NOVA SCOTIA
Energy

Offshore Royalty Technical Bulletin

Eligibility of Unsuccessful Exploration Costs: Housekeeping Amendment to Regulations

Allowed Capital Costs are defined under section 59(1)(a) of the Offshore Petroleum Royalty Regulations to include costs incurred that are reasonably attributable to the Field or the Field Area or in furtherance of activities within the Field or the Field Area. Consistent with this principle, a clarification in wording is being made to section 59(1)(a)(i) of the Regulations stating that the costs of successful exploration wells drilled at a location that is within the Field are allowed for royalty purposes. This clarification in wording is consistent with the definition of Allowed Capital Costs under section 1(1)(b)(i)(A) of the Sable Offshore Energy Project Royalty Agreements.

Under section 62(d) of the Regulations, a special incentive is provided whereby the Minister allows unsuccessful exploration costs in relation to an area that is designated as a high risk exploration area or that relates to a Field that is designated by the Minister as a small reserve oil project. The high risk areas offshore Nova Scotia are identified in the Offshore Royalty Risk Map that can be found on the Department's website at www.gov.ns.ca/energy or click here to directly access map.

It should be noted that the costs incurred for drilling delineation wells, whether successful or not, are allowed provided they are reasonably attributable to the Field for which royalties are being determined.

This amendment to the Royalty Regulations **will be initiated no earlier than January 15, 2007 to allow for stakeholder input**. For further information concerning this royalty matter or to provide any comments prior to January 15, 2007, contact Chris Spencer, Royalty Manager at (902 424-6773).

Release Date: December 2006.

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