

**Stuart Pinks, P.Eng., Chief Executive Officer
Canada-Nova Scotia Offshore Petroleum Board
Speaking points**

**OTANS Core Conference Panel Discussion
October 8, 2009**

Panelist have been asked to address the following theme:

“Increasing Prospectivity of offshore Nova Scotia. Prospectivity refers to the broad confluence of a basin's attractiveness as a petroleum investment versus the risks of such an investment. Increasing Nova Scotia's prospectivity has been an active pursuit both for governments and regulators. What are the successes so far, and where are these studies likely to bring us? – OTANS”

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Canada-Nova Scotia Offshore Petroleum Board
Speaking notes, October 8, 2009

Check against delivery

I've been invited to take part in this panel to discuss how we, collectively, can increase the offshore's attractiveness for exploration. In doing so we must consider the relationship between investment and the associated risks.

As the offshore regulator, we approach these issues perhaps differently than government and industry.

The Board is the curator of a tremendous amount of geological and geophysical information pertaining to our offshore area. On staff, we have a core team of well respected specialists capable of analyzing this information.

Our role is therefore to make this information available to potential explorers in a fashion that demonstrates the hydrocarbon potential offshore, and in a format that can support their own independent assessments. The goal in this regard is to reduce as much as possible the geological uncertainty that explorers have to deal with in making investment decisions.

Our role is also to ensure that the regulatory framework that we administer is fair, efficient and world class.

Our 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 rooted in the Board's mandate.

Since 2007, the implementation of the Board's work activities have been strategically focused in three areas: Regulatory Modernization, Optimizing Resource Management, and Organizational Excellence.

It's the first two goals - - regulatory modernization and optimizing resource management, which are most relevant for today's discussion. Because when we talk about exploration risk, these are two areas that companies focus on before committing exploration dollars.

Companies ask: "Can we get access to geoscientific data, and access to reliable assessments of the offshore resource potential?" And they ask "Is the regulatory and licensing framework seen as competitive when compared to opportunities elsewhere in the world?" As I'll explain, we believe we are taking the right steps to address both questions.

While I'll spend most of this talk discussing our resource management practices, I'll begin with Regulatory Modernization.

REGULATORY MODERNIZATION

Regulatory Modernization relates to today's discussion because a modern regulatory framework is critical to a petroleum industry that is safe, sustainable and successful.

I will focus on two main areas in this regard - - first is the Frontier and Offshore Regulatory Renewal Initiative - - or FORRI. And the second is our role in collaborating with other regulators both here in Canada and abroad to share best practices.

FORRI is a partnership amongst ourselves, the Canada-Newfoundland & Labrador Offshore Petroleum Board, the National Energy Board, and provincial, federal and territorial governments. The purpose of FORRI is to create new regulations that are more goal-oriented in nature, to replace the current set of prescriptive regulations.

The first regulations to be updated are the new Drilling and Production Regulations. These are currently going through the federal and provincial government approval processes and should be in effect in early 2010.

The next phase of FORRI involves amalgamating all remaining regulations into one over reaching regulation. Once approved, it will be equally applied to offshore Nova Scotia, Newfoundland and Labrador, and the North.

This shift toward a goal oriented regime is something which Norway and others have practiced for years. We believe this new approach will serve offshore Nova Scotia well.

Collaborating with other regulators

We are not undertaking this process in isolation. Learning from, and collaborating with, other regulators is an important input into the modernization of regulations and the continuous improvement of our regulatory practices.

In Canada we work very closely with the CNLOPB, and the National Energy Board in areas of common interest. We have a number of joint guidelines that have been written to assist operators in meeting regulatory requirements which are updated regularly to reflect new learnings and practices. An example of this is the recent update to the Offshore Chemical Selection Guidelines.

Similarly, specific to the regulation of pipelines for which there is joint jurisdiction between ourselves and the NEB, our two Boards signed a Memorandum of Understanding last October to promote greater regulatory efficiency.

From an international perspective, the Board's knowledge and expertise is enhanced by the sharing of information. For example:

- The Norwegian Petroleum Directorate visited us in September at our facilities in Dartmouth. Our discussions focused on licensing and environmental policies.
- We also work closely with our colleagues in the United States Minerals Management Service on a range of geological and regulatory policy matters.
- And we meet with numerous regulators from around the world in such organizations as the International Regulators' Forum, that is focused on health and safety, and the International Offshore Petroleum Environmental Regulators forum, that is focused on environmental protection practices.

So these two areas: FORRI, and regulatory collaboration are important elements in our approach to continually improving our regulatory framework.

Now, let's move on to talk about Optimizing Resource Management. This is an area where we've made strides on both geoscience and licensing practices

OPTIMIZING RESOURCE MANAGEMENT

Firstly, what does optimizing resource management mean?

It means, that as the organization responsible for issuing licences and managing petroleum resource information, we recognize the need to continually improve our approach in these areas.

We have taken several important strategic steps since 2007. The changes we've made have involved new approaches to geoscience, and changing the terms and conditions for Exploration Licences.

On the Geoscience side, we have focused our efforts toward storing, interpreting and sharing geoscientific information. The drilling cores, cuttings, and seismic data that we curate are critical elements for deepening the understanding of our geological resources.

As the steward of this information, it is our role to ensure that it's made available to both a local, and global audience. And in a manner that keeps pace with changing technologies and practices. Some changes in these areas include:

- Expanding our Geoscience Research Centre and creating an online data Management Centre, or "DMC."
- The DMC provides free web access to our offshore data. It allows explorers from anywhere in the world to access geoscience data without having to travel to our

facilities. We have also focused on updating assessments of resource potential and publishing this information for a global audience.

- For example, to support recent calls for bids we have provided potential bidders with detailed regional and sub regional analysis of existing seismic and well data. This information has been made available on CD-Rom and online.
- And, in order to get the word out, another key part of our strategy is in presenting our geoscientific knowledge at technical conferences both here at home and around the world.

From a licensing perspective, we have updated our Exploration Licence terms and conditions. When we launched this initiative in 2007 we had come out of a period where the number of licences dropped from a record 59 in 2002, to a situation where not a single exploration licence had been issued in almost five years.

So we looked at other countries, and determined that we should lower the upfront costs for exploration to encourage both smaller and larger companies to explore offshore Nova Scotia. This is similar to the strategy which the United Kingdom is using in its "Promote Licence."

Some of the changes we made include:

- Holding regular Calls for Bids that may include both industry nominated and Board nominated parcels.;
- Lowering the minimum Work Expenditure Bid from \$1,000,000 to \$500,000.
- Providing companies with 150% credit against their work expenditure bid for exploration costs in the first three years of their licence.
- And the most significant change has been in deferring our requirement for companies to post a large upfront security deposit. The benefit of our new approach is that companies, both large and small, can get the right to explore offshore land with minimal upfront costs.
- Traditionally, explorers were required to post 25 per cent of their work expenditure bid upfront. So if you bid \$100 Million you had to post \$25 Million.
- By deferring this requirement for three years, we are giving explorers time to assess the geology, raise financing, and perhaps attract a farm-in partner before posting large financial requirements.

We put these ideas into practice in 2007 and now have 3 calls for bids under our belt under this new system. And it has resulted in the issuance of 6 new exploration licences.

Given that our legislation requires that we use a single criterion to select the successful bidder, the challenge for the Board is to ensure that such criterion will attract both serious entrepreneurs and larger traditional explorers alike.

We have identified that we need to make a minor improvement to one of our current terms and conditions.

While we wish to maintain a lower cost of entry, we recognize that a linkage between the upfront licence deposit and the work expenditure bid would better protect the bidding process in favour of serious explorers both big and small.

In the next Call for Bids, we intend to require the successful bidder to post either \$50,000 or 1 per cent of the work expenditure bid, whichever is greater. This amount is to be posted as a Licence Deposit upfront. As before the traditional 25 per cent work expenditure bid deposit would not be due until after the third year.

So as an example, if a company bids \$100 Million, they will be required to provide \$1 million licence deposit upfront.

As a further example, a company could choose to make a work expenditure bid of \$5 Million or less and only be required to post \$50,000.

While this change may seem small, we believe it will strengthen our strategy of lowering the cost of entry while providing a more level playing field for all serious explorers.

We intend to implement this change in the terms and conditions for our next call for bids.

To wrap up, the two strategic priorities which I've touched on - - Regulatory Modernization and Optimizing Resource Management - - are key focus areas for us. And they remain key elements that companies will assess before making investment decisions.

These two priorities will remain in the forefront for us as we apply the principle of continuous improvement in each of the areas we regulate - - whether it's in the area of health, safety, environment, local benefits, geoscience or licencing.

Thank-you.