccur. The Calamity Jane incident resulted in an injury to a worker. The Board conducted an investigation and follow up on board the vessel to identify the factors that contributed to the incident. The Board ensured that EnCana and the vessel owner addressed the contributing factors to avoid recurrence of a similar incident.

EnCana contracted the Rowan Gorilla III to perform drilling and subsea well completions outlined in the Development Plan. This includes the drilling of an acid gas injection well and the subsea completion of four previously drilled wells for production purposes. Following the submission of applications, the Board identified several changes that were

required before authorization could be provided to complete the subsea wells.

The subsea well completions involve the use of a high pressure riser, which although used in the North Sea, had not been used as yet in offshore Canada. The Board required the development of contingency plans to cover extreme weather events when the riser may have to be pulled and when operations may have to cease. The Board also identified the need for additional plans and equipment prior to Encana performing re-entries of the existing wells due to concerns with hydrogen sulfide (H_2S) (which is hazardous to health) in the reservoir gas. The drilling of the acid gas (H_2S and CO_2) disposal well, Margaree E-70, began in January 2010 and is completed. The remaining four wells to be re-entered should be completed in 2010.

Nancy White, Geological Technologist, is pictured with some of the over 4,300 boxes of offshore drilling cores which are stored at the Board's Geoscience Research Centre in Dartmouth, Nova Scotia.





New staff who joined the board this year: (front to back) Colleen Ménard, Karen Simpson and Robert Normore

2.5

International Regulators' Forum

The Petroleum Safety Authority of Norway hosted the annual meeting of the International Regulators' Forum (IRF) in September 2009 in Stavanger.

The IRF gives regulators from eight countries with offshore oil and gas activities (United States, United Kingdom, Norway, Netherlands, Canada, Brazil, Australia, and New Zealand) the opportunity to exchange information on such topics as:

- Offshore health and safety trends
- Industry health and safety performance
- Lessons from incidents
- Industry best practices
- Regulatory practice
- Effectiveness of regulatory activities

The annual IRF meeting addressed such issues as major incidents/accidents, common

themes in incident causation, asset integrity management, safe lifting practices, lifeboats, transportation of offshore workers, and safety concerns related to carbon capture and storage.

Canada will be hosting the 3rd International Regulators' Offshore Safety Conference from October 18-20, 2010 in Vancouver. The theme for this conference is Working Together to Improve Offshore Safety and is a follow up to previous conferences held in London, England (2005) and in Miami, Florida (2007). These conferences bring together leading government, regulatory, and industry experts from around the world to share best practices for safe exploration and production of petroleum resources.

Further information on IRF activities can be found on its website: <http://www.irfoffshoresafety.com>.

2.6 Offshore Security

The Board continues to promote measures aimed at protecting the security of facilities involved in oil and gas exploration and production in the Nova Scotia Offshore Area in alignment with the Government of Canada's National Critical Infrastructure Assurance Program. Board representatives attend semi-annual classified briefings held in Ottawa by the Energy Infrastructure Protection Division (EIPD) of Natural Resources Canada, in collaboration with the Canadian Security Intelligence Service.

These briefings are attended by energy sector stakeholder personnel with appropriate security clearance, and are provided as part of an EIPD effort to facilitate the exchange of information between the public and private sectors.

The Board continues its discussions with Transport Canada, which has certain responsibilities for security under the Marine Transportation Security Act, to align regulatory practices for assuring the security of vessels and marine facilities involved in offshore oil and gas activities.

2.7 Initiatives on Helicopter Transportation Safety

During the past year, the Board has been engaged in several efforts directed towards the safety of helicopter transportation.

As a result of issues raised by offshore work force regarding the latest model E-452 helicopter transportation suit, the Board told industry it expected the concerns to be evaluated and addressed. This exercise generated a series of improvements to the E-452 suit. The modified suit, which has been designated HTS-1 (helicopter transportation suit), has received all necessary approvals under the Canadian General Standards Board (CGSB) standard CGSB 65-17-1999. The suit manufacturer is currently seeking dual approval under standard CGSB 65-16-2005 as a marine abandonment suit. The HTS-1 suit has now been introduced offshore

Nova Scotia and will replace all of the E-452 suits as soon as possible, subject only to manufacturing time constraints.

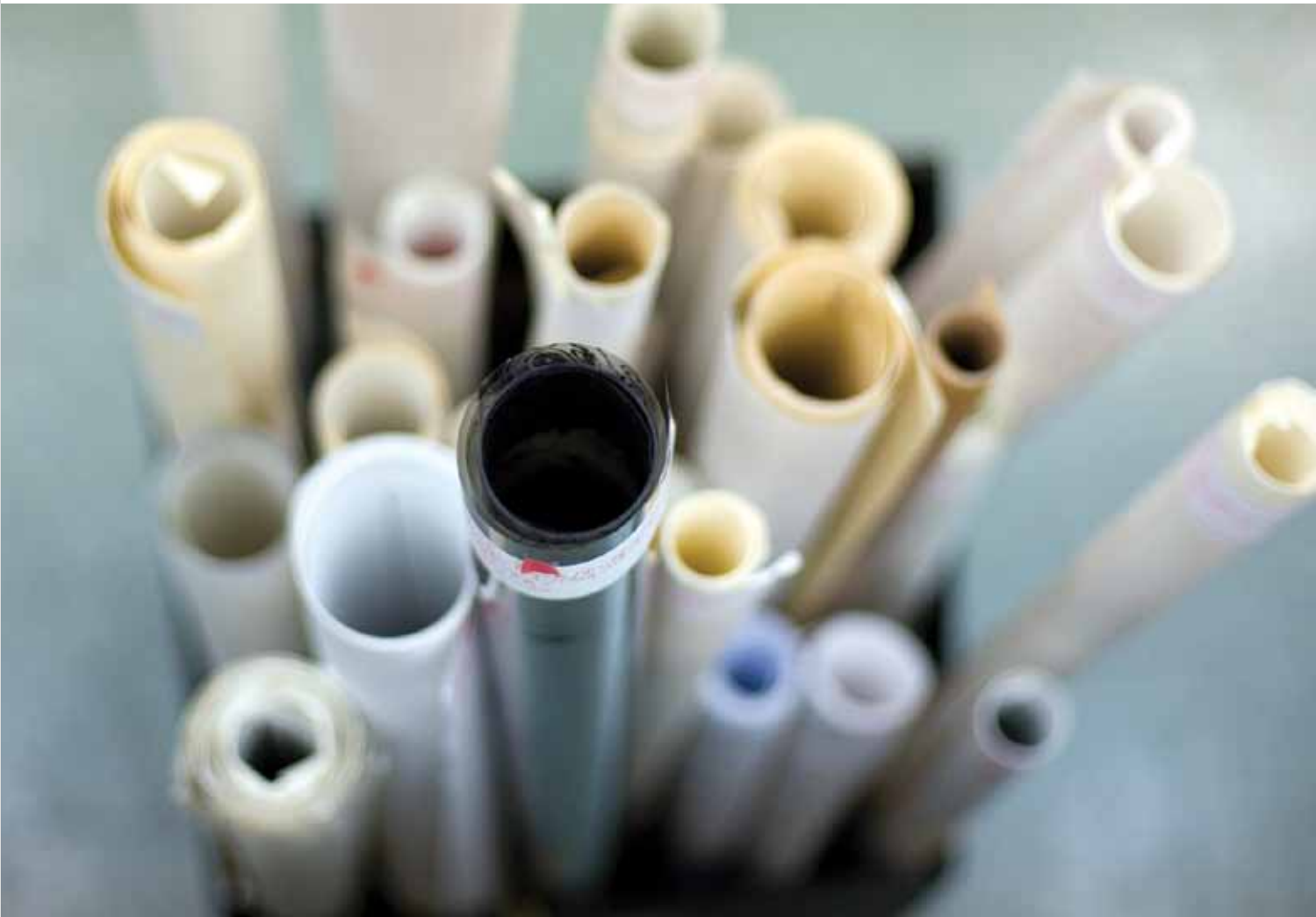
Concurrently, the Board has worked closely with the CGSB and east coast operators to re-open standard CGSB 65-17-1999 to allow for changes and improvements in the current helicopter suit standard, based on learnings from the above exercise. The Board has a voting member on the CGSB suit standard committee and participates in the working group tasked with the re-write of the standard which is targeted for publication in 2011.

Since May of 2009, all suits used offshore have been fitted with a helicopter underwater escape breathing apparatus (HUEBA). The HUEBA is a compressed air system designed to provide a source of breathing air to allow additional time for a person to escape from a capsized helicopter underwater. The suits

are also fitted with personal locator beacons (PLB) with global positioning system (GPS) capability. In the event of a crash, the PLB's are capable of providing an immediate and exact location of personnel.

The Board remains active on the CAPP Atlantic Canada Offshore Petroleum Training and Qualifications Committee which, among other things, evaluates and identifies potential improvements to training programs, including those specific to offshore survival training.

Board staff is following the Offshore Helicopter Safety Inquiry that was established by the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) after the tragic helicopter crash offshore Newfoundland and Labrador on March 12, 2009, in which 17 people were killed. This inquiry will recommend improvements to the safety regime to ensure the risks of helicopter transportation of offshore workers are as low as reasonably practicable. Such recommendations, as and when they are forthcoming, will be taken into account by the CNSOPB in the context of its regulatory oversight in the Nova Scotia Offshore Area.





3.0 Environment

The Board's mandate includes protection of the offshore environment during all phases of petroleum activity, including exploration, development, production and project abandonment.

The Board is a Federal Authority under the Canadian Environmental Assessment Act (CEAA) and follows the environmental assessment requirements outlined in the Act.

All environmental assessments must also be in compliance with the Species at Risk Act to ensure the protection of listed species that may be affected by offshore activities. As well, Memoranda of Understanding remain in place with both Fisheries and Oceans Canada (DFO) and Environment Canada (EC) to provide effective coordination of environmental and fisheries matters.

3.1 Environmental Assessment

Since July 2003, all offshore oil and gas activities have been subject to environmental assessment (EA) under CEAA. This includes both exploration and development projects. There have been nine environmental assessments conducted or are currently in progress since 2005, including three to validate the results of previously approved reports.

Two new environmental assessments were initiated during 2009-10. In the summer of 2009, Husky Energy submitted a project description for a 2D/3D seismic program within C-NLOPB Exploration Licence EL 1115 that continues across the C-NLOPB/CNSOPB jurisdictional boundary line into Nova Scotia waters. In early 2010, ExxonMobil Canada Properties submitted a project description for a seabed survey program in the vicinity of the existing Sable Offshore Energy Project (SOEP), over the undeveloped fields Glenelg and Citnalta and other possible prospects. As well, it has been five years since the BEPCo Exploratory Drilling Comprehensive

Study Report (CSR) was approved by the Minister of Environment. A validation of the Environmental Assessment submitted by BEPCo during the CSR process was completed in 2009.

Consideration of public comments is an important part of the environmental assessment review process. The level of public participation varies with each project. An internet-based Public Registry tracks all environmental assessments conducted under the CEAA. All environmental assessments undertaken by the Board pursuant to the CEAA are listed on this registry. The Board also posts project descriptions, scoping documents, and related correspondence on its own Public Registry, accessible on the Board's website. From this website the public can follow correspondence and reports regarding a proposed activity from the project description stage, through the environmental assessment and the associated follow-up activities. The public may also submit comments to the Board during the environmental assessment process.



3.2 **Environmental Effects Monitoring (EEM)**

An EEM review process framework was developed jointly in 2005 between the CNSOPB, Canadian Environmental Assessment Agency, Department of Fisheries and Oceans and Environment Canada. The purpose of this framework is to strengthen cooperation and coordination between government, regulators and industry when designing, implementing and reviewing EEM programs with respect to the oil and gas sector offshore Nova Scotia. As part of that

responsibility, a report summarizing EEM programs conducted to date in offshore Nova Scotia, including production, seismic surveys, and exploratory drilling, was completed during 2009. The study concluded that EEM programs have gone through a cycle of data collection, interpretation, analysis, and review, which has allowed new information to be applied to improving program design and influencing monitoring parameters of future programs. A copy of the study has been posted on the Board's website.

3.3 **Sable Offshore Energy Project (SOEP)**

Environmental monitoring conducted by ExxonMobil of the Sable Offshore Energy Project consists of two components: compliance monitoring and environmental effects monitoring (EEM). Compliance monitoring, such as monitoring of discharge levels, is in place to ensure compliance with the regulations, guidelines, conditions and all applicable laws. Compliance monitoring results are submitted to the Board regularly for review.

ExxonMobil conducts annual EEM programs for the Sable Offshore Energy Project which monitor the project's effects on specific components of the surrounding environment. The 2009 EEM program focused on site related effects on benthic and fish habitat, shellfish, seabirds, air quality, and fish health, as well as the effects of produced water on the environment. The results of the EEM program are submitted to the Board for review in the first quarter of each year.

3.4 **Deep Panuke Offshore Gas Development**

The Board reviewed the 2009-10 Drilling Environmental Protection Plan/ Environmental Effects Monitoring Plan (EPP/ EEMP), the 2009 Wellhead Protection Structures Installation EEP/EEMP, and the 2009 Wellhead Protection Structures Program Final Report for the Deep Panuke Project. Each of these studies contributes to

satisfying follow-up commitments made by EnCana during the Comprehensive Study Environmental Assessment and are available on the Board's Public Registry. One audit was conducted of the Deep Panuke project in early 2010, during the drilling of the acid gas re-injection well. The audit focused on compliance with the Offshore Chemical Selection Guidelines. EnCana was found to be in compliance.

3.5

Fisheries Advisory Committee

The Board's Fisheries Advisory Committee (FAC) includes representatives from various fishing groups in Nova Scotia, Department of Fisheries and Oceans, the Nova Scotia Department of Agriculture and Fisheries, Natural Resources Canada, and the Nova Scotia Department of Energy. FAC members provide advice and suggestions to the Board for consideration in Calls for Bid processes, environmental assessments,

work authorization applications, and the development of Board guidelines. Members are provided with information about petroleum activities on a regular basis. Formal FAC meetings are held periodically to inform and engage members in a discussion of upcoming projects and other petroleum related activities. Committee members are provided with notice of all environmental assessments and are invited to submit comments to the Board for consideration during the review processes.

3.6

International Offshore Petroleum Environmental Regulators' Group

The Board continues to participate in the International Offshore Petroleum Environmental Regulators' Group (IOPER), established in 2008. Participating countries include Canada, Australia, the United States, the United Kingdom, and Norway. It was formed to provide a network of offshore petroleum environmental regulators for mutual support and advice, and to promote best environmental performance globally. Information exchanged among regulators through IOPER may include: offshore environmental trends, petroleum industry

environmental performance, lessons from environmental incidents, industry best environmental practice, environmental regulatory initiatives, and measuring the effectiveness of regulatory activities.

In September 2009, the UK Department of Energy and Climate Change hosted the annual plenary IOPER meeting in Aberdeen, Scotland. The meeting addressed many topics of mutual interest such as: environmental performance in the offshore petroleum industry, revisions to regulations and guidance material, inspection & enforcement, oil spills, flaring/air emissions, and marine conservation initiatives.





3.7
Participation in DFO-led initiatives: Eastern Scotian Shelf Integrated Management and Area of Interest Selection Process for a Marine Protection Area

The Board continues to participate in the Eastern Scotian Shelf Integrated Management (ESSIM) initiative. ESSIM is led by Department of Fisheries and Oceans (DFO) and takes a collaborative, integrated planning and management approach to addressing broad scale ocean use and interests of the

Eastern Scotian Shelf. In 2009-10, the Board continued to collaborate with DFO on the following ESSIM initiatives: the Stakeholder Advisory Council, the Federal-Provincial ESSIM Working Group and the Regional Committee on Ocean Management.

The Board also continued to participate in the DFO-led process for the selection of an Area of Interest (AOI) for a new Marine Protected Area offshore Nova Scotia.

3.8
Environmental Studies Research Fund

The Board is a member of the Environmental Studies Research Fund (ESRF) management board, which includes representatives from government, regulators, industry, and the public. Funding for the ESRF is provided by industry through levies on exploration and production properties on frontier lands. The purpose of the ESRF is to finance environmental and social studies pertaining to the manner in which, and to the terms

and conditions under which, petroleum, exploration, development, and production activities on frontier and offshore lands should be conducted. It is designed to assist in the decision making process related to oil and gas exploration and development on Canada's frontier and offshore lands. The 12-member management board sets priorities, budgets and development protocols. This year's research priority areas included: seismic, seabirds, air emissions, socio-economic and waste management.

3.9

Regional Environmental Assessment

The Board reviewed the concept of performing a detailed Regional Environmental Assessment (REA) for exploration activities in 2009. The area under consideration was for regions of the Nova Scotia offshore where the Board's geological assessments indicate potential hydrocarbon prospectivity. The factors considered in its review included benefits of a REA, legislative framework, level of regulatory uncertainty, biophysical data gaps, stakeholder expectations, and cost.

A biophysical data gap study (for further information see <http://www.cnsopb.ns.ca/>

[environment_publications.php](#)) was conducted as part of this investigation. The results of this study provide a useful overview of environmental subject matter related to offshore Nova Scotia for which further study or research would be beneficial to increase understanding of the interaction of oil and gas activities with the natural environment. It also provides a useful overview, summarizing existing studies and research related to the Scotian shelf and slope areas. In early 2010, the Board decided it would not conduct an REA at the present time. However, the Board is monitoring legislative/regulatory developments and may reconsider this matter further at a later date.

3.10

Spills & Releases

Regulations provide that all spills and releases are to be reported to the Board. The potential environmental impacts of each spill and accidental release are reviewed and/or investigated by the Board. The Board also monitors spill occurrences to determine if any trends are occurring. Environmental concerns include the potential impact of petroleum

products on seabirds as well as the impact of spills on the marine habitat.

There were 13 spills to the ocean and four gas releases reported during the 2009-10 fiscal year. The gas releases were four halocarbon refrigerant releases varying from 27kg to 136 kg. The table below categorizes the spills to the sea.

FIGURE 3:
2009-10 Spills

2009-10 SPILLS TO THE SEA

MATERIAL	Less than 1L	1-10L	11-150L	Greater than 150L
Hydraulic Oil	6	1	1	–
Water Based Mud	–	–	–	1
Chemicals - Monoethylene Glycol	–	–	1	–
Oil Unclassified	3	–	–	–
TOTAL	9	1	2	1



4.0 Resources & Rights

4.1

Resources

The Board's mandate includes petroleum rights, resources management, and data collection and distribution. The rights issuance, or licencing policy, is governed by Part II of the Accord Acts, which is based on the Canadian Petroleum Resources Act model. Administration of the licencing process is reviewed annually by the federal and provincial governments to ensure that it supports, and is consistent with, the Board's Strategic Plan.

4.1.1

Sable Offshore Energy Project Production

The Sable Offshore Energy Project has been producing natural gas since the end of 1999. Tier I fields Thebaud, Venture and North Triumph provided the initial production followed by Tier II fields Alma and South Venture. Total yearly production by field is shown in Figure 4.

The average daily gas rate for each fiscal year is shown graphically by field in Figure 6. The values of average yearly rates are found in Figure 5. By the end of the fiscal year, total production is 44.8 E9m³ (billion cubic metres) or 1,582 Bcf (billion cubic feet). Each individual field's contribution to this total production is shown in Figure 7.

FIGURE 4: Total Gas Production by Field each Fiscal Year

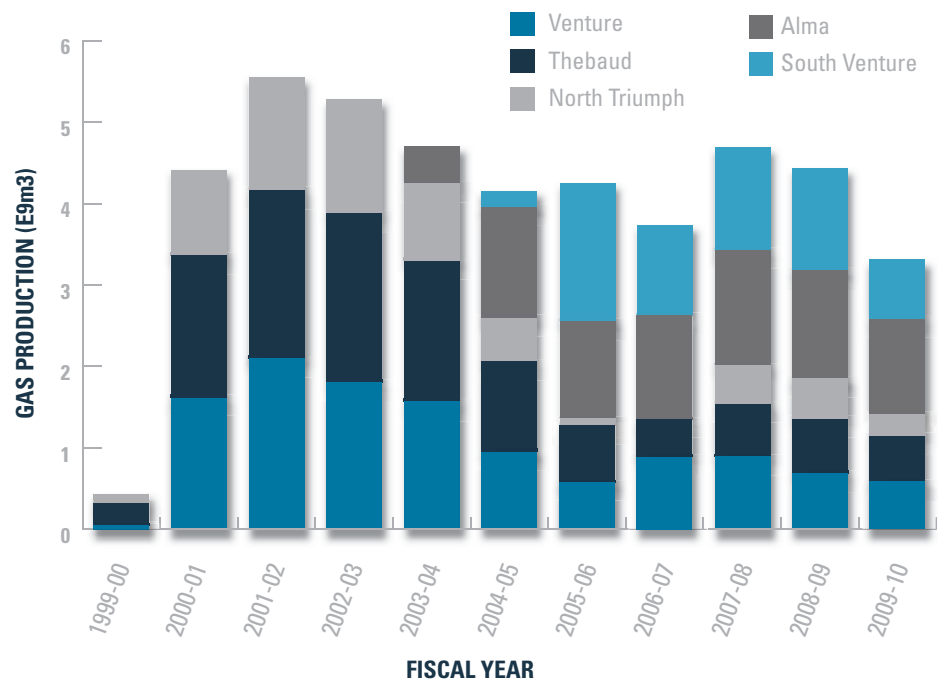


FIGURE 5:
Total Average
Daily Gas Rate
each Fiscal Year

AVERAGE GAS RATE		
FISCAL YEAR	(E6M3/D)	(MMcf/d)
1999-00	4.7	167
2000-01	12.0	425
2001-02	15.2	536
2002-03	14.4	509
2003-04	12.8	452
2004-05	11.3	400
2005-06	11.5	406
2006-07	10.3	362
2007-08	12.9	456
2008-09	12.2	431
2009-10	9.3	329

FIGURE 6: Average
Daily Gas Rate by
Field each Fiscal
Year

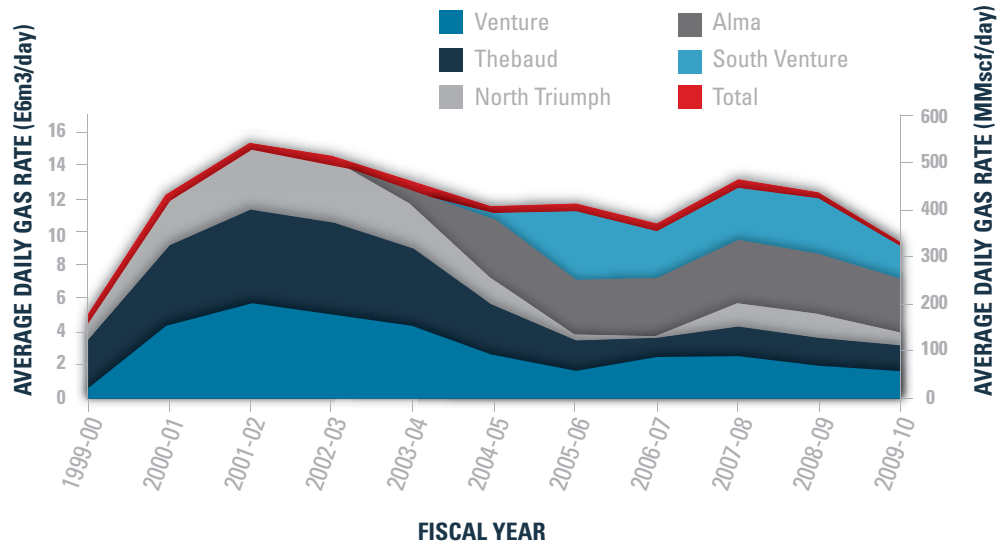
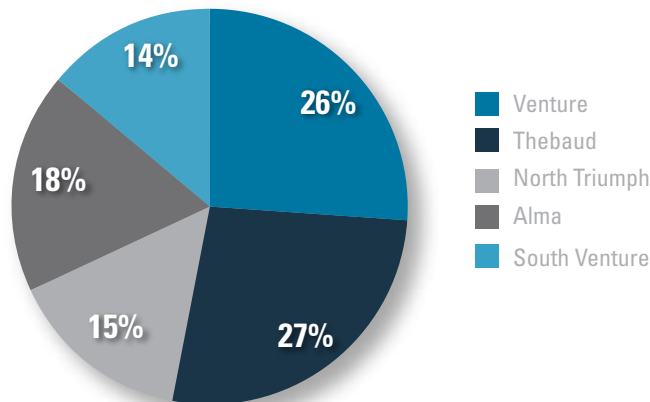


FIGURE 7:
Field Contributions
to Total Production





Kris Kendell, Board
Petroleum Geophysicist

4.1.2

Project Monitoring

The Board monitors exploration and development activity to ensure optimum conservation of the resource and compliance with the regulations. This is accomplished through monitoring reservoir production and performance, regular communication with the operator, and reviewing activity authorization applications from a resource conservation perspective. When appropriate, technical studies are undertaken to independently validate proposals and activities.

4.1.3

Exploration and Development Activity

No exploration wells were drilled during the reporting period. Three development wells were drilled. Alma 4 and Alma 4A wells were drilled by ExxonMobil Canada Properties for the Sable Offshore Energy Project. Alma 4A is the fourth development well for the Alma field and has been producing natural gas since October 2009. The Margaree E-70 well was spudded in January 2010 as an acid gas injection well for the Deep Panuke development project.

Each application to drill a well includes, among other requirements, a drilling plan that is reviewed prior to an approval to drill is granted. Board staff conducts technical evaluations of all geological, geophysical, petrophysical and reservoir engineering

aspects of the program. The evaluation also ensures consistency of the drilling plan with regulations. After the well is spudded (i.e. initially commenced), its progress is continually monitored through daily reports and updates from the operator to ensure drilling is consistent with the approved program. All modifications are reviewed and approved if necessary. After the well is completed, the well results, data (i.e. well logs, cores, cuttings, fluids, well tests, etc.) and final reports are reviewed, analyzed and archived by staff.

4.1.4

Geophysical & Geotechnical Programs

There were no geophysical or geotechnical programs during the reporting period.

4.1.5

Resource Assessment

The Board is responsible to assess the hydrocarbon potential of the offshore sedimentary basins to determine the volume of oil and gas discovered to date (reserves) and to estimate the undiscovered potential volumes (resources). The Board uses this information to assess what areas it may nominate for potential inclusion in Calls for Bids. Industry uses this data for evaluation of a basin's exploration potential and prospectivity. Governments use the data to evaluate potential supplies, possible

resource revenue, and to inform policy makers.

The Board is finalizing its re-evaluation of the 12 undeveloped Significant Discoveries in the Sable Subbasin. Incorporating 3D seismic with updated log and petrophysical interpretations, will provide a clearer picture of petroleum volumes and assist in evaluating development potential. An internal review of the seven recent shallow water wells drilled during the 2000-2003 period on the Scotian Shelf/Sable Subbasin is ongoing and planned for completion later in 2010.

4.2 Rights Management

4.2.1 Public Registry of Instruments and Interests

The Board maintains a public registry of offshore interests and instruments, as required by the Accord Acts. This is the official record of rights holders and any

transfer of rights or change of ownership must be registered. The public may access the Registry in person at the Board's Halifax office or online on the Board's website.

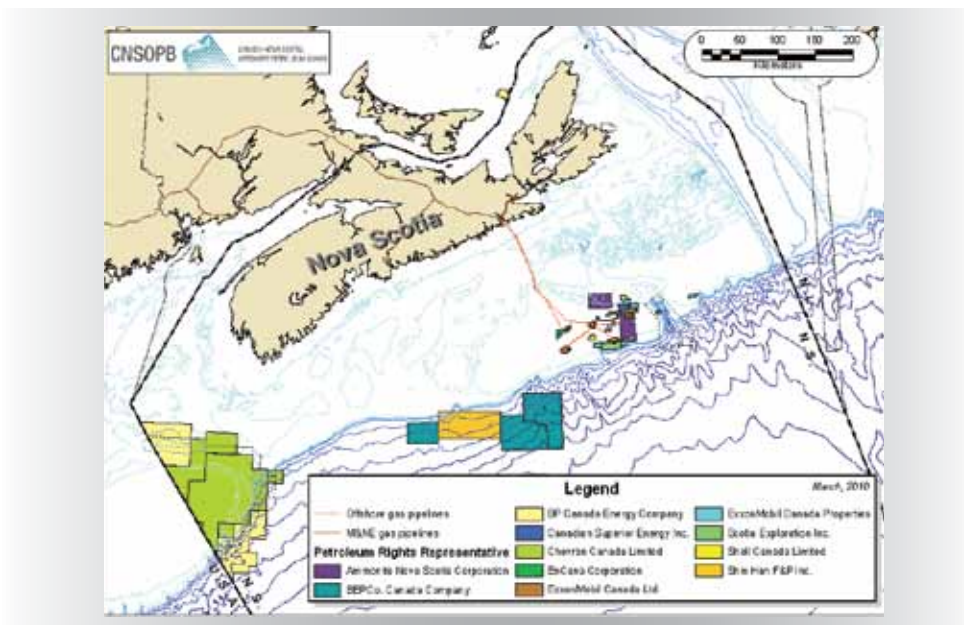
Figure 8 shows the active licences offshore Nova Scotia as of March 31, 2010.

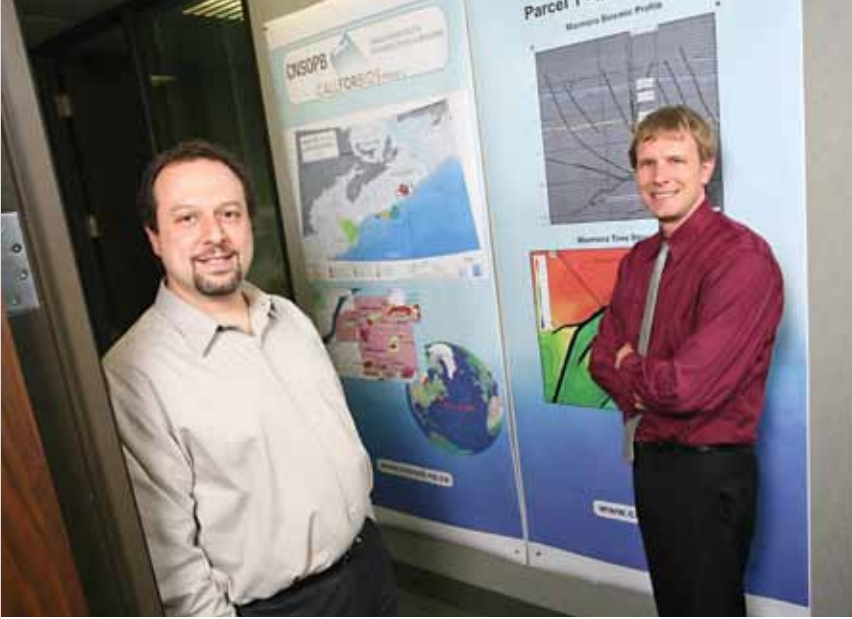
4.2.2 Call for Bids

At any time during the year, industry may nominate offshore land parcels for potential exploration. Nominated parcels are reviewed on March 31 and September 30 to determine whether any will be included in a future Call for Bids. The Board itself can also nominate lands for inclusion in a Call for Bids.

There are presently three areas where nominations will not be accepted: the Georges Bank prohibition zone, the Sable Gully Marine Protected Area and the Donkin Block Prohibited Area.

FIGURE 8:





CNSOPB staff (L-R)
Carl Makrides and Brian Altheim

Call for Bids activity in this fiscal year included: NS08-2 and NS09-1, detailed below.

Call for Bids NS08-2

Call for Bids NS08-2, was announced on November 21, 2008 and closed on June 26, 2009. It consisted of two Board-nominated deep water parcels located approximately 160 kms southwest of Sable Island. Exploration Licences 2421 and 2422 were issued on August 14, 2009 to BEPCo. Canada Company, who was the successful bidder on Parcel 1 and 2 with a work expenditure bid of \$6,300,000 each.

Call for Bids NS09-1

Call for Bids NS09-1 was announced on December 4, 2009 and will close on June 24, 2010. It consists of two industry nominated shallow water parcels located on the Scotian Shelf. Board staff prepared an in-depth regional and subregional geological and geophysical analysis of each parcel. This information is made available through the Board's website, and on CD-Rom.

About the Parcels

- Parcels are located in the Sable Subbasin where 23 Significant Discoveries have been made to date.

- In Parcel #1, gas was discovered at Marmora in an early Cretaceous sandstone reservoir, OGIP range P90-P10: 113-187 Bcf / 3.2-5.3 E9M3.
- A number of additional exploration prospects with considerable hydrocarbon potential have been identified on the Parcels.
- Each Parcel is adjacent to five Significant Discoveries, two producing gas fields and the Sable Offshore Energy Project's gas pipeline crosses the Parcels.
- The Parcels are in shallow water with water depths less than 100 m.

4.2.3

Exploration Licences

At the end of this fiscal year, there were eight active exploration licences offshore Nova Scotia with a total original work commitment of approximately \$388,523,173.60

The term of an Exploration Licence (EL) is nine years, consisting of two consecutive periods referred to as Period 1 and Period 2. In order for an EL to enter Period 2, a validation well must be drilled.

Call for Bids NS08-2 resulted in the issuance of new ELs (EL 2421 and EL 2422) which

feature new terms and conditions that were originally announced in 2007. The terms and conditions provide flexibility to explorers by lowering the cost of entry, deferring large upfront deposits, and encouraging early exploration.

Exploration licence terms require the interest holder of an exploration licence to post security which is known as the Work Deposit. This Work Deposit is for 25% of the work expenditure bid on the licence and is payable before the end of the third anniversary of the licence for all ELs issued on or after September 1, 2008. The Work Deposit is refundable through approved allowable expenditures as the interest holder spends money on exploration of the licence.

Allowable expenditures are described in each EL. To encourage early exploration, approved allowable expenditures in the first three years are credited at a rate of 150% for licences awarded on or after September 1, 2008.

For licences awarded on or after September 1, 2008, in addition to the Bid and Work Deposits, a Licence Deposit is required in the amount of \$50,000.

For licences resulting from NS09-1, the Licence Deposit required will be in the amount of \$50,000 or 1% of the Work Expenditure Bid, whichever is greater.

New EL holders must submit an acceptable work plan within 90 days of the issuance of the EL, which must be updated annually. Failure to submit an acceptable work plan may result in the revocation of the EL.

Two exploration licences expired during the fiscal year, with forfeitures totaling \$14,539,206.52 which have been remitted to governments.

Figure 9 outlines the licences that expired or were surrendered.

In accordance with the terms and conditions of ELs, rentals are to be paid annually, in

FIGURE 9:
Forfeitures
2009/2010

EL#	Work Expenditure Bid	Approved Allowable Expenditures	Final Work Deposit Forfeiture	Final Extension Fees Forfeiture
2406	\$41,250,000.00	\$287,953.92	\$10,240,511.52	\$1,084,445.00
2415	\$12,857,000.00	\$0	\$3,214,250.00	N/A
			\$13,454,761.52	\$1,084,445.00

advance, at the rate of \$2.50 per hectare for each year of Period 2. The rentals may be refunded upon application of approved allowable expenditures incurred during Period 2. Failure to pay rentals will result in cancellation of the Exploration Licence. There is one EL currently in Period 2 – EL 2409 held by Canadian Superior Energy Inc. In the past fiscal year, the total rentals paid and deposited in the account of the Receiver General for Canada was \$27,790.

Active ELs at the end of the fiscal year are shown in Figure 10. These encompass a total area of 1,086,498 hectares.

4.2.4.

Significant Discovery Licences

A Significant Discovery Licence (SDL) is an intermediate interest designed to maintain an explorer's rights during the period between the first discovery and eventual production. The term of such a licence continues so long as the underlying Significant Discovery Area remains valid.

There are presently 35 SDLs offshore Nova Scotia, covering an area of 87,495 hectares. The breakdown of interest representatives for these SDLs is noted in Figure 11.

The Board has initiated a technical assessment to update the estimate of recoverable reserves associated with the majority of these SDLs (see section 4.1.5).

FIGURE 10:
Exploration Licences

EL#	Effective Date	Interest Representative	Work Expenditure Bid
2407	1-Jan-02	BEPCo. Canada Company	\$ 6,742,000.00
2409	1-Jan-02	Canadian Superior Energy Inc.	\$ 15,510,000.00
2417	15-Sep-08	Ammonite Nova Scotia Corporation	\$ 103,100,000.00
2418	15-Sep-08	Ammonite Nova Scotia Corporation	\$ 113,700,000.00
2419	1-Jan-09	Scotia Exploration Inc.	\$ 7,871,173.60
2420	1-Jan-09	Shin Han F&P Inc.	\$ 129,000,000.00
2421	14-Aug-09	BEPCo. Canada Company	\$ 6,300,000.00
2422	14-Aug-09	BEPCo. Canada Company	\$ 6,300,000.00
			\$ 388,523,173.60

FIGURE 11:
Significant Discovery Licences

INTEREST REPRESENTATIVE	Number of SDLs
ExxonMobil Canada Properties	22
ExxonMobil Canada Ltd	3
Shell Canada Limited	6
EnCana Corporation	3
BP Canada Energy Company	1



4.2.5

Production Licences

A Production Licence (PL) may be issued for any portion of the offshore area showing a commercial discovery. Such licences have a term of 25 years, but may be extended if commercial production is continuing or is likely to recommence. There are eight Production Licences offshore Nova Scotia with a total area of 33,858 hectares:

- PL 2901 and 2902 were issued for the Cohasset-Panuke offshore oil project. Production from Cohasset-Panuke ended in 1999.
- PL 2903, 2904, 2905, 2906, 2907, and 2908 are registered to ExxonMobil Canada Ltd as the interest representative for the Sable Offshore Energy Project.

4.2.6

Geoscience Research Centre (GRC)

The Board's Geoscience Research Centre (GRC) and digital Data Management Centre (DMC) are located in Dartmouth, Nova Scotia. Access to the GRC and support from its technical staff is available to the public, free of charge, from Monday to Friday, 8:00 a.m. to 4:00 p.m.

The collection and curation of offshore petroleum data is essential to the Board's mandate. The GRC fulfills this responsibility by providing geological and geophysical information and services to the public. The facility archives all final well history, geological, geophysical and wellsite survey reports. It is also used to archive, and make available for study, all subsurface samples, including cores, cuttings, fluids and

related materials obtained from petroleum exploration and development wells drilled in the Nova Scotia Offshore Area.

Data remains confidential for the period of time as specified in the Accord Acts. Once the confidentiality period has expired, information may be disclosed to the public. Industry, drilling or service companies, and scientific, government, and academic organizations, are the primary users of these reports and samples.

The GRC had 230 users in fiscal year 2009-10:

- Industry, which includes local, national and international companies: 50%;
- Government or academic organizations: 38%; and
- Drilling or service companies: 12%

4.2.7

Data Management Centre (DMC)

The Board's digital Data Management Centre (DMC) is the first data management centre in North America to offer free of charge publicly accessible digital offshore petroleum data via a web-based interface. The DMC provides global access to quality data, significantly improving efficiency in obtaining and analyzing petroleum data, managing entitlements and reducing the cost of regulatory compliance for industry. Additional benefits of the DMC include prevention of data loss, reduction in data storage costs and facilitating scientific research by the regulatory Boards, industry, governments, and universities.

The DMC provides for the submission,

loading, management, and distribution of petroleum data. The DMC is currently managing and distributing the following digital petroleum data: well data (i.e. logs and reports), seismic image files (i.e. PDF), Geographic Information Systems data (i.e. licences, wells, bathymetry, etc.), and production data.

The DMC was officially opened on October 2, 2007. The DMC has undergone an upgrade in 2009-2010 which has increased user functionality.

As of March 2010, complete data sets for 195 wells and 85 seismic programs (approximately

9,979 items); have been loaded into the DMC. Along with the PDF images available in the DMC, two seismic programs (8620-N011-001E, and NS24-N011-001E) with full SEG Y (standard file format for seismic data), SEG D (standard file format for seismic field data), and the gathers are available on the DMC File Transfer (FTP) site.

The DMC also hosts available data to support the Board's NS09-01 Call for Bids. The digital data for this Call for Bids is in PDF format, and for the two parcels includes 34 wells and 48 seismic programs.

Resources and Rights Team: front to back, (L-R) Brent Smith, Colleen Ménard, Christine Bonnell-Eisnor, Brian Altheim, Carl Makrides, Mark Deptuck, Steve Bigelow
missing: David Brown, Kris Kendell



4.2.8

Other Geoscience Initiatives

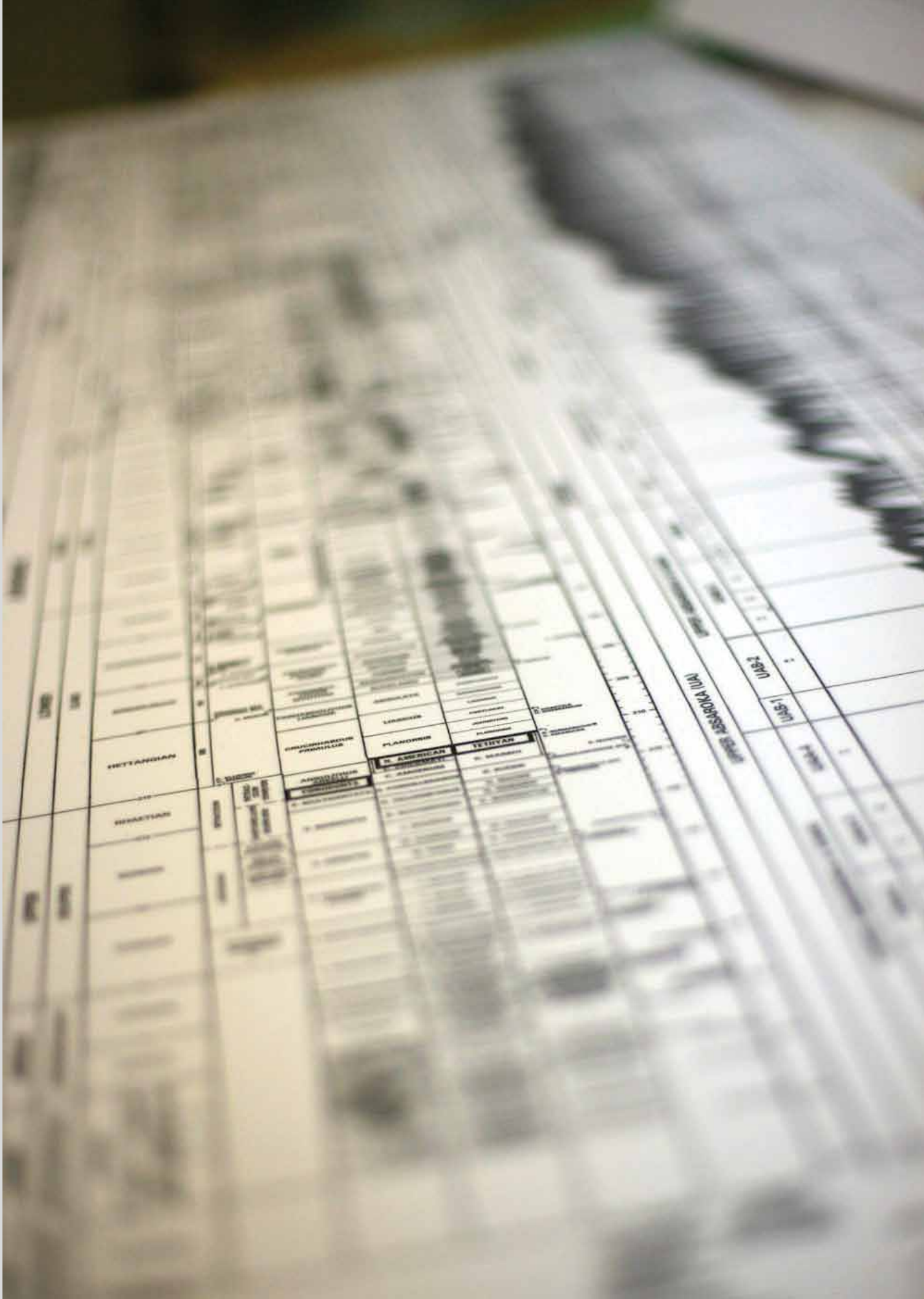
The Board maintained its strong support for the geosciences and related initiatives devoted to improving knowledge of the region's petroleum geology, resource potential and hydrocarbon prospectivity. Board geoscientists have travelled to a number of technical conferences in Canada, United States, United Kingdom, Ireland, and Brazil to present the results of their research and studies through presentations and posters, as well as submitting several papers to international peer-reviewed scientific journals.

The Board's geoscientists, along with fellow researchers from local universities and the Geological Survey of Canada-Atlantic, have been instrumental in assisting the Province of Nova Scotia in its Play Fairway Analysis. The results of this provincial research initiative should better quantify offshore petroleum systems, improve knowledge of existing oil and gas plays and currently producing fields, and delineate new areas and formations having elevated potential for oil and gas accumulations. The study will showcase the prospectivity and exploration of the Scotian Basin to industry on an international scale.

Following the momentum created by the inaugural Central Atlantic Conjugate Margins

Conference held in Halifax in August 2008, industry and academic participants have decided to hold it on a biannual basis. The next conference will be held in Lisbon, Portugal in September 2010. The Board appreciates the great value such technical meetings offer as a means to disseminate knowledge generated by its staff and fellow provincial and federal geoscientists through interaction with international industry and academic colleagues and organizations. The Board is supporting the upcoming conference and its staff members are sharing their expertise and knowledge gained from organizing Halifax 2008 with the conveners of Lisbon 2010. A number of technical staff are planning to attend the conference and present papers and posters on the Scotian Basin, as well as contributing papers to the conference publication.

Board staff continue to provide feedback to several international geoscience consultancy firms and research organizations regarding planning of research, programs and technical studies, organizing conferences, conducting peer-reviews and editing of papers for technical journals. They are also involved as officers and volunteers with local and international geoscience societies and participate in public outreach programs devoted to the understanding of earth sciences and their impact to society.



5.0 Industrial Benefits

5.1

Legislation

The Accord Acts require that the Board must, prior to the approval of any development plan or the authorization of any work or activity offshore Nova Scotia, receive and approve a Canada-Nova Scotia Benefits Plan, unless the requirement is waived by the Board in accordance with the provisions of the legislation.

In the Benefits Plan, the operator must commit to the fundamental principles outlined in the Accord Acts. Nova Scotians and other Canadians are to be provided the full and fair opportunity to participate in the supply of goods and services on a competitive basis, and that first consideration must be given to residents of Nova Scotia for training and employment opportunities. Services provided from and goods manufactured within Nova Scotia are also subject to first consideration.

Additionally, the operator must establish an office in the Province where appropriate levels of decision-making will take place.

Operators are required to carry out programs and make expenditures within the Province for the promotion of education and training (E&T) and research and development (R&D) in relation to petroleum resource activities in the Nova Scotia Offshore Area.

In addition to the above, the Board may require that operators include provisions within the Benefits Plan to ensure that disadvantaged individuals or groups have access to training and employment opportunities and to enable their participation in the supply of goods and services used in any proposed work or activity.

The Board has a duty to consult with the federal and provincial governments on Industrial Benefits matters. To satisfy this duty, the Board chairs a Benefits Review Committee comprising representatives from the Board, the Nova Scotia Department of Energy and Natural Resources Canada. Other government departments may be invited to participate as deemed appropriate.

5.2

Offshore Nova Scotia Projects

Benefits Plans are continuously monitored by the Board for compliance. The Board currently monitors Benefits Plans for the Sable Offshore Energy Project and the Deep Panuke Offshore Gas Development, as well as the Benefits Plans related to exploration licences held by Canadian Superior Energy Inc., BEPCo. Canada Company and Scotia Exploration Inc.

The Administration and Industrial Benefits Team: front to back, (L-R) Debbie Mountenay, Karen Simpson, Shelley Phinney, Patricia Whittle, Charity Harrington, Theresa MacLeod missing: Kim Nauss



5.2.1

Sable Offshore Energy Project

ExxonMobil, the operator of the Sable Offshore Energy Project, files an annual benefits report with the Board. As stated in the report submitted to the Board for the period ending December 31, 2009, the Sable Offshore Energy Project has spent \$2.2 billion in Nova Scotia to date. \$1.01 billion has been spent in the rest of Canada, with overall Canadian spending totaling \$3.2 billion. Cumulatively, Nova Scotian person hours amounted to 19.9 million, while the rest of Canada totaled 3.3 million person hours.

In 2008, ExxonMobil filed a five year Research and Development Plan to cover 2008-2012 which was approved by the Board. In the plan ExxonMobil commits to spending a minimum of \$300,000 per calendar year, with the minimum total being \$3,000,000 over the 5-year period.

The Sable Benefits Report for 2009 can be found on the Board's website.

5.2.2

Deep Panuke Offshore Gas Development

EnCana, the operator of the Deep Panuke Offshore Gas Development, is required to file semi-annual benefits reports with the Board. According to the report submitted to the Board for the period ending December 31, 2009, cumulative Nova Scotia person hours amounted to 932,318, while the rest of Canada totaled 150,283.

In their approved Benefits Plan, EnCana committed to spending not less than 0.5% of the gross revenue of the project on Education and Training and Research and Development (E&T/R&D) initiatives. During the development phase of the project, when production has not yet begun, the funds available for E&T/R&D projects each year is based on 0.5% of EnCana's allowed capital costs in the previous calendar year. The Deep Panuke Benefits Report for 2009 can be found on the Board's website.



6.0 Regulatory Modernization

The Board is committed to continuous improvement of the regulatory framework that governs offshore oil and gas activities. As such, the Board continues to actively support the federal, provincial and territorial governments' initiative to update and modernize the existing suite of petroleum regulations.

The Board remains active in developing and modernizing a number of guidelines and other regulatory documents that are issued to assist Operators in interpreting regulatory requirements and to provide guidance to Operators seeking to achieve regulatory compliance.

Progress to date on many of these initiatives is described below.

6.1 Frontier and Offshore Regulatory Renewal Initiative (FORRI)

FORRI is an initiative led by the federal government and its provincial and territorial counterparts to modernize the regulatory environment for Canada's frontier and offshore oil and gas sector. Working in partnership with governments, Board staff continue to play a leadership role. Governments are relying heavily on the Board's technical expertise in drafting new regulations that are goal oriented, replacing those that are prescriptive in nature.

A significant milestone was achieved on December 31, 2009 when the first new regulation developed under this initiative came into force

– the new Drilling and Production Regulations. Work started on this new regulation in late 2004 with the objective being to merge and modernize the existing Drilling Regulations and the Production and Conservation Regulations. The success of this initiative required considerable collaboration between governments and regulators alike, and extensive consultation with stakeholders, throughout the five years it took to complete. The new Drilling and Production Regulations are goal-oriented in approach and include both prescriptive and goal or performance based elements. Their principal focus is on assuring that industry maintains high standards in safety, environmental protection and resource conservation while at the same time providing for technological innovation in the areas of drilling and production.

A key element of this style of regulations is the need to have comprehensive guidelines to aid in interpreting and understanding the regulatory requirements. The CNSOPB, working in collaboration with its regulatory partners, issued the following draft guidelines at the same time the new Drilling and Production Regulations came into force.

Board issued guidelines include:

1. Drilling and Production Guidelines

This guideline document provides interpretation notes and guidance for each section of the Drilling and Production Regulations.



2. Safety Plan Guidelines

The Drilling and Production Regulations include a requirement that an Operator submit a Safety Plan in support of an application for a work or activity authorization that it has filed with the Board. The Safety Plan Guidelines assist an Operator in effectively developing a plan for safety specific to the proposed work or activity and for effectively demonstrating that the proposed work or activity can be conducted safely (i.e. reduce risk to as low as reasonably practicable).

3. Environmental Protection Plan Guidelines

The Drilling and Production Regulations include a requirement that an Operator submit an Environmental Protection Plan in support of an application for a work or activity authorization that it has filed with the Board. The Environmental Protection Plan Guidelines assist an Operator in effectively developing a plan for environmental protection specific to the proposed work or activity and for clearly demonstrating that the proposed work or activity can be conducted with the minimum of environmental impact.

4. Data Acquisition and Reporting Guidelines

These Guidelines have been prepared to assist operators in complying with regulatory requirements included in the Drilling and Production Regulations pertaining to well, pool and field evaluations, and to inform them as to the form and manner in which related information and data should be submitted to the Board.

These draft guidelines have been issued for the purposes of stakeholder consultation and for reference by interested parties to assist in the transition to the new goal oriented regime. They will be revised as necessary during a one year consultation period based on feedback and experience gained, and will then formally be issued for use in 2011 once all feedback has been considered.

The partners in FORRI have now turned their attention to modernizing the remainder of the suite of petroleum regulations promulgated under the Accord Acts. These include the Geophysical Operations Regulations, Operations Regulations, Installations Regulations, Certificate of Fitness Regulations, Oil and Gas Spills and Debris Liability Regulations, and the Diving Regulations. The proposed new Framework Regulations will be an amalgamation and modernization of the aforementioned regulations along with the new Drilling and Production Regulations.

6.2 Offshore Chemical Selection Guidelines

In April 2009, revised Offshore Chemical Selection Guidelines for Drilling & Production Activities (OCSG) were issued for use. These Guidelines provide a framework for the selection of drilling and production chemicals intended for use and possible discharge into the ocean and promote the selection of lower toxicity chemicals to minimize the potential environmental impact of a discharge where technically feasible. These Guidelines are applicable to the offshore areas under the jurisdictions of the National Energy Board (NEB), the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) and the



Canada-Nova Scotia Offshore Petroleum Board (CNSOPB). These Guidelines were prepared jointly by the three regulatory Boards with the assistance of a government/industry/public working group established for this purpose.

6.3 **Incident Reporting Guidelines**

In June 2009, the CNSOPB and the C-NLOPB jointly issued a revised Guideline for the Reporting and Investigation of Incidents. This Guideline assists operators and other workplace parties in complying with requirements of the Accord Acts, the regulations, and the terms and conditions of Board approvals and authorizations for the reporting and investigation of incidents that occur in the offshore areas. This Guideline also:

- Describes what constitutes an incident that is reportable to the Boards;
- Explains the procedures to be followed by Operators in reporting incidents;
- Outlines the reporting requirements for injury/illness statistics; and
- Explains the Boards' expectations for incident investigations that are to be conducted by Operators.

6.4 **Offshore Waste Treatment Guidelines**

The review and revision to the Offshore Waste Treatment Guidelines (OWTG) started in 2009. The Guidelines outline recommended practices and minimum standards to aid operators in

the management of wastes from petroleum drilling and production operations in Canada's offshore areas, and for sampling and analysis of waste streams to ensure compliance with these standards.

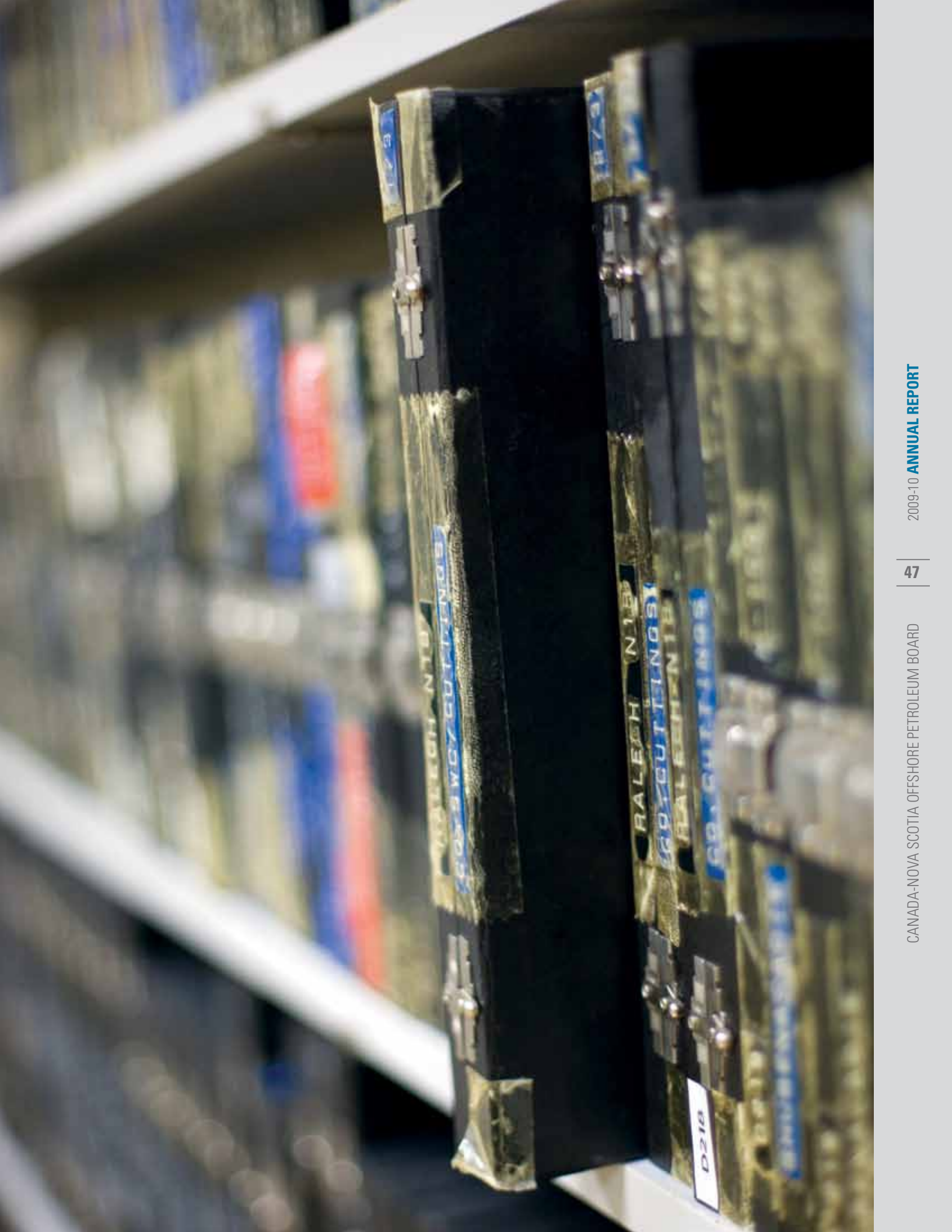
The review of these Guidelines is being conducted jointly by the CNSOPB, C-NLOPB, and the NEB with the assistance of a working group comprising government, industry and public representatives. Publication is expected to occur in late 2010.

6.5 **Rights Management Guidelines**

With recent changes to the terms and conditions of the Call for Bids and the resulting Exploration Licences, it is necessary to update the Guidelines on the Issuance of Exploration Licences. As well, draft Work Plan Guidelines and Allowable Expenditure Guidelines have been created. It is expected that they will be finalized by the end of the upcoming fiscal year.

6.6 **Atlantic Canada Offshore Petroleum Industry Escape, Evacuation and Rescue Guide**

Over the past year this document has undergone additional review and revision by Operators. Input from offshore Joint Occupational Health and Safety Committees has been taken into account. The revised version is currently being circulated for final approval, which necessarily includes ratification by the Offshore Petroleum Boards prior to its issuance for use.



7.0 Administration

Significant changes to the Board's organizational structure occurred in 2009-2010, with the creation of the Information Services Department and the hiring of Troy MacDonald, Manager, Information Services as a member of the Board's Management Team.

The Board also successfully concluded its search for a new Director, Operations/Health, Safety & Environment with the hiring of Keith Landra and a Manager, Public Relations, Tanya Taylor White, also members of the Board's Management Team.

Dave Scratch was appointed as Chief Safety Officer.

* See Organizational Chart on Page 56 for details

The Information Services Team:
front to back (L to R):
Debra Wheeler, Troy MacDonald,
Elizabeth Nickerson, Mary Jean
Verrall, Anita Nicholl, JD Roche,
Mary Noel, John Martin,
Jason Butts, Nancy White,
Nancy Hynes and Robert Hunter

7.1 Joint Occupational Health and Safety Committee (JOHSC)

The JOHSC assisted the Board with its goal to provide a safe and healthy workplace. JOHSC activities in 2009-10 included: wellness and health initiatives, first-aid/ CPR training, and office ergonomic assessments.

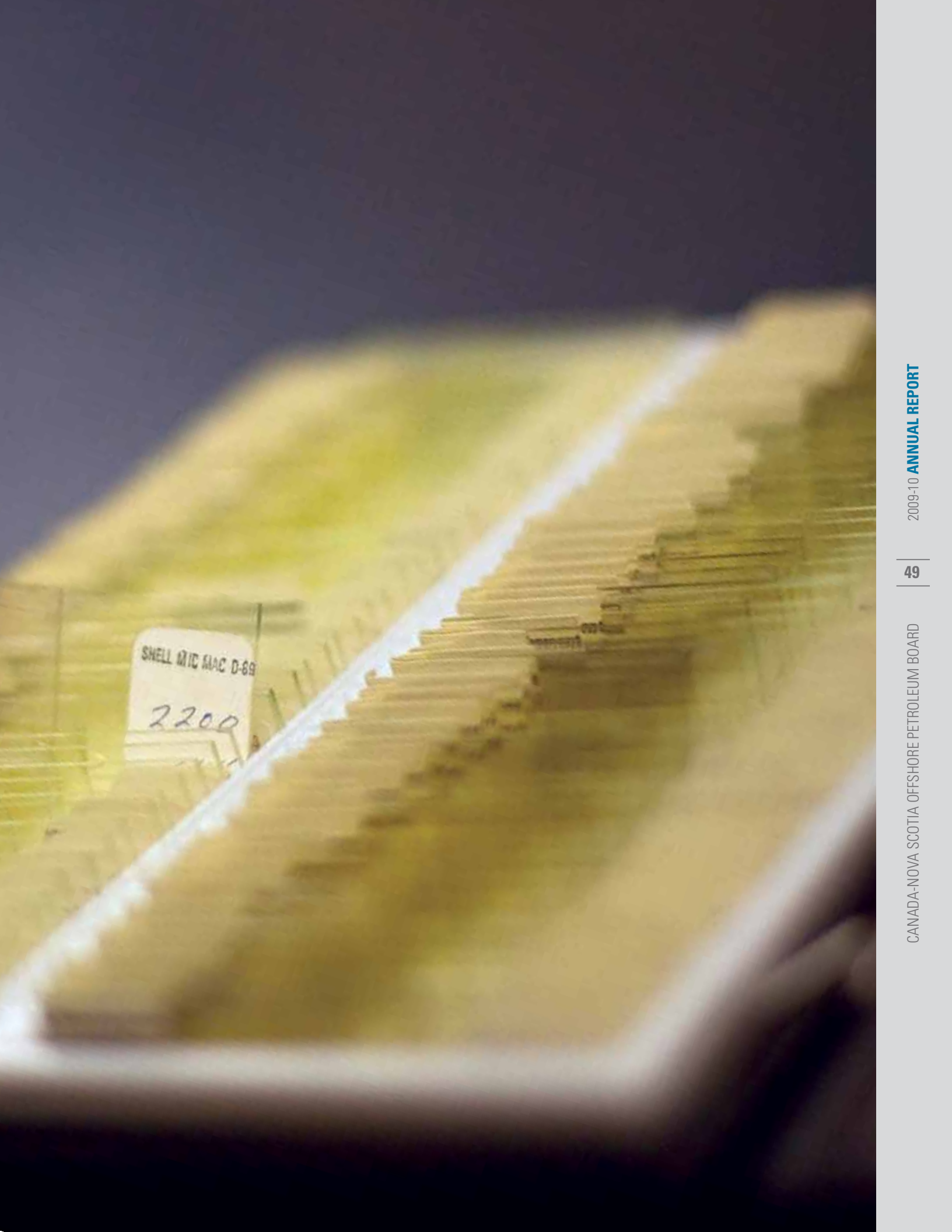
Occupational health and safety training remains a fundamental initiative for the Board's JOHSC. The Board recognizes that the effective and efficient operation of a JOHSC requires training and continuous improvement. To that end, new committee members will receive the required training in order to be effective members of the committee. The Board also requires all employees to be trained in Workplace Hazardous Materials Information System (WHMIS) and the Board's Internal Workplace Occupational Health and Safety Program as well as ensuring there are at least two employees per floor who are trained in First Aid/CPR.

7.2 Royalties

The Province of Nova Scotia has an offshore petroleum royalty regime that is based upon revenues and profits. The provincial regime provides arrangements for the currently producing Sable Offshore Energy Project and the Deep Panuke Project which is currently under development, as well as a generic formula for future projects.

In the fiscal year 2009-10, the Board received confirmation from the Sable Offshore Energy Project Operator and Partners that \$109,321,620.29 was submitted to the Receiver General for Canada in respect of production for Licences 2903 (Venture), 2904 and 2905 (Thebaud), 2906 (North Triumph), 2907 (Alma) and 2908 (South Venture).



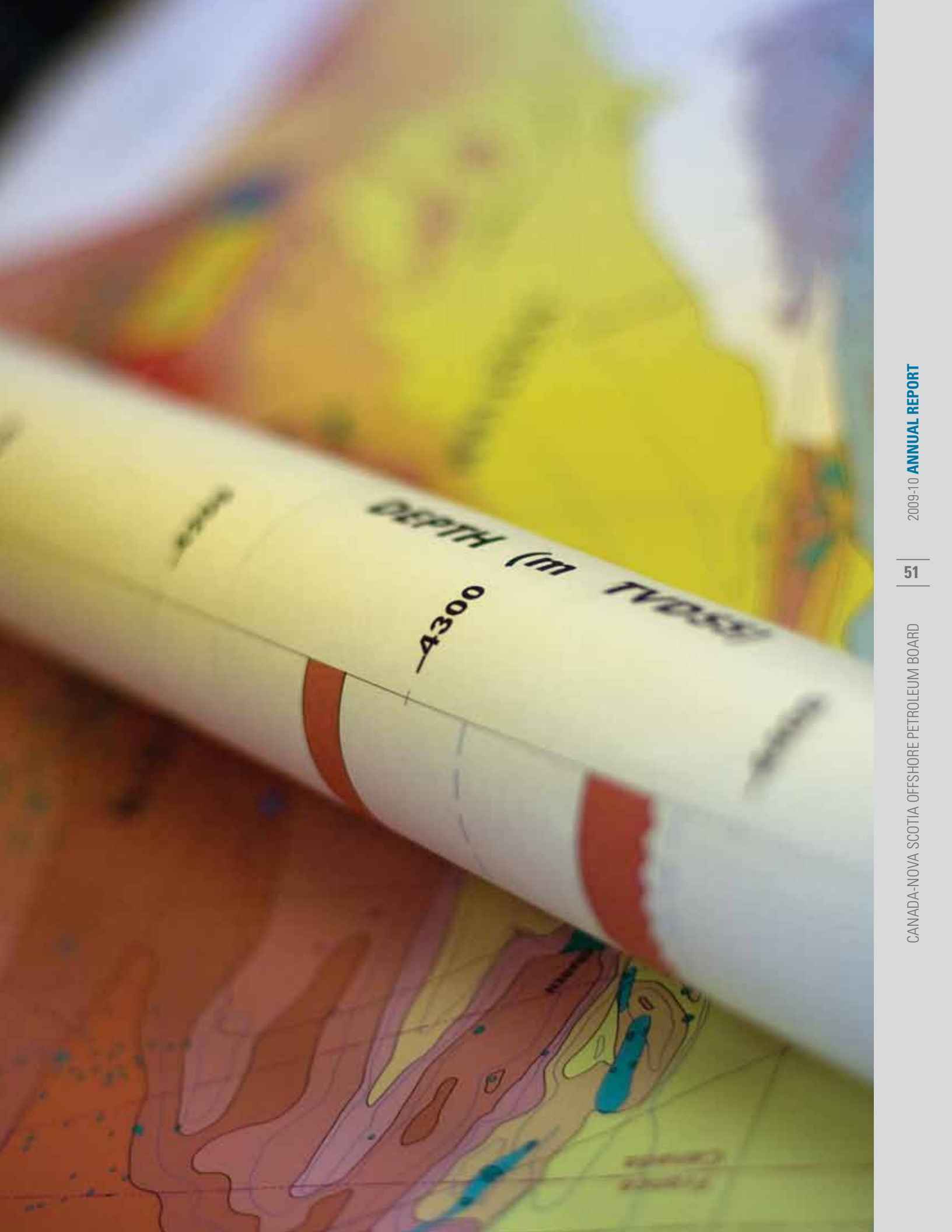


8.0 Employee Achievements and Milestones

- Pursuant to the Accord Acts, the Board appointed new Safety Officers in 2009-2010. These individuals are members of the CNSOPB Operations/Health, Safety and Environment group:
Dave Scratch – Appointed Chief Safety Officer
Gerry Sheehan – Appointed Alternate Chief Safety Officer
Robert Normore – Appointed Safety Officer
- Carl Makrides – Appointed Alternate Chief Conservation Officer
- Bob Hale was elected Chairman, Enform Offshore Well Control Committee
- Congratulations to Keith Landra who graduated from McGill University with a Master of Science (Applied), Occupational Health Sciences.
- Congratulations to Mark Deptuck who organized a very successful SEPM/Geological Society of London research conference in Houston (November) on the “Application of Seismic Geomorphology Principles to Continental Slope and Base-of-Slope Systems: Case Studies from Seafloor and Sub-Seafloor Analogues.” Mark is also a co-editor for the associated book that is due out in spring 2010. In this special publication, he is also lead author on one paper and second author on three others.



New staff members: Elizabeth Nickerson and Robert Hunter



DEPTH (m) 4300

9.0 Board Members

The Board consists of up to five members and two alternate members who are appointed for fixed terms of office. The Chair is jointly appointed by both the Government of Canada and the Government of Nova Scotia. Each government appoints two Board members, and each government may also appoint one alternate member.

This year, the Board welcomed new member, Paul F. Taylor as a Provincial Alternate.

Vacancies remain in the two available Federal positions.



front to back, (L-R)
Diana Dalton, Douglas Gregory,
Paul Taylor & Keith Evans
missing: Tim Brownlow



**DIANA LEE
DALTON**

Chair

Diana Dalton, a native of Yarmouth, Nova Scotia, and lawyer by training, has extensive experience in dealing with international legal and regulatory issues. She has worked for the United Nations, the World Bank, the OECD and USAID on projects in over 30 nations around the world. An experienced regulator, Ms. Dalton has drafted laws, regulations and administrative procedures for the mining, petroleum and energy sectors in nations such as India, China, Vietnam, Papua New Guinea and Ethiopia. From 1991 to 1995 she served as the Interregional Advisor in Natural Resources to the United Nations Department of Economic and Social Development at UN Headquarters in New York City. Ms. Dalton was also part of the negotiating team for Nova Scotia resulting in the Canada-Nova Scotia Offshore Oil and Gas Agreement of 1983-84. She is Chair of the Canada-Nova Scotia Offshore Petroleum Board and works as an independent consultant from her home in Halifax.



**KEITH R. EVANS,
Q.C.**

Board Member
(Provincial)

Keith Evans is a practicing member of the Nova Scotia Barristers' Society and the Law Society of Alberta. He resides in Edmonton, Alberta, where he is Vice President, Legal & Corporate Secretary for Lilydale Inc., one of Canada's leading chicken and turkey processors. Until the end of 2006, he served as the General Counsel for Scomi Group Berhad, a Malaysian public company, and the KMC Oiltools Bermuda Limited group of companies, which are owned by Scomi. That group was involved in drilling fluid and waste management activities in the oil and gas sector worldwide. With this experience, Keith has been involved in many aspects of the oil and gas industry for over 15 years. He holds an LL.B. Degree from Dalhousie University and an LL.M from the University of Sydney, Australia. He originally started his legal practice in Halifax with what was then Cox, Downie, Nunn & Goodfellow, and also worked with Baker & McKenzie, the world's leading global law firm, in their Singapore Office. He has served on the full-time faculty at the Law Schools at the National University of Singapore and Dalhousie University. From 2002-06, he also served as President of the Nova Scotia Law Reform Commission.



**TIM
BROWNLOW**

Board Member
(Provincial)

Tim Brownlow is a government relations and business development executive with over thirty years of experience in the offshore oil and gas sector. He is currently Director of Government Affairs and Business Development with Irving Shipbuilding Inc., and recently worked with Kiewit Energy Canada Corporation as Business Development Manager in Calgary, Alberta. He began his offshore career in the oil and natural gas industry in 1978 working for the following companies: ODECO Drilling, Magcobar, and Rowan Companies Inc., both domestically and internationally. He then joined the Nova Scotia Government in 1990, holding positions as Petroleum Operations Officer, Director of Benefits & Training and Chief Advisor for the Department of Natural Resources and the Offshore Energy Office. During Tim's offshore and government days he was fortunate to have been directly involved from the discovery phase through to the production phase for both the Sable Offshore Energy Project and the Cohasset-Panuke project. He has served on numerous boards and committees, including: the Premier's Energy Advisory Council, Chairman of the Offshore/Onshore Technologies Association of Nova Scotia, the Atlantic Energy Roundtable, seconded to the Grampian Regional Council (Aberdeen, Scotland), Associate Member for the World Energy Cities Council, and former Co-Chair for the Federal/Provincial Regulatory Review Committee.



**DOUGLAS
(DOUG)
GREGORY**

Alternate
Board Member
(Federal)

Doug Gregory's career with Shell Canada and Royal Dutch Shell spanned over three decades. He began as an exploration geophysicist in Canada and would later work with Petroleum Development Oman, a joint venture company working in Muscat, Sultanate of Oman. After returning to Calgary and focusing on exploration in Western Canada, he went on to hold various management positions including: Exploration Research Manager at Shell Canada's Calgary Research Centre, Manager Geophysical Operations, and Manager, Safety and Environment providing technical support to Shell Canada's Upstream Operations. In 1999, Doug moved to Halifax to open Shell Canada's exploration office, focusing on deepwater seismic exploration over Nova Scotian slope (deep water) acreage. He retired as East Coast Manager in 2003. He has been active in various organizations including: Co-chair, Petroleum Fisheries Liaison Group - Canadian Association of Petroleum Producers (CAPP) (2001-2003); Chair, Atlantic Canada Committee - CAPP (2001-2003); Director, Greater Halifax Partnership representing the Energy sector (2002-2004); and, President, Rotary Club of Halifax Northwest (2007-2008). He holds a M.Sc. in Microwave Physics (1970) from the University of Waterloo, Ontario and a B.Sc. Math & Physics (1969) from Sir George Williams University, Montreal. Doug resides in Halifax, Nova Scotia.



PAUL F. TAYLOR

Alternate
Board Member
(Provincial)

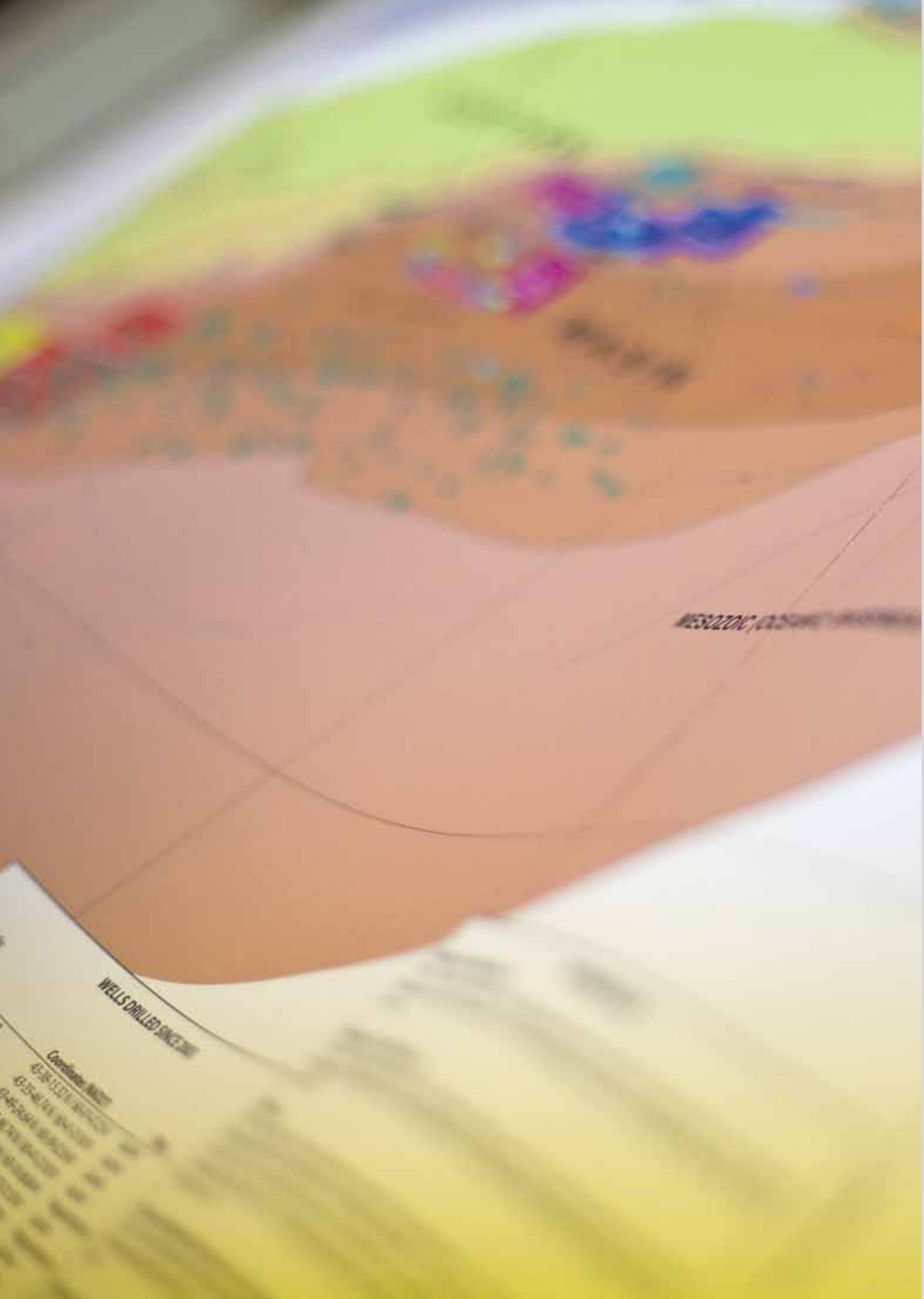
Paul Taylor recently retired from the Government of Nova Scotia after a 27 year career. A native of Nova Scotia, he spent several years as an exploration geologist in Western Canada before returning to join the Province in 1982. He held positions as Senior Policy Analyst with the Priorities and Planning Secretariat, Director of Energy Transportation and Utilization with the N.S. Petroleum Directorate and Executive Director of Policy with the Department of Energy, during which time he was responsible for development of the Province's new Energy Strategy. His last five years with the Province were spent as Deputy Minister of Economic Development. He has served in various capacities on the Boards of Nova

Scotia Business Inc, InNOVAcorp, and the Greater Halifax Partnership, Chair of Deputy Ministers Forum on Sustainable Prosperity and Vice Commodore of the Armdale Yacht Club. He holds an Honours Degree in Geology from Dalhousie University and a Masters of Business Administration from the University of British Columbia. Paul resides in Halifax, Nova Scotia.

FIGURE 12:

CNSOPB Organizational Chart as of March 31, 2010





10.0 Financials Auditors' Report

TO THE MEMBERS OF CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD:

We have audited the statement of financial position of Canada-Nova Scotia Offshore Petroleum Board as at March 31, 2010 and the statement of revenue and expenditures and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2010 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



LEVY CASEY CARTER MACLEAN
CHARTERED ACCOUNTANTS

Halifax, Nova Scotia
April 23, 2010

Canada-Nova Scotia Offshore Petroleum Board

STATEMENT OF FINANCIAL POSITION

MARCH 31, 2010

ASSETS	2010	2009
Current		
Cash	\$ 1,835,960	\$ 2,855,993
Receivables, trade	90,626	248,597
Prepaid expenses	<u>181,750</u>	<u>203,502</u>
	2,108,336	3,308,092
Property and equipment (note 3)	928,612	1,307,175
Internally restricted guaranteed investment certificate (note 2 (h))	<u>1,400,423</u>	<u>1,247,298</u>
	\$ 4,437,371	\$ 5,862,565
LIABILITIES		
Current		
Payables and accruals, trade	\$ 711,110	\$ 556,248
Payable to governments (note 4)	777,520	2,242,834
Deferred grants - GRC (note 5)	<u>102,194</u>	<u>102,556</u>
	1,590,824	2,901,638
Deferred capital grants (note 2(b))	551,437	555,040
Deferred capital grants - GRC (note 2(c))	377,175	752,135
Accrued pension obligations (note 6)	395,260	378,685
Accrued employee future benefit obligations (note 7)	<u>1,138,306</u>	<u>1,019,535</u>
	4,053,002	5,607,033
Commitments (note 9) and contingent liability (note 10)		
NET ASSETS		
Unrestricted net assets	<u>384,369</u>	<u>255,532</u>
	\$ 4,437,371	\$ 5,862,565

Approved by the Board

Diana Lee Dalton

Board Member



Board Member

Canada-Nova Scotia Offshore Petroleum Board

STATEMENT OF REVENUE AND EXPENDITURES

YEAR ENDED MARCH 31, 2010

REVENUE	2010	2009
Operating Grants		
Government of Canada	\$ 3,350,000	\$ 3,259,500
Government of Nova Scotia	3,350,000	3,259,500
	<u>6,700,000</u>	<u>6,519,000</u>
Add: Costs recovered from industry	3,110,076	3,207,232
Interest and other	15,356	77,087
Gain on disposal of property and equipment	1,566	966
Amortization of deferred capital grants	299,600	255,528
Amortization of deferred GRC grant - capital portion	374,961	527,693
Amortization of deferred GRC grant - operating portion	362	166,081
	<u>10,501,921</u>	<u>10,753,587</u>
Less: Cost recoveries refunded to government	(3,110,076)	(3,207,232)
Deferred capital grants	(295,995)	(161,432)
Deferred GRC capital grants	-	(3,387)
NET Revenue	<u>7,095,850</u>	<u>7,381,536</u>
EXPENDITURES		
Personnel, consulting and Board members	4,294,479	4,028,123
General office and support	1,074,165	1,209,928
Office and laboratory premise costs	570,445	575,999
Amortization of property and equipment	299,600	255,528
Amortization of GRC property and equipment	374,961	527,693
GeoScience research centre	362	162,694
Pension obligations cost (recovery)	(33,700)	47,412
Other retirement obligations cost	121,169	137,746
Diving certification	10,000	10,000
	<u>6,711,481</u>	<u>6,955,123</u>
EXCESS OF REVENUE OVER EXPENDITURES	384,369	426,413
UNRESTRICTED NET ASSETS (DEFICIT), BEGINNING OF YEAR	<u>255,532</u>	<u>(170,881)</u>
	<u>639,901</u>	<u>255,532</u>
REPAYMENT TO GOVERNMENT OF CANADA	127,766	-
REPAYMENT TO GOVERNMENT OF NOVA SCOTIA	127,766	-
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 384,369</u>	<u>\$ 255,532</u>

Canada-Nova Scotia Offshore Petroleum Board

STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2010

OPERATING ACTIVITIES	2010	2009
Excess of revenue over expenditures	\$ 384,369	\$ 426,413
Amortization of deferred capital grants	(299,600)	(255,528)
Amortization of deferred GRC capital grants	(374,961)	(527,693)
Amortization of property and equipment	299,600	255,528
Amortization of GRC property and equipment	374,961	527,693
Gain on disposal of property and equipment	(1,566)	(966)
SERP pension cost (note 6)	16,575	47,412
Other retirement pension cost (note 7)	118,771	126,479
	<u>518,149</u>	<u>599,338</u>
Net change in non-cash working capital balances related to operations (note 8)	<u>(1,131,091)</u>	<u>2,113,720</u>
	<u>(612,942)</u>	<u>2,713,058</u>
FINANCING ACTIVITIES		
Repayment to Government of Canada	(127,766)	-
Repayment to Government of Nova Scotia	(127,766)	-
	<u>(255,532)</u>	<u>-</u>
INVESTING ACTIVITIES		
Proceeds on disposal of property and equipment	1,566	966
Purchase of		
Leasehold improvements	(59,482)	-
Furniture and equipment	(2,853)	(3,228)
Computer equipment	(231,031)	(55,994)
Computer equipment - GRC	-	(3,387)
Computer software	(2,629)	(102,211)
Deferral of capital grants	295,995	161,432
Deferral of GRC capital grants	-	3,387
Purchase of guaranteed investment certificate	(153,125)	(1,247,298)
	<u>(151,559)</u>	<u>(1,246,333)</u>
INCREASE (DECREASE) IN CASH DURING YEAR	(1,020,033)	1,466,725
CASH, BEGINNING OF YEAR	<u>2,855,993</u>	<u>1,389,268</u>
CASH, END OF YEAR	\$ <u>1,835,960</u>	\$ <u>2,855,993</u>

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

1. PURPOSE OF ORGANIZATION

The Canada-Nova Scotia Offshore Petroleum Board was formed to administer the relevant provisions of the Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Acts enacted by the Parliament of Canada and the Legislature of Nova Scotia. The Board is funded by grants from the Federal and Provincial Governments in equal contributions. The Board collects and remits to the Governments cost recovery charges assessed against industry from regulatory reviews, up to a maximum of 50% of the Board's approved budget. The Board is a non-profit organization and is, therefore, exempt from income tax.

2. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Property and equipment

Property and equipment are recorded at cost, less accumulated amortization. Capital asset purchases under \$2,500 will be recorded as expenditures. Amortization is recorded using the straight-line method over four years for furniture, fixtures and equipment and over three years for computer equipment and software. Leasehold improvements are amortized over the life of the lease.

(b) Deferred capital grants

Federal and provincial grants received for annual capital expenditures are deferred and recognized into revenue on a basis consistent with the capital assets amortization charge.

(c) Deferred GRC grants

Federal and provincial grants received for expansion of the GeoScience research centre are deferred and recognized into revenue on a basis consistent with the capital assets amortization charge and operating expenses as approved by the Board.

(d) Use of estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) Revenue recognition

The deferral method of accounting is used for contributions. Recoveries revenue is recognized as the related expenditures occur.

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

2. ACCOUNTING POLICIES (continued)

(f) Accrued pension obligations

The actuarial determination of the accrued benefit obligation and current service cost for the SERP uses the projected benefit method prorated on service (which incorporates management's best estimate of future salary levels and the plan's benefit allocation formula). Under this method an equal portion of the total estimated future benefit (i.e. with future salary levels and inflation), is attributed to each year of service.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

Actuarial gains (losses) arise from the difference between actual long term rate of return on plan assets for a period and the expected long term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. Cumulative gains and losses in excess of 10% of the greater of the accrued benefit obligation and the market-related value of the plan assets are amortized over the average remaining service period of active members expected to receive benefits under the plan.

Obligations are attributed to the period beginning on the later of January 1, 1992 and employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

(g) Employee future benefits

Employees of the Board participate in the Province of Nova Scotia Pensioners Extended Health Plan upon retirement. This plan provides health care coverage to age 65. Employees are also eligible for one week of salary for each year of pensionable service, to a maximum of 26 weeks for Board staff who retire upon becoming eligible for retirement. These retirement benefits are recorded on an accrual basis based on an actuary's estimate. Cumulative gains and losses in excess of 10% of the beginning of year obligations are amortized over the expected average remaining service of active members expected to receive benefits under the plan (16 years). Obligations are attributed to the period beginning on the member's date of hire and ending on the date of reaching full eligibility for benefits.

(h) Internally restricted guaranteed investment certificate

The Board has restricted a guaranteed investment certificate (GIC) to fund the Board's obligations for pensions and employee future benefits. The GIC bears interest at prime less two percent maturing August 13, 2010.

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

3. PROPERTY AND EQUIPMENT - GENERAL	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Leasehold improvements	\$ 592,479	\$ 433,586	\$ 158,893	\$ 119,068
Furniture and fixtures	431,680	409,018	22,662	36,564
Computer equipment	949,673	712,786	236,887	109,384
Computer software	616,580	515,616	100,964	235,748
Equipment	168,035	136,004	32,031	54,276
	<u>2,758,447</u>	<u>2,207,010</u>	<u>551,437</u>	<u>555,040</u>
Property and equipment - GRC				
Leasehold improvements	671,782	354,720	317,062	436,035
Furniture and fixtures	50,228	41,623	8,605	21,162
Computer equipment	971,464	961,721	9,743	180,267
Computer software	202,791	168,992	33,799	101,395
Equipment	21,242	13,276	7,966	13,276
	<u>1,917,507</u>	<u>1,540,332</u>	<u>377,175</u>	<u>752,135</u>
	<u>\$ 4,675,954</u>	<u>\$ 3,747,342</u>	<u>\$ 928,612</u>	<u>\$ 1,307,175</u>

4. PAYABLE TO GOVERNMENT	2010	2009
Federal government - cost recovery funds	\$ 388,760	\$ 1,121,417
Provincial government - cost recovery funds	<u>388,760</u>	<u>1,121,417</u>
	<u>\$ 777,520</u>	<u>\$ 2,242,834</u>

5. DEFERRED GRANTS - GRC

The Government of Nova Scotia provided a grant in its 2005-06 budget in the amount of \$1,000,000 and a further \$221,400 in 2006-07 to support the Board's initiatives to improve the management and dissemination of geological data. The Government of Canada provided a grant of \$850,000 in 2006-07 and a further \$371,400 in 2007-08 for the same purpose. As at March 31, 2010, there is \$102,194 (2009 – \$102,556) remaining to be spent of these grants. The grants are being accounted for as described in note 2(c).

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

6. PENSION OBLIGATIONS

(a) Supplementary Employee Retirement Plan (SERP)

The Board Supplementary Employee Retirement Plan provides benefits to its employees who are members of the Public Service Superannuation Plan (PSSP). Employees are eligible for membership in this plan once their pensionable earnings have reached a level such that their benefits under the PSSP are limited by the maximum pension limits under the Income Tax Act.

The Board measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at March 31 of each year. The most recent actuarial valuation of the retirement plan for funding purposes was as of March 31, 2010. An updated actuarial valuation will be done at least every three years.

The Board has adopted the recommendations of Section 3461 of the CICA Handbook. The following is required for disclosure purposes:

	2010	2009
COMPONENTS OF NET PERIODIC PENSION COST		
Current service cost	\$ 11,378	\$ 25,363
Interest cost	26,180	23,698
Amortization of net actuarial loss (gain)	(9,184)	318
Net periodic pension cost recognized	<u>\$ 28,374</u>	<u>\$ 49,379</u>
WEIGHTED-AVERAGE ASSUMPTIONS FOR EXPENSE		
Discount rate	<u>8.50%</u>	<u>6.00%</u>
Rate of compensation increase	<u>2.50%</u>	<u>2.50%</u>
WEIGHTED-AVERAGE ASSUMPTIONS FOR DISCLOSURE		
Discount rate	<u>6.25%</u>	<u>8.50%</u>
Rate of compensation increase	<u>2.50%</u>	<u>2.50%</u>
CHANGE IN ACCRUED BENEFIT OBLIGATION		
Accrued benefit obligation at the end of the prior year	\$ 302,516	\$ 369,848
Current service cost	11,378	25,363
Interest cost	26,180	23,698
Benefits paid	(11,799)	(1,967)
Actuarial loss (gain)	108,296	(114,426)
Accrued benefit obligation at the end of the year	<u>\$ 436,571</u>	<u>\$ 302,516</u>
RECONCILIATION OF FUNDED STATUS TO ACCRUED BENEFIT LIABILITY		
Benefit obligation at end of year	\$ 436,571	\$ 302,516
Unamortized net actuarial gain (loss)	(41,311)	76,169
Accrued benefit liability	<u>\$ 395,260</u>	<u>\$ 378,685</u>

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

6. PENSION OBLIGATIONS (continued)

(b) Multiemployer Defined Benefit Pension Plan

The Board contributes to a pension plan under the Public Service Superannuation Act administered by the Province of Nova Scotia. The Board matches employees' contributions calculated as follows: 8.4% (2009 - 7.4%) on that part of their salary that is equal to or less than the "Year's Maximum Pensionable Earnings" (YMPE) under the Canada Pension Plan and 10.9% (2009 - 9.6%) on the part of their salary that is in excess of the YMPE. The Board has recognized contributions of \$274,821 in 2010 (2009 - \$264,844). There is no further liability with respect to past service at March 31, 2010.

7. ACCRUED EMPLOYEE FUTURE BENEFIT OBLIGATIONS

The Board provides other retirement benefits to its employees by participating in the Province of Nova Scotia's post-retirement health insurance program and also provides retiring allowance benefits to those employees who retire from the Board. The retiring allowance benefit was new in fiscal 2008. Both benefits are funded on a pay-as-you-go basis. The Board funds on a cash basis as contributions are made.

An actuarial valuation was prepared for the first time for the fiscal year ended March 31, 2006 and then updated in 2010 for the new benefits. The valuation was based on a number of assumptions about future events, such as inflation rates, interest rates, medical inflation rates, wage and salary increases, and employee turnover and mortality. The assumptions used reflect the Board's best estimates.

	2010	2009
COMPONENTS OF NET PERIODIC PENSION COST		
Current service cost (employer portion)	\$ 56,049	\$ 69,447
Interest cost	72,554	59,201
Amortization of past service costs	-	128
Net periodic benefit cost recognized	<u>\$ 128,603</u>	<u>\$ 128,776</u>
WEIGHTED-AVERAGE ASSUMPTIONS FOR DISCLOSURE		
Discount rate	<u>5.75%</u>	<u>8.00%</u>
Initial weighted average health care trend rate	<u>6.69%</u>	<u>7.25%</u>
Ultimate weighted average health care trend rate	<u>4.50%</u>	<u>4.50%</u>
Year ultimate rate reached	<u>2016</u>	<u>2016</u>
CHANGE IN ACCRUED BENEFIT OBLIGATION		
Accrued benefit obligation at the end of the prior year	\$ 852,880	\$ 918,378
Current service cost (employer portion)	56,049	69,447
Interest cost	72,554	59,201
Plan amendments	-	-
Benefits paid	(4,019)	(2,296)
Actuarial loss (gain)	<u>150,121</u>	<u>(191,850)</u>
Accrued benefit obligation at the end of the year	<u>\$ 1,127,585</u>	<u>\$ 852,880</u>

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

7. ACCRUED EMPLOYEE FUTURE BENEFIT OBLIGATIONS (continued)	2010	2009
RECONCILIATION OF FUNDED STATUS TO ACCRUED BENEFIT LIABILITY		
Deficit at the end of year	\$ 1,127,585	\$ 852,880
Unamortized net actuarial gain	<u>10,721</u>	<u>166,655</u>
Accrued benefit liability	\$ <u>1,138,306</u>	\$ <u>1,019,535</u>

8. NET CHANGE IN NON-CASH WORKING CAPITAL BALANCES RELATED TO OPERATIONS	2010	2009
INCREASE (DECREASE) IN CASH FROM CHANGES IN:		
Receivables	\$ 157,971	\$ 802,236
Prepaid expenses	21,752	(94,446)
Payables and accruals	154,862	(115,816)
Payable to government	(1,465,314)	1,687,828
Deferred grants	<u>(362)</u>	<u>(166,082)</u>
	\$ <u>(1,131,091)</u>	\$ <u>2,113,720</u>

9. COMMITMENTS

The Board has entered into various lease agreements for premises and equipment. The approximate payments required over the next five years are as follows:

2011	\$ 265,078
2012	\$ 267,028
2013	\$ 260,851
2014	\$ 186,964
2015	\$ 186,964

10. CONTINGENT LIABILITY - SICK LEAVE

In accordance with the Board's sick leave policy, the staff have accumulated sick days, at a total possible cost of approximately \$18,316 (2009 - \$13,992). These days are only available for required sick leave, and will not be paid out upon termination of employment. Any sick leave settlements will be charged to income in the period in which they occur.

Canada-Nova Scotia Offshore Petroleum Board

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

11. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments

Financial instruments of the Board consist mainly of cash, guaranteed investment certificates, accounts receivable, accounts payable and accrued liabilities. The carrying values of these financial assets and financial liabilities approximate their fair values given their short-term nature.

The Board has classified its financial instruments as follows:

Cash and guaranteed investment certificate - held for trading; measured at fair value.

Receivables - loans and receivables; measured at amortized cost.

Payable and accruals - other financial liabilities; measured at amortized cost.

(b) Credit risk management

The Board is exposed to credit risk on the accounts receivable from its clients. In order to reduce its credit risk, the Board has adopted credit policies which include the analysis of the financial position of its clients and the regular review of their credit limits. The Board does not have a significant exposure to any individual client.

12. CAPITAL MANAGEMENT

(a) General policy

The Board considers its capital to be the balance maintained in its Unrestricted Net Assets. The primary objective of the Board is to invest its capital in a manner that will allow it to continue as a going concern and comply with its stated objectives. Capital is invested under the direction of the Board with the objective of providing a reasonable rate of return, minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements. The Board is not subject to any externally imposed requirements of its Capital.

(b) Investment policy for pension and employee future benefits

The Board has set aside funds with the intention to ensure there are sufficient funds available to support the present and future obligations of the Board's pension plan and other employee future benefits. The primary objective of the Board is to invest these funds in low risk instruments to maximize returns but still allow for liquidity should the need arise.

13. COMPARATIVE FIGURES

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year's financial statements.

Visit the Board online at www.cnsopb.ns.ca

Here you will find up-to-date reports and data including:

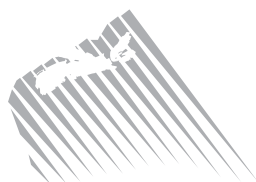
- Regulatory Framework: Legislation, regulations, guidelines and other regulatory documents.
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- Call for Bids information.
- Environmental Assessment Registry – Information including newly posted information for active EAs.
- Weekly Activity Reports – Detailing current offshore activities.
- Annual and Semi-Annual Benefits Reports submitted for the Sable Offshore Energy Project and Deep Panuke Offshore Gas Development.
- Spills to Sea statistics.
- Injury statistics.
- Geological and geophysical information.
- Data Management Centre – Access to digital geoscience data available at www.cnsopbdmc.ca

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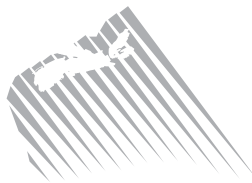
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