

*The following represents the typical Call for Bids and Exploration Licence terms and conditions, which are subject to Board approval. The making of a Call for Bids and the issuance of an Exploration Licence are Board "fundamental decisions" within the meaning of the legislation, and as such are subject to review by the Minister of Natural Resources for Canada and the Minister of Energy for Nova Scotia. Additional terms and conditions may be included.*

## **Proposed Terms and Conditions for future Call for Bids**

### **1.0 CANADA-NOVA SCOTIA OFFSHORE PETROLEUM BOARD – PROFILE**

The Canada-Nova Scotia Offshore Petroleum Board (CNSOPB) 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.

The Board's authority is derived from the legislation implementing the August 26, 1986 Accord between the two governments. The *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act* and the [Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation \(Nova Scotia\) Act](#) provide for the joint management of the Nova Scotia offshore area.

The Board's principal responsibilities include:

- 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 offshore exploration and development;
- resource evaluation, data collection, curation and distribution.

Certain aspects of petroleum activities also fall under the regulatory authority of other agencies. To ensure effective coordination of all the regulatory requirements, the Board takes the lead role in coordinating regulatory activities. The Board has also entered into Memoranda of Understanding (MOU) with the appropriate departments and agencies to ensure effective coordination and avoid duplication of work and activities.

The Board maintains an open and transparent regulatory process to the maximum extent possible in order to demonstrate publicly that the offshore is being regulated in an appropriate manner. The legislation provides specific confidentiality requirements as set out in the Accord Acts.

The Board views consultation as an effective tool for its decision making process. The Board, through its MOU's and authorization process, consults with departments and agencies, other interested groups and the public to obtain input in its decision making process.

The Board consists of five members and two alternate members who are appointed for fixed terms of office. The Government of Canada and the Government of Nova Scotia each appoint two members and one alternate member. The Chair is jointly appointed by both governments. The Chief Executive Officer reports to the Board and is responsible for the day to day operations of the Board.

More information about the CNSOPB can be found at [www.cnsopb.ns.ca](http://www.cnsopb.ns.ca).

## **2.0 CALL FOR BIDS NO. NS-----**

The Canada-Nova Scotia Offshore Petroleum Board (the "Board") hereby calls for bids for \_\_\_\_\_ Exploration Licences covering those lands in the Nova Scotia offshore area described in Appendix I (the "Lands").

### **2.1 *Applicable Legislation***

This Call for Bids is made pursuant to the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, S.C. 1988, c. 28, as amended, and the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*, S.N.S. 1987, c. 3, as amended (the "Legislation").

### **2.2 *Terms and Conditions of Exploration Licences & Significant Discovery Licences***

The Exploration Licence for each parcel will be substantially in the form attached hereto as Appendix III. Any succeeding Significant Discovery Licence issued with respect to the Lands will be substantially in the form attached hereto as Appendix IV. The submission of bids in response to this Call for Bids shall constitute agreement to the terms and conditions set out in Appendix III and IV.

### **2.3 *Submission of Bids***

(a) To be considered, a bid must satisfy the following conditions.

- (i) Bids must be accompanied by a confirmation of operating experience that satisfies the Board that the Bidder, its parent company or an affiliated company has operated, or has been a joint operator, in the drilling of exploration wells in water depths greater than 800 meters in the past ten (10) years.
- (ii) Confirmation of operating experience must be submitted in a sealed envelope marked "CONFIRMATION OF OPERATING EXPERIENCE FOR CALL FOR BIDS NS \_\_\_\_\_", to be opened prior to considering the bid.
- (iii) Bids must be in the form attached as Appendix II and must be submitted in a **separate** sealed envelope marked "CALL FOR BIDS No. \_\_\_\_\_ (Parcel # \_)", to be opened if the confirmation of operating experience satisfies the Board.



## **2.5 Bid Assessment Criterion**

### **(a) Work Expenditure Bid**

- (i) Bidding on each parcel will be based solely on the amount of money proposed to be expended on the exploration of the respective parcel and on research & development and education & training within Period 1 of the term of the Exploration Licence (“Work Expenditure Bid”), determined in accordance with the Schedule of Allowable Expenditures as defined in Schedule B of the Exploration Licence attached as Appendix III.
- (ii) In submitting a Work Expenditure Bid, the bidder commits to spend at least 95% of the Work Expenditure Bid on exploration of the respective parcel.
- (iii) There is no obligation for the bidder to include research & development or education & training as part of the Work Expenditure Bid. However, in the event the bidder spends money on such purposes, a maximum of 5% of the Work Expenditure Bid may be applied for as an Allowable Expenditure as defined in Schedule B of the Exploration Licence attached as Appendix III.
- (iv) The Schedule of Allowable Expenditures will be used in determining the amount of money expended pursuant to the Work Expenditure Bid, and is defined in Schedule B of the Exploration Licence attached as Appendix III.

### **(b) Minimum Bid**

- (i) The minimum bid that will be considered is \$\_\_\_\_\_ of work expenditure.
- (ii) The submission of a Work Expenditure Bid does not obligate the successful bidder to perform the full dollar value of work. However, if work is not performed in the full amount of the Work Expenditure Bid, the unrefunded balance of the Work Deposit will be forfeited upon expiry, surrender or cancellation of Period 1, as more particularly described in the form of Exploration Licence attached as Appendix III.

### **(c) Acceptance and Rejection**

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

### **(d) Tied Bids**

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

## **2.6 Deposits**

*Please note that the terms and conditions of a Call for Bids and Exploration Licence are subject to Ministerial Approval.*

(a) *Bid Deposit*

- (i) Each bid must be accompanied by a Bid Deposit in the amount of **\$10,000**, in the form of a **certified cheque or bank draft payable to the Receiver General for Canada**.
- (ii) The successful bidder will receive a refund of the Bid Deposit, without interest, if the Work Deposit is posted within the time specified and any outstanding Environmental Studies Research Fund (ESRF) levies are paid as described below.
- (iii) The failure of the successful bidder to post the Work Deposit within the specified time will result in forfeiture of the Bid Deposit and disqualification of the bid, and in that event the Board may, if it sees fit, award the Exploration Licence to the second highest bidder without making another Call for Bids.
- (iv) Bid Deposits will be returned to unsuccessful bidders, without interest, following announcement of the winning bid and receipt of the Work Deposit by the successful bidder.
- (v) Bid deposits will be returned by courier service unless the bidder requests in writing, at the time of bid submission for the Board to hold the Bid Deposit at its office until it is picked up by the bidder or designated representative or agent of the bidder.

(b) *Work Deposit*

- (i) The successful bidder will be required to post security for the performance of work in the amount of 25% of its Work Expenditure Bid. The successful bidder must post this Work Deposit within 30 days of being notified that its bid was successful, as a condition of issuance of the Exploration Licence.
- (ii) This Work Deposit is refundable to the extent of 25% of approved Allowable Expenditures, as more particularly described in the form of Exploration Licence attached as Appendix III.
- (iii) Work Deposits must be in the form of cash or promissory notes payable on demand to the Receiver General for Canada. The promissory note must be accompanied by a bank letter of guarantee issued by a Canadian chartered bank which states their agreement to honour on presentment for payment. The form of the promissory note and bank guarantee must be acceptable to the Board. Acceptable forms of a promissory note and bank guarantee are attached as \_\_\_\_\_.
- (iv) Parties submitting a joint bid may post separate securities representing each party's proportionate share of the required Work Deposit. However, the Board will only deal with the representative designated in the bid. The failure of any party to submit its

share of the Work Deposit will be considered the failure of all parties participating in the joint bid.

## 2.7 Identification of Bidders

- (a) Bids must identify the parties making the bid and their participating shares. Under the Legislation, an Exploration Licence must be issued to the person who submits the winning bid. Therefore, agents should identify the principals for whom they act and their participating shares. The Board will publicly announce the identity of the successful bidder and the amount of the winning bid.
- (b) The identities of unsuccessful bidders and the amounts of their bids will not be disclosed.

## 2.8 Environmental Studies

- (a) In accordance with the Legislation, prior to the authorization of any petroleum related activities on the Lands the operator must demonstrate to the satisfaction of the Board that such activities can be conducted in an environmentally safe manner. Special precautions, such as enhanced environmental assessments, more stringent mitigation measures and environmental effects monitoring may be required in some cases.
- (b) Upon issuance of the Exploration Licence, the successful bidder must pay Environmental Studies Research Fund (ESRF) levies under Part VII of the Canada Petroleum Resources Act, R.S.C. 1985, c. 36 (2nd Supp.), for the year in which the licence is issued and retroactive levies for the two preceding years. Thereafter, ESRF levies as fixed from time to time by the federal Minister of Natural Resources will be payable unless the Interest Owner surrenders the licence prior to the payment due date. All \_\_\_\_ parcel(s) are in ESRF Region # \_\_, \_\_\_\_\_. The 2009, 2010 and 2011 ESRF levy rates for all parcels would be as follows:

2009	Levy # 21	\$0.____/ha
2010	Levy # 22	\$0.____/ha
2011	Levy # 23	\$0.____/ha

- (c) ESRF matters are not administered by the Board, but are the responsibility of the federal Minister of Natural Resources. ESRF levies are determined by multiplying the number of hectares of land included in the licence by the ESRF rate for the applicable region.

## 2.9 Activity Authorization

- (a) Before carrying out any work or activity in the offshore area, an operator must first obtain an Operating Licence.
- (b) No activities related to the exploration for, development of or transportation of petroleum on the Lands can be conducted without a specific authorization issued by the Board. Operators are required to meet certain regulatory requirements before the Board can

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approve offshore petroleum related activities. The regulatory framework which governs offshore petroleum operations consists of the Accord Acts, its regulations, and Board guidelines and policies.

## **2.10 Benefits Plan**

Operators proposing to conduct work in the Nova Scotia Offshore Area will ordinarily be required to submit a Canada-Nova Scotia Benefits Plan to the Board for approval, pursuant to the Legislation. Canada-Nova Scotia Benefits Plan Guidelines can be found on the Board's website at [www.cnsopb.ns.ca](http://www.cnsopb.ns.ca).

## **2.11 Information**

- (a) Geological, geophysical and well information is available with respect to the Lands and the surrounding area on the Board's website at [www.cnsopb.ns.ca](http://www.cnsopb.ns.ca) or requests for information may be directed to:

Mary Jean Verrall  
Supervisor, Geoscience Research Centre  
201 Brownlow Avenue  
Dartmouth, Nova Scotia  
B3B 1W2  
Tel. (902) 468-3994  
Fax (902) 468-4584  
[mverrall@cnsopb.ns.ca](mailto:mverrall@cnsopb.ns.ca)

- (b) Inquiries regarding this Call for Bids may be directed to:

Steven F. Bigelow  
Director, Resources and Rights  
Canada-Nova Scotia Offshore Petroleum Board  
18th Floor, T.D. Centre  
1791 Barrington Street  
Halifax, Nova Scotia  
B3J 3K9  
Tel. (902) 422-5588  
Fax (902) 422-1799  
[sbigelow@cnsopb.ns.ca](mailto:sbigelow@cnsopb.ns.ca)

## **2.12 Non-Compliance**

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

## **Typical Terms and Conditions for future Exploration Licences**

### **FORM OF EXPLORATION LICENCE**

**EXPLORATION LICENCE NO. \_\_\_\_\_**

The Canada-Nova Scotia Offshore Petroleum Board (the "Board") hereby issues this Exploration Licence ("Licence") to the interest holders set out in Schedule A, in the respective shares set out opposite the name of each interest holder. This Licence is issued pursuant to the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation Act*, S.C. 1988, c. 28, as amended, and the *Canada-Nova Scotia Offshore Petroleum Resources Accord Implementation (Nova Scotia) Act*, S.N.S. 1987, c. 3, as amended (the "Legislation") and shall be subject to the following terms and conditions:

#### **1. INTERPRETATION**

Any words or phrases defined in the Legislation shall have the same meanings in this Licence unless the context otherwise requires.

#### **2. RIGHTS AND LANDS**

This Licence confers the rights attaching to Exploration Licences under the Legislation with respect to those portions of the offshore area described in \_\_\_\_\_ (the "Lands").

#### **3. TERM**

- (a) The effective date of this Licence is \_\_\_\_\_(date)
- (b) Subject to paragraph 3(j) below, the term of this Licence is nine (9) years, consisting of two consecutive periods referred to as Period 1 and Period 2.
- (c) Period 1 is a period of six (6) years commencing on the effective date of the Exploration Licence. This period will be extended by one year if:
  - (i) A well is commenced prior to the end of the sixth year of Period 1 and is still being pursued diligently into the seventh year; or,
  - (ii) A Drilling Deposit in the amount of \$500,000 is posted in accordance with section 5 of this Licence before the end of the sixth year of Period 1.
- (d) No extension to Period 1 will be granted if there are unpaid Environmental Studies Research Fund Levies.
- (e) If the drilling of a well has been commenced during Period 1 and continues beyond the sixth year of Period 1, Period 1 will be further extended for so long as the drilling of that well is being pursued diligently.
- (f) Period 2 immediately follows Period 1 and consists of the balance of the nine (9) year term of this Licence.

- (g) In order to validate this Licence for Period 2, the drilling of a well must be commenced within Period 1 and diligently pursued to termination in accordance with good oilfield practice. Failure to fulfill this drilling requirement will result in the cancellation of this Licence at the end of Period 1.
- (h) The geological objectives of the validation well are determined by the Interest Owner and declared to the Board prior to the commencement of the well.
- (i) Upon the expiration of Period 2 this Licence shall terminate and all Lands shall revert to the Crown except those which have been converted to a Significant Discovery Licence or a Production Licence.
- (j) If a well has been commenced before the expiration of this Licence, this Licence will continue in force while the drilling of that well is being pursued diligently and for so long thereafter as may be necessary to determine the existence of a significant discovery based on the results of that well.

#### **4. WORK DEPOSIT**

- (a) The total Work Deposit required as security for the performance of work is 25% of the Work Expenditure Bid as set out in \_\_\_\_\_ (the "Work Deposit"). No interest will be paid on the Work Deposit. Failure to post the Work Deposit as security for the performance of work will result in forfeiture of the Bid Deposit.
- (b) This Work Expenditure Bid is based on the amount of money proposed to be expended on the exploration of the respective parcel and on research & development and education & training within Period 1 of the term of this Licence, determined in accordance with the Schedule of Allowable Expenditures set out in Schedule B of the Exploration Licence.
- (c) In submitting a Work Expenditure Bid, the bidder commits to spend at least 95% of the Work Expenditure Bid on exploration of the respective parcel.
- (d) There is no obligation for the bidder to include or to commit to spend money during Period 1 on research & development or education & training as part of the Work Expenditure Bid. However, in the event the bidder spends money on such purposes, a maximum of 5% of the Work Expenditure Bid may be applied for as an Allowable Expenditure as defined in Schedule B of the Exploration Licence.
- (e) Costs incurred in the first three (3) years of this Licence and approved as Allowable Expenditures will be credited at a rate of 150% and carried forward to offset the Work Deposit.
- (f) Allowable Expenditures that are expended in Period 2 shall not be credited against the Work Deposit.
- (g) The Interest Owner is not obligated to perform work in the full dollar value of the Work Expenditure Bid under this Licence. However, if the Interest Owner does not perform

work in the full amount of its Work Expenditure Bid, the unrefunded balance of the Work Deposit will be forfeited to the Receiver General for Canada upon the expiry, surrender or cancellation of Period 1.

**5. DRILLING DEPOSIT**

- (a) An Interest Owner may, at its option, extend Period 1 from six (6) years to seven (7) years if:
  - (i) A well is commenced prior to the end of the sixth year of Period 1 and is still being pursued diligently into the seventh year; or,
  - (ii) A Drilling Deposit is posted in the amount of \$500,000 before the end of the sixth year of Period 1.
- (b) The Drilling Deposit shall be in the amount of \$500,000 and shall be in a form acceptable to the Board. No interest will be paid on the Drilling Deposit.
- (c) Should a Drilling Deposit be posted, it will be refunded in full if this Licence is validated for Period 2 by the drilling of a well.
- (d) If a validation well is not drilled, the Drilling Deposit will be forfeited to the Receiver General for Canada upon the expiry, surrender or cancellation of Period 1.
- (e) Allowable Expenditures cannot be applied against the Drilling Deposit.

**6. RENTALS**

- (a) No Rentals are payable in respect of Period 1.
- (b) Refundable Rentals are payable during each year of Period 2 at the following rates:

<b>Year</b>	<b>Amount per Hectare</b>
7	\$2.50
8	\$5.00
9	\$7.50

- (c) For great certainty, Rentals shall be calculated on the basis on the total hectarage of Lands held as part of this Licence as of the anniversary date. At the discretion of the Interest Owner, lands can be partially surrendered before this anniversary date to reduce Rental amounts.
- (d) Rentals are payable annually, in advance, and should be paid by wire deposit, certified cheque or bank draft payable to the Receiver General for Canada. Failure to pay

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Rentals within ninety (90) days of notice of default will result in cancellation of this Licence.

- (e) When Period 1 is extended beyond the sixth year due to the drilling of a well, the first year of Period 2 will be a partial year ending the day before the next anniversary date of this Licence. Rentals for the first year of Period 2 shall nevertheless be payable at the full annual rate and shall be paid in advance at the commencement of Period 2.
- (f) If this Licence continues in force beyond Period 2, Rentals will be payable at the rates applicable during the last year of Period 2.
- (g) Rentals will be refunded upon annual application to the Board to the extent of approved Allowable Expenditures incurred during Period 2. Allowable Expenditures incurred in a particular year of Period 2 that are in excess of what is required to reduce Rentals to zero in that year may be carried forward for the purpose of reducing Rentals paid in subsequent years of Period 2. Allowable Expenditures incurred in Period 1 after completion of the first well may also be carried forward for this purpose into Period 2 to the extent that they have not been taken into account in refunding all or part of the Work Deposit.
- (h) Rentals are not refunded as a result of a cancellation, surrender or partial surrender of this Licence.

**7. COST RECOVERY**

The interest owner shall comply with the CNSOPB Cost Recovery Guidelines, attached as [Schedule C](#), as amended from time to time, unless and until cost recovery regulations are promulgated by the governments.

**8. ALLOWABLE EXPENDITURES**

Allowable Expenditures shall be determined in accordance with Schedule B.

**9. EXPLORATION PLAN**

- (a) The Interest Representative must submit an Exploration Plan within ninety (90) days of the effective date of the Exploration Licence outlining the anticipated exploration of the Lands.
- (b) The Interest Representative must provide annual reports updating the Exploration Plan on the first anniversary of the Exploration Licence and each anniversary thereafter.
- (c) The interest representative is encouraged to provide a presentation to Board staff outlining the exploration of the Lands.

**10. INDEMNITY**

- (a) Holders of shares in this Licence shall at all times jointly and severally indemnify the Board and Her Majesty the Queen in right of Canada and in right of the Province of Nova Scotia against:
  - (i) all actions, claims and demands that may be brought or made by any person by reason of anything done or omitted to be done under this Licence by, through or under the Interest Owner or an interest holder, in relation to those portions of the Lands with respect to which they hold shares; and
  - (ii) all costs that the Board or Her Majesty the Queen may incur in connection with any such action, claim or demand.
- (b) For purposes of this section, the expression "Her Majesty the Queen" shall not include any Crown corporation.
- (c) This section 10 shall survive this Licence and will be included in any Significant Discovery Licences and Production Licences that may result from this Licence.

**11. SUBMISSION OF GEOSCIENCE DATA**

Upon expiry, surrender or cancellation of this Licence, the Interest Owner shall, if it is not already done so, immediately submit to the Board all geoscience data acquired with respect to the exploration of the Lands. This data will be subject to disclosure in accordance with the Legislation and the Board's Data Disclosure Policy.

**12. REPRESENTATIVE**

Unless otherwise designated in the prescribed manner, the representative of the Interest Owner for all purposes of Part II of the Legislation shall be as specified in Schedule A.

**13. NOTICES**

Any notice to the Interest Owner or any interest holder required or permitted under the Legislation may be given by personal delivery or single registered mail to the representative of the Interest Owner at the address specified in Schedule A, or such other address as may be designated to the Board by the representative from time to time, and shall be deemed to have been received by the representative at the time of delivery if personally delivered, or on the fifth day after mailing if sent by registered mail.

**14. ENVIRONMENTAL PROTECTION**

In accordance with the Legislation, prior to the authorization of any petroleum related activities on the Lands the operator must demonstrate to the satisfaction of the Board that such activities can be conducted in an environmentally safe manner. Special precautions, such as enhanced environmental assessments, more stringent mitigation measures and environmental effects monitoring may be required in some cases.

**15. ACTIVITY AUTHORIZATION**

- (a) Before carrying out any work or activity in the offshore area, an operator must first obtain an Operating Licence.
- (b) No activities related to the exploration for, development of or transportation of petroleum on the Lands can be conducted without a specific authorization issued by the Board. Operators are required to meet certain regulatory requirements before the Board can approve offshore petroleum related activities. The regulatory framework which governs offshore petroleum operations consists of the Accord Acts, its regulations, and Board guidelines and policies.

**16. TIME LIMITATIONS**

- (a) In the event any interest holder wishes to submit an application for a Declaration of Significant Discovery pursuant to the Legislation (“Application”), unless the Board otherwise agrees in writing, such Application shall be submitted within six (6) months following rig release of the drilling unit respecting the prospective discovery well, or six (6) months prior to the scheduled expiry date of this Licence, whichever occurs later.
- (b) Where any judicial review is explicitly stated to be available under any provision of the Legislation respecting any order, decision, or action by the Board, any application for such a judicial review shall be made no later than thirty (30) days following the date upon which such order, decision or action is effective pursuant to the Legislation.

**17. DEEMED AGREEMENT**

The acceptance of this Licence by the Interest Owner shall be deemed to constitute agreement by the interest holders to the terms and conditions contained herein.

IN WITNESS WHEREOF the Board has issued this Licence to be effective as of the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

CANADA-NOVA SCOTIA OFFSHORE  
PETROLEUM BOARD

\_\_\_\_\_  
Chief Executive Officer

**SCHEDULE A – EL**

<i>LANDS</i>	<i>INTEREST HOLDERS</i>	<i>SHARE</i>
<u>Grid area ° ' N ° ' W</u>		
Sections _____	_____	_____ %

All petroleum substances in all geological formations.

TOTAL AREA: \_\_\_\_\_ Hectares

WORK EXPENDITURE BID: \$ \_\_\_\_\_

WORK DEPOSIT: \$ \_\_\_\_\_

REPRESENTATIVE: \_\_\_\_\_

ADDRESS FOR SERVICE: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**SCHEDULE B – EL**  
**ALLOWABLE EXPENDITURES**

1. The Interest Representatives is encouraged to have any expenditure it would like to have considered as an Allowable Expenditure reviewed by the Director, Resources and Rights, prior to the Interest Owner(s) commencing the work.
2. (a) Work shall be carried out by a party at arm's length from the Interest Owner. In the event that costs incurred are non-arm's length from the Interest Owner, the lesser of cost or fair market value as established by an independent third party expert will be considered for Allowable Expenditures.
  - (b) The definition of "arm's length" is that which is defined in the Income Tax Act.
  - (c) Each claim must be accompanied by a cost statement prepared and certified by a third-party auditor satisfactory to the Board.
  - (d) Expenses related to the third-party audit are the responsibility of the Interest Owner and shall not be included as an Allowable Expenditure.
  - (e) The Board shall approve the Terms of References/Scope of Work in relation to any audit to be performed in accordance with the requirements of this Schedule. The Board reserves the right to conduct its own audit if for any reason it deems it necessary to do so.
3. The Allowable Expenditures shall be the total calculated expenditures on the Lands (i.e. monies actually spent) based upon the following rates:
  - (a) Drilling: At cost.
  - (b) Seismic, Well-Site and Electromagnetic Surveys:
    - (i) 2-D, 3-D and Ocean Bottom Cable seismic: At cost.
    - (ii) Wellsite and seabed survey: At cost.
    - (iii) Resistivity or Controlled Source Electromagnetic (CSEM) surveys or any other survey of this type: At cost.
  - (c) Seabed & Other Surveys/Studies:
    - (i) Environmental field studies that are required to obtain an authorization for work or activity: At cost.
    - (ii) Other surveys/studies agreed to by the Board: At an agreed rate.
  - (d) Research & Development and Education & Training: Maximum of 5% of the Work Expenditure Bid over the course of Period 1.

4. The Interest Representative may submit an application for credit against the Work Deposit or Rentals, as the case may be, in the form and manner required by the Board. The following conditions shall apply to such application:
  - (a) Applications for credit against the Work Deposit must be received by the Board no later than thirty (30) days following the end of Period 1. Any expense which would otherwise be considered as an Allowable Expenditure, but was made prior to the effective date of this Licence and after the date upon which the Board selected the Interest Owner's bid, shall be considered for inclusion as an Allowable Expenditure for Period 1;
  - (b) Applications for credit against Rentals must be received annually by the Board no later than thirty (30) days following the anniversary date of this Licence in Period 2;
  - (c) Applications for credit against the Work Deposit or Rentals must be received no later than thirty (30) days following the expiry, surrender or cancellation of this Licence;
  - (d) Failure to submit such applications within the appropriate time referred to above, shall mean that no Allowable Expenditures were incurred for that period.