



WATER REGISTER: N7L1-1816

February 9, 2007

Mr. Ben Seligman
Project Integration Coordinator
Shell Canada Limited
400 - 4th Avenue S.W.
P.O. Box 100, Station 'M'
CALGARY, AB T2P 2H5

Dear Mr. Seligman:

ISSUANCE OF A "B" TYPE LICENCE-NIGLINTGAK

Attached is a duplicate of Licence No. N7L1-1816 granted to Shell Canada Limited by the Northwest Territories Water Board in accordance with the *Northwest Territories Waters Act*. The other original of this Licence has been filed with the Department of Indian Affairs and Northern Development in Yellowknife, Northwest Territories.

Please be advised that this letter with attached procedures, all inspection reports, and correspondence related thereto are part of the public Water Register, and are intended to keep all interested parties informed of the manner in which the Licence requirements are being met. All Water Register material will be considered when the Licence comes up for renewal or amendment.

The full cooperation of Shell Canada Limited is anticipated.

Sincerely,

Gordon Wray
Chair

N.W.T. Water Board

Attach.

**GENERAL PROCEDURES FOR THE ADMINISTRATION OF LICENCES
ISSUED UNDER THE NORTHWEST TERRITORIES WATERS ACT
IN THE NORTHWEST TERRITORIES**

1. At the time of issuance, a copy of the Licence is placed on the Water Register in the Office of the Northwest Territories Water Board in Yellowknife, and is then available to the public.
2. To enforce the terms and conditions of the Licence, the Minister of Indian Affairs and Northern Development has appointed Inspectors in accordance with Section 35(1) of the *Northwest Territories Waters Act*. The Inspectors coordinate their activities with officials of the Water Resources Division of the Department of Indian Affairs and Northern Development. The Inspector responsible for Licence No. N7L1-1816 is located in the North Mackenzie -Inuvik District Office.
3. To keep the Water Board and members of the public informed of the Licensee's conformity to Licence conditions, the Inspectors prepare reports which detail observations on how each item in the Licence has been met. These reports are forwarded to the Licensee with a covering letter indicating what action, if any, should be taken. The inspection reports and covering letters are placed on the public Water Register, as are any responses received from the Licensee pertaining to the inspection reports. It is therefore of prime importance that you react in all areas of concern regarding all inspection reports so that these concerns may be clarified.
4. If the renewal of Licence No. N7L1-1816 is contemplated it is the responsibility of the Licensee to apply to the Water Board for renewal of the Licence. The past performance of the Licensee, new documentation and information, and points raised during a public hearing, if required, will be used to determine the terms and conditions of any Licence renewal. Please note that if the Licence expires and another has not been issued, then water and waste disposal must cease, or you, the Licensee, would be in contravention of the *Northwest Territories Waters Act*. It is suggested that an application for renewal of Licence No. N7L1-1816 be made at least eight months in advance of the Licence expiry date.
5. If, for some reason, Licence No. N7L1-1816 requires amendment, then a public hearing may be required. You are reminded that applications for amendments should be submitted as soon as possible to provide the Water Board with ample time to go through the amendment process. The process may take up to six (6) months or more depending on the scope of the amendment requested.

6. Specific clauses of your Licence make reference to the Board, Analyst or Inspector. The contact person, address, phone and fax number of each is:

BOARD: Executive Assistant
Northwest Territories Water Board
Box 1326
YELLOWKNIFE, NT X1A 2N9
Phone No: (867) 765-0106
Fax No: (867) 765-0114

ANALYST: Analyst
Water Laboratory
Department of Indian Affairs & Northern Development
Box 1500, 4601 - 52nd Avenue
YELLOWKNIFE, NT X1A 2R3
Phone No: (867) 669-2780
Fax No: (867) 669-2718

INSPECTOR: Inspector
North Mackenzie-Inuvik District Office
Department of Indian Affairs & Northern Development
P.O. Box 2100
INUVIK, NT X0E 0T0
Phone No: (867) 777-3361
Fax No: (867) 777-2090

7. Your Licence requires a security deposit be submitted. Should the security deposit be submitted in the form of a "letter of credit", recommended wording is outlined below. It is advised that a "draft" letter of credit be forwarded to Water Resources Division for review. The contact person, address, phone and fax number of the individual administering security deposits is:

Office Administrator
Water Resources Division
Department of Indian Affairs & Northern Development
Box 1500
YELLOWKNIFE, NT X1A 2R3
Phone No: (867) 669-2651
Fax No: (867) 669-2716

IRREVOCABLE LETTER OF CREDIT

[The term "Documentary Credit" may also be used instead of "Letter of Credit"]

DATE OF ISSUE: [date] **OUR REFERENCE NUMBER:** [Bank's Reference Number]

AMOUNT: CAD\$#####.00

MAXIMUM: #####.00

CANADIAN DOLLARS ONLY

APPLICANT

["Customer" can be used instead of "Applicant"]

[Company's Name]

[Company's Address]

BENEFICIARY:

RECEIVER GENERAL FOR CANADA

ON BEHALF OF THE MINISTER OF

INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

4914 - 50 Street, 3rd Floor

P.O. Box 1500

YELLOWKNIFE, NT X1A 2R3

ATTENTION: REGIONAL DIRECTOR GENERAL

DIAND - NT REGION

RE: SECURITY PURSUANT TO [the Water Licence Type and Number]

AT THE REQUEST AND FOR THE ACCOUNT OF [Company's Name] (THE "APPLICANT"), WE, [Bank's Name], HEREBY ESTABLISH IN YOUR FAVOUR OUR IRREVOCABLE LETTER OF CREDIT NO. [Bank's Reference Number] ("CREDIT") FOR SUMS NOT EXCEEDING IN THE AGGREGATE [Amount of Security required stated in Canadian Dollars].

THIS CREDIT IS AVAILABLE WITH US FOR DRAWING AT SIGHT, WITHOUT ENQUIRY AS TO WHETHER YOU HAVE A RIGHT AS BETWEEN YOURSELF AND THE APPLICANT TO MAKE SUCH DEMAND AND WITHOUT RECOGNIZING ANY CLAIM OF THE APPLICANT, AGAINST PRESENTATION TO US, BY YOU OR YOUR DULY AUTHORIZED REPRESENTATIVE OR AGENT, OF THE FOLLOWING DOCUMENTS:

1. A SIGHT DRAFT DRAWN ON [Bank's Name and Address of the Branch that the security can be drawn at, usually one of the Bank's larger commercial banking centres]; AND
2. THE ORIGINAL OF THIS IRREVOCABLE LETTER OF CREDIT NO. [Bank's Reference Number] FOR ENDORSEMENT OF PAYMENT THEREON; AND
3. A STATEMENT SIGNED BY AN OFFICIAL OF THE DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT CERTIFYING
 - A) THAT THE SIGNATORY IS AN OFFICIAL OF THE DEPARTMENT OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT AND HAS THE AUTHORITY TO SIGN THE STATEMENT ON BEHALF OF THE MINISTER OF INDIAN AFFAIRS AND NORTHERN DEVELOPMENT (THE "MINISTER"), AND
 - B) EITHER
 - I. THAT THE MINISTER IS ENTITLED TO APPLY THE AMOUNT DRAWN, BEING ALL OR PART OF THE SECURITY POSTED AND MAINTAINED PURSUANT TO [the Water Licence Type and Number] ISSUED BY THE NORTHWEST TERRITORIES WATER BOARD, WHETHER AS ORIGINALLY ISSUED OR AS AMENDED OR RENEWED FROM TIME TO TIME, OR
 - II. THAT THIS CREDIT IS DUE TO EXPIRE IN THIRTY (30) DAYS OR LESS AND THAT THE APPLICANT HAS NOT REPLACED THIS CREDIT BY POSTING WITH THE MINISTER OTHER SECURITY SATISFACTORY TO THE MINISTER.

PARTIAL DRAWING ARE PERMITTED.

THIS CREDIT IS EFFECTIVE FROM [time] A.M. ON [effective date as required by Water Licence] AND SHALL EXPIRE AT OUR COUNTERS AT [time] P.M. [expiry date] (THE "INITIAL EXPIRATION DATE"). THIS CREDIT SHALL BE RENEWED AUTOMATICALLY FOR AN ADDITIONAL ONE-YEAR PERIOD FROM THE INITIAL EXPIRATION DATE, AND FOR AN ADDITIONAL ONE-YEAR PERIOD FROM EACH FUTURE EXPIRATION DATE, UNLESS AT LEAST NINETY (90) DAYS PRIOR TO THE OPERATIVE EXPIRATION DATE WE NOTIFY YOU IN WRITING BY REGISTERED MAIL OR COURIER THAT WE ELECT NOT TO CONSIDER THIS CREDIT RENEWED FOR SUCH ADDITIONAL PERIOD.

WE HEREBY AGREE THAT ALL DRAFTS DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT SHALL BE DULY HONOURED BY US IF PRESENTED FOR PAYMENT ON OR BEFORE THE OPERATIVE EXPIRATION DATE.

EXCEPT SO FAR AS IS OTHERWISE EXPRESSLY STATED HEREIN, THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (1993 REVISION), INTERNATIONAL CHAMBER OF COMMERCE, PUBLICATION NO. 500. NOTWITHSTANDING ARTICLE 17 OF SAID PUBLICATION, IF THIS CREDIT EXPIRES DURING AN INTERRUPTION OF BUSINESS AS DESCRIBED IN ARTICLE 17, WE AGREE TO EFFECT PAYMENT IF THIS CREDIT IS DRAWN ON US WITHIN FIFTEEN (15) DAYS AFTER THE RESUMPTION OF BUSINESS.

[Bank's Name]

[Official's Name and Position]

[Official's Name and Position]

NORTHWEST TERRITORIES WATER BOARD

Pursuant to the *Northwest Territories Waters Act* and Regulations the Northwest Territories Water Board, hereinafter referred to as the Board, hereby grants to

SHELL CANADA LIMITED

(Licensee)

400 - 4 Avenue S.W.
P.O. Box 100, Station M
CALGARY, ALBERTA T2P 0J4

of _____
(Mailing Address)

hereinafter called the Licensee, the right to alter, divert or otherwise use water subject to the restrictions and conditions contained in the *Northwest Territories Waters Act* and Regulations made thereunder and subject to and in accordance with the conditions specified in this Licence.

Licence Number N7L1-1816

Licence Type "B"

Water Management Area NORTHWEST TERRITORIES 07

Location Latitude 69°18'32.2" North
Longitude 135°15'44.7" West
MACKENZIE RIVER DELTA, N.W.T.

Purpose TO USE WATER AND DISPOSE OF
WASTE FOR UNDERTAKINGS AND
ASSOCIATED USES

Description OIL AND GAS EXPLORATION

Quantity of Water Not to be Exceeded 300 CUBIC METRES DAILY

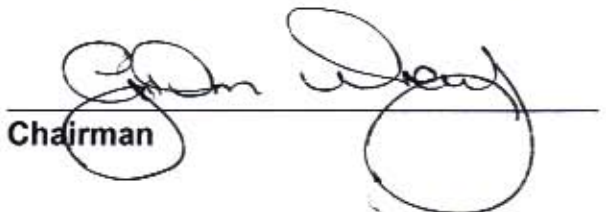
Effective Date of Licence FEBRUARY 1, 2007

Expiry Date of Licence DECEMBER 31, 2007

This Licence issued and recorded at Yellowknife includes and is subject to the annexed conditions.

NORTHWEST TERRITORIES WATER BOARD


Witness


Chairman

PART A: SCOPE AND DEFINITIONS

1. Scope

- a) This Licence entitles Shell Canada Limited to use Water and dispose of Waste for industrial undertakings in the Mackenzie Delta for the Niglintgak Natural Gas Field Development 2006/2007 Winter Field Program located at Latitude 69°18'32.2" North and Longitude 135°15'44.7" West, in the Northwest Territories;
- b) This Licence is issued subject to the conditions contained herein with respect to the taking of Water and the depositing of Waste of any type in any Waters or in any place under any conditions where such Waste or any other Waste that results from the deposits of such Waste may enter any Waters. Whenever new Regulations are made or existing Regulations are amended by the Governor in Council under the *Northwest Territories Waters Act*, or other statutes imposing more stringent conditions relating to the quantity or type of Waste that may be so deposited or under which any such Waste may be so deposited this Licence shall be deemed, upon promulgation of such Regulations, to be automatically amended to conform with such Regulations; and
- c) Compliance with the terms and conditions of this Licence does not absolve the Licensee from responsibility for compliance with the requirements of all applicable Federal, Territorial and Municipal legislation.

2. Definitions

In this Licence: **N7L1-1816**

"Act" means the Northwest Territories Waters Act;

"Analyst" means an Analyst designated by the Minister under Section 35(1) of the *Northwest Territories Waters Act*;

"Artesian Aquifer" means a water-bearing rock stratum, which when encountered during drilling operations, produces a pressurized flow of groundwater that reaches an elevation above the Water table or above the ground surface;

"Board" means the Northwest Territories Water Board established under Section 10 of the *Northwest Territories Waters Act*;

"Drilling Fluids" mean any liquid mixture of clay, Water or chemical additives pumped downhole;

"Inspector" means an Inspector designated by the Minister under Section 35(1) of the *Northwest Territories Waters Act*;

"Licensee" means the holder of this Licence;

"Minister" means the Minister of Indian Affairs and Northern Development;

"Maximum Average Concentration" means the running average of any four consecutive analytical results, or if less than four analytical results collected, and submitted to the Inspector in accordance with the sampling and analysis requirements specified in the "Surveillance Network Program";

"Modification" means an alteration to a physical work that introduces a new structure or eliminates an existing structure and does not alter the purpose or function of the work, but does not include an expansion;

"Project Description" refers to the report titled "Shell Canada Limited, Niglintgak Natural Gas Field Development 2006/2007 Winter Field Program", dated August 2006, prepared by IEG Consultants Ltd.;

"Regulations" mean Regulations proclaimed pursuant to Section 33 of the *Northwest Territories Waters Act*;

"Sewage Treatment Facility" comprises the engineered structures that are designed to contain and treat sewage;

"Sewage" means all toilet Waste and greywater;

"Waste" means Waste as defined by Section 2 of the *Northwest Territories Waters Act*; and

"Waters" mean Waters as defined by Section 2 of the *Northwest Territories Waters Act*.

PART B: GENERAL CONDITIONS

1. The Licensee shall file an Annual Report with the Board not later than March 31st of the year following the calendar year reported which shall contain the following information:
 - a) the total quantity in cubic metres of fresh Water obtained from each Water source(s);
 - b) the total quantities in cubic metres of each and all Waste discharged;
 - c) the location and direction of flow of all Waste discharged to the land or Water;
 - d) an itemized list indicating the names and quantities of all drilling mud additives used;
 - e) details of work completed;
 - f) details on the restoration of any Sumps;
 - g) a list of spills and unauthorized discharges;
 - h) results from all monitoring programs; and
 - i) any other details on Water use or Waste disposal requested by the Board within forty-five (45) days before the final report is due.
2. Meters, devices or other such methods used for measuring the volumes of Water used and Waste discharged shall be installed, operated and maintained by the Licensee to the satisfaction of an Inspector.
3. All monitoring data shall be submitted in printed form and electronically in spreadsheet format on a diskette or other electronic forms acceptable to the Board.
4. All reports shall be submitted to the Board in printed format accompanied by an electronic copy in a common word processing format on diskette or other electronic forms acceptable to the Board.

5. Thirty (30) days prior to the commencement of drilling, the Licensee shall notify the Board and an Inspector of the exact wellsite location(s) that have been selected for drilling.
6. Prior to the use of Water for industrial undertakings and pursuant to Section 17(1) of the *Act* and Section 12 of the Regulations, the Licensee shall have posted and shall maintain a security deposit of One Hundred Thirty Thousand (\$130,000.00) Dollars in a form suitable to the Minister.
7. The security deposit shall be maintained until such time as it is fully or in part refunded by the Minister pursuant to Section 17 of the *Act*. This clause shall survive the expiry of this Licence or renewals thereof and until full and final restoration has been completed to the satisfaction of the Minister.
8. The Licensee shall ensure a copy of this Licence is maintained at the site of operation at all times.

PART C: CONDITIONS APPLYING TO WATER USE

1. The Licensee shall obtain Water from channels of the Mackenzie River, or as otherwise approved by an Inspector.
2. For lakes used as a Water source, a representative dissolved oxygen/temperature profile must be obtained prior to the initial Water withdrawal and prior to demobilization of the program for the year.
3. The Licensee is not permitted to remove more than five (5) % of the available under ice Water volume per lake as calculated using a maximum expected ice thickness of two (2) meters during a single winter season.
4. The daily quantity of Water used for all purposes shall not exceed 300 cubic metres.
5. The Water intake hose used on the Water pumps shall be equipped with a screen with a mesh size sufficient to ensure no entrainment of fish (2.54 mm).

PART D: CONDITIONS APPLYING TO WASTE DISPOSAL

1. All sewage shall be directed to a Sewage Treatment Facility as indicated in the Project Description or as otherwise approved by an Inspector.
2. The Licensee shall adhere to "*Drilling Waste Management: Recommended Best Practices*. Edition 1: Drilling Waste in the Mackenzie Delta (Inuvialuit Settlement Region)" as published by the Environmental Studies Research Funds, 2004. (www.esrfunds.org)
3. If during the drilling, an Artesian Aquifer is encountered producing Water flowing at the surface, the Licensee shall notify an Inspector immediately. A sample of not less than ten (10) litres shall be collected from the flowing source at the point of discharge from the well. Five (5) litres shall be made available to an Inspector for analysis, and the Licensee shall have the remaining five (5) litres analysed.
4. Any fluids generated to surface, including those produced from an Artesian Aquifer, shall be contained and shall not be disposed of without approval of an Inspector.
5. All analyses shall be conducted in accordance with methods prescribed in the current edition of "Standard Methods for the Examination of Water and Wastewater" or by such other methods as may be approved by an Analyst.
6. Lost circulation that may contaminate groundwater must be immediately reported to an Inspector.
7. The Licensee shall dispose of all solid Waste in a manner acceptable to an Inspector.

PART E: CONDITIONS APPLYING TO MODIFICATIONS

1. The Licensee may, without written approval from the Board, carry out Modifications to the planned undertakings provided that such Modifications are consistent with the terms of this Licence and the following requirements are met:

- a) the Licensee has notified an Inspector in writing of such proposed Modifications at least five (5) days prior to beginning the Modifications;
 - b) such Modifications do not place the Licensee in contravention of either this Licence or the *Act*;
 - c) an Inspector has not, during the five (5) days following notification of the proposed Modifications, informed the Licensee that review of the proposal will require more than five (5) days; and
 - d) an Inspector has not rejected the proposed Modifications.
2. Modifications for which all of the conditions referred to in Part E, Item 1 have not been met may be carried out only with written approval from an Inspector.
 3. The Licensee shall provide to the Board as-built plans and drawings of the modifications referred to in this Licence within ninety (90) days of completion of the modifications.

PART F: CONDITIONS APPLYING TO STREAM AND WATER BODY CROSSINGS

1. The Licensee shall ensure that only clean snow and ice is used on all stream or Water body crossings, and that no debris is left on the surface of the crossings.
2. Stream or water body crossings shall be notched or removed before spring break-up to facilitate natural flow.
3. The removal of naturally occurring material from the bed or banks of any stream or Water body below the ordinary high Water mark is not permitted.

PART G: CONDITIONS APPLYING TO CONTINGENCY PLANNING

1. The Licensee will maintain a copy of the approved Emergency Response & Spill Contingency Plan onsite in a readily available location, to the satisfaction of an Inspector.
2. The Licensee shall annually review by December 1st the approved Emergency Response & Spill Contingency Plan and submit any required revisions to the Board for approval.
3. The Licensee shall ensure that petroleum products, hazardous material and other Wastes associated with the project do not enter any Waters.
4. The Licensee shall ensure that all containment berms are constructed of an impermeable material, to the satisfaction of an Inspector.
5. If, during the period of this Licence, an unauthorized discharge of Waste occurs, or if such a discharge is foreseeable, the Licensee shall:
 - a) report the incident immediately via the 24 Hour Spill Reporting Line (867) 920-8130; and
 - b) submit to an Inspector a detailed report on each occurrence not later than thirty (30) days after initially reporting the event.

PART H: CONDITIONS APPLYING TO ABANDONMENT AND RESTORATION

1. Upon completion of all activities, the Licensee shall ensure that all equipment and materials are removed from the site. Other final restoration activities as outlined in the Project Description should be implemented to the satisfaction of an Inspector.

NORTHWEST TERRITORIES WATER BOARD


Witness


Chairman