

**MEMORANDUM OF
UNDERSTANDING**

BETWEEN

INDIAN AND NORTHERN AFFAIRS CANADA

AND

YUKON ENERGY, MINES AND RESOURCES

CONCERNING

***THE INTERIM PROVISIONS OF THE CANADA-
YUKON OIL AND GAS ACCORD IN RELATION TO
THE OFFSHORE***

MEMORANDUM OF UNDERSTANDING
concerning
the Interim Provisions of the
Canada-Yukon Oil and Gas Accord
in relation to the Offshore

Between

INDIAN AND NORTHERN AFFAIRS CANADA ('INAC'), as represented by the Deputy Minister of Indian and Northern Affairs Canada

And

YUKON ENERGY, MINES AND RESOURCES ('YEMR'), as represented by the Deputy Minister of Energy, Mines and Resources

being collectively the parties (the 'Parties') to this Memorandum of Understanding (the 'MOU').

WHEREAS:

- A. The Government of Canada ('Canada') and the Government of Yukon signed the 1993 'Canada-Yukon Oil and Gas Accord' (the 'Accord') attached as Schedule A;
- B. Canada transferred the administration and control of Onshore Oil and Gas, including an adjoining area, through the 1998 *Canada-Yukon Oil and Gas Accord Implementation Act*;
- C. The adjoining area is located along the Yukon coast of the Beaufort Sea, as described in Schedule 2 of the *Yukon Act*;
- D. Commencement of negotiations between the Parties for the finalization of shared Offshore administrative and legislative responsibilities and revenue sharing for Oil and Gas management in the Offshore (the 'Offshore Arrangement') was to occur pursuant to the Accord within three years of November 19, 1998, being the date on which administration and control of Onshore Oil and Gas was transferred to Yukon;
- E. The Accord recognizes an Interim Period pending finalization of the Offshore Arrangement;

- F. The Accord describes certain commitments to facilitate implementation of the Accord during the Interim Period, such as establishing the Offshore Committee;
- G. INAC administers aspects of the Federal Oil and Gas Legislation and is involved in policy development, including planning initiatives, in the Offshore;
- H. There are benefits in identifying opportunities for increased coordination and consultation between the Parties in working towards finalization of the Offshore Arrangement;
- I. The Parties, rights holders and other stakeholders have a common interest in ensuring the efficient, fair and transparent management of Offshore Oil and Gas lands and resources; and
- J. Actions under this MOU do not prejudice the ability of Canada and the Government of the Northwest Territories to enter into an Oil and Gas accord, a Memorandum of Understanding, or both.

THEREFORE the Parties agree as follows:

1.0 Purpose

1.1 The purpose of this MOU is to:

- 1.1.1 further Offshore cooperation and consultation between the Parties with a view to facilitating implementation of the Accord and coordinating policies affecting matters in the Offshore;
- 1.1.2 establish terms of reference in respect of the Offshore Committee;
- 1.1.3 integrate YEMR more fully on matters affecting Offshore Oil and Gas resources in the Interim Period where allowed by the Federal Oil and Gas Legislation, particularly in regards to the ongoing management and administration of Offshore Oil and Gas as more fully outlined in Annex A, and on issues of policy, including planning;
- 1.1.4 help provide for an efficient and effective Offshore regulatory environment;
- 1.1.5 provide opportunities for YEMR to become involved in Offshore management issues in advance of the Parties finalising the Offshore Arrangement;
- 1.1.6 share information, opinion and intelligence on matters related to the Offshore; and

1.1.7 specify where INAC has to maintain records to facilitate implementation of the Offshore Arrangement.

2.0 Interpretation

2.1 Capitalised words and phrases used in this MOU that are not defined herein have the same meaning assigned in the Accord.

2.2 Annexes referred to herein are incorporated herein by reference and form part of this MOU.

2.3 This MOU shall not be interpreted as:

2.3.1 addressing matters within the jurisdiction of the National Energy Board; or

2.3.2 replacing the Accord, noting that where there is any inconsistency or conflict between the provisions of the Accord and provisions of the MOU, the provisions of the Accord shall prevail to the extent of the inconsistency or conflict.

3.0 Legal Status

3.1 This MOU is not legally binding, is without prejudice to the legal positions of any person and is not to be interpreted as creating, recognizing or denying any legal rights or obligations.

4.0 Area of Application

4.1 The MOU area of application is the Offshore.

4.2 The Parties recognize the possibility that Oil and Gas pools may be identified as straddling the Onshore and Offshore. In such an event, the Parties may implement specific mechanisms to be agreed to by the Parties at a future date.

5.0 Coming into Force

5.1 This MOU takes effect upon signing by the Parties.

6.0 Duration, Amendment, Review and Termination

6.1 This MOU remains in effect until the formal implementation of the Offshore Arrangement, unless otherwise terminated by INAC or YEMR.

6.2 This MOU may be amended at any time by written agreement of the Parties.

- 6.3 This MOU shall be reviewed by the Offshore Committee as often as required, but no less than once annually. Upon review, the Offshore Committee may make recommendations to the Parties on revisions that may be necessary to ensure fulfillment of the purpose set out herein. For greater certainty, the Offshore Committee may make revisions to the Annexes where such revisions are consistent with the purpose set out in this MOU.
- 6.4 This MOU may be terminated by either Party notifying the other in writing. In such an event, this MOU will cease to be in effect 30 days after the date of the notice of intent to terminate.
- 7.0 Offshore Committee Terms of Reference**
- 7.1 In order to expeditiously make written recommendations to the Federal Minister within 30 days of an issue coming before it, the Offshore Committee shall first provide written recommendations to the Parties, routed:
- 7.1.1 in respect of INAC, through the Oil and Gas Management Directorate ('OGMD'); and
- 7.1.2 in respect of YEMR, through the Oil & Gas and Mineral Resources Division.
- 7.2 For greater certainty, each Party reserves the right, as set out in 10.3 of the Accord, to make separate written recommendations to the Federal Minister in the event that they cannot reach consensus. If, however, recommendations have not been received within the time lines prescribed in the Accord, the Federal Minister may immediately take the final decision as outlined in the Accord.
- 7.3 The Offshore Committee shall meet no less than twice annually to review, respond or otherwise provide advice to the Parties on matters more fully described in Annex A.
- 7.4 The Offshore Committee shall meet at locations to be agreed upon or, alternatively, through electronic forms of communications, including conference calls and video-conferences.
- 7.5 The INAC and YEMR representatives on the Offshore Committee may provide direction or delegate operational activities or policy initiatives, including planning, on matters more fully described in Annex B to their respective officials where prior referral to the Parties is not required or where there is a need to understand these activities/initiatives more clearly prior to referral to the Parties.
- 7.6 The Offshore Committee may consult with or seek the participation of other parties on certain matters under discussion within the parameters of this MOU.

8.0 Confidentiality

- 8.1 The Parties shall provide each other with timely access to information within their respective control and relevant to this MOU, provided that neither Party shall be obliged to disclose its confidential or proprietary information.
- 8.2 A Party that receives information declared by a disclosing Party as being confidential or proprietary shall not disclose it to third parties without first obtaining the prior written permission of the disclosing Party.
- 8.3 Notwithstanding any provision of this MOU, information or documentation which is privileged pursuant to section 101(2) of the *Canada Petroleum Resources Act* shall only be disclosed in accordance with the provisions of that Act relating to such disclosure.

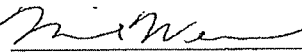
9.0 Communication

- 9.1 Any time-sensitive communication required pursuant to the Accord or this MOU shall be given by email to the contacts set out in Annex B. A communication shall be considered to be received upon the date of receipt of such email.

SIGNED by the authorised representatives for INAC and YEMR:

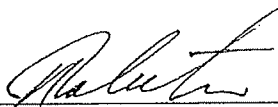
INDIAN AND NORTHERN AFFAIRS CANADA

this 16th day of December, 2008
as represented by the Deputy Minister


Michael Wernick

YUKON ENERGY, MINES AND RESOURCES

this 16 day of Dec, 2008
as represented by the Deputy Minister


Angus Robertson

ANNEX A

LAND TENURE AND RIGHTS ADMINISTRATION

A.1.0 Issuance and Administration of Offshore Oil and Gas Rights

A.1.1 In respect of issuing and administering Offshore Oil and Gas rights, the Offshore Committee will meet to:

A.1.1.1 review and make recommendations, as appropriate, to the Federal Minister on the timing, frequency, geographic area, consultations in respect of, and terms and conditions of rights issuance for inclusion in a call for nominations package in the Offshore; and

A.1.1.2 make recommendations to the Federal Minister on the issuance of a call for nominations for the Offshore, thereby commencing a process of rights issuance which may conclude with the issuance of one or more exploration licences.

A.1.2 For greater certainty, the Offshore Committee recognizes the need to expedite processes and will not make recommendations on the issuance of lands following a call for bids. To preserve the integrity of the bidding process, the Parties agree that INAC will provide information to YEMR on:

A.1.2.1 winning bids, including their respective values; and

A.1.2.2 non-winning bids, including their respective values, provided that the disclosure of such information does not divulge or lead to identifying the names of the companies associated with these non-winning bids.

A.2.0 Allowable Expenditures for Exploration Activities

A.2.1 The Offshore Committee will meet to review policy matters related to the administration of allowable expenditures. For greater certainty, the guidelines for allowable expenditures are the current policy basis for the administration of allowable expenditures. The Parties agree that policy development in this area may require multi-stakeholder consultation.

A.3.0 Consolidation and Amendment to Licences

A.3.1 The Offshore Committee will make recommendations for a pending decision by the Federal Minister to consolidate or amend Offshore exploration licences, recognizing that, due to operational constraints, company requirements or both, such recommendations may, on a case by case basis, need to be made more expeditiously than the 30 days prescribed in the Accord.

A.4.0 Declaration of Significant and Commercial Discovery

- A.4.1 Notification of declarations of commercial or significant discovery in the Offshore received from the National Energy Board will be forwarded on receipt to the Offshore Committee. The OGMD will provide maps of the declarations to YEMR.

BENEFITS PLANS

A.5.0 Benefits Plan Recommendations

- A.5.1 For the purposes of A.5.2 to A.5.3, 'benefit plan' has the same meaning assigned in subsection 5.2(1) of the *Canada Oil and Gas Operations Act* ('Benefit Plan').
- A.5.2 The Offshore Committee will review and make recommendations on Benefit Plans for Offshore Oil and Gas activities prior to forwarding such benefit plans for the approval of the Federal Minister. For greater certainty, any such review or recommendations shall be provided within timeframes consistent with the authority of the Federal Minister to approve a Benefits Plan in an efficient and timely manner.
- A.5.3 The Offshore Committee will meet to review policy matters related to the administration of Benefits Plan.

RESOURCE REVENUES

A.6.0 Resource Revenue Recommendations

- A.6.1 The Offshore Committee will meet to review policy matters related to the administration of Resource Royalties.
- A.6.2 During the Interim Period, INAC undertakes to ensure that Resource Revenues from Offshore licences are properly recorded for purposes of the Accord and provide an annual summary to YEMR.

ANNEX B

CONTACTS

B.1.1 If to INAC:

Mimi Fortier
Director General
Northern Oil and Gas Branch
Indian and Northern Affairs Canada
Fortierm@inac-ainc.gc.ca
(819) 953-9393

B.1.2 If to YEMR:

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Executive Director
Oil and Gas Resources
Energy, Mines and Resources
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(867) 667-3566

SCHEDULE A

THE CANADA YUKON OIL AND GAS ACCORD

THE
CANADA YUKON OIL AND GAS ACCORD

Accord between
the Government of Canada
and
the Government of Yukon
on Oil and Gas Revenue Sharing
and
Resource Management

THE CANADA YUKON OIL AND GAS ACCORD

This Accord made the ____ day of ____, 1993

Between:

The Government of Canada represented herein by the Minister of Indian Affairs and Northern Development (hereafter referred to as "Canada")

and:

The Government of Yukon, represented herein by the Minister of Economic Development (hereafter referred to as "Yukon")

(hereinafter jointly referred to as the "Parties")

PREAMBLE

The Parties have hereby reached this Accord on the transfer of the administrative and legislative powers and responsibilities in respect of the management of Oil and Gas resources in the Onshore and the determination of revenues from the exploitation of these resources, and respecting interim arrangements, treatment of Resource Revenues and a process for the finalization of shared management of Oil and Gas resources in the Offshore.

Legislation implementing this Accord will be consistent with legislation implementing those treaties referred to under clause 4.1 including legislation establishing wildlife, land management and environmental regimes.

For greater certainty, nothing in this Accord shall be construed so as to abrogate or derogate from, nor identify or define, any existing aboriginal or treaty rights of the aboriginal peoples of Canada under section 35 of the Constitution Act, 1982.

1. PURPOSES OF THE ACCORD

1.1 The purposes of the Accord are:

- (a) to transfer to Yukon the legislative authority in relation to the administration and control of Onshore Oil and Gas resources including the determination of Resource Revenues and management of northern benefits;

- (b) to provide that Yukon is a principal beneficiary of Resource Revenues from Oil and Gas resources in the Onshore and one of the beneficiaries of Resource Revenues from Oil and Gas resources in the Offshore, which latter revenues are subject to sharing with the Northwest Territories;
- (c) to provide for the immediate establishment of a Yukon Oil and Gas management regime in the Onshore which:
 - 1) respects aboriginal rights and which is consistent with the legislation implementing aboriginal land claims settlements in the Yukon Territory;
 - 2) provides for the protection of the environment;
 - 3) recognizes the importance of social and economic benefits to the communities of the Yukon Territory and;
 - 4) provides stability and fairness, reflects standards of resource management and conservation practices in Canada, and promotes confidence and predictability for industry;
- (d) to provide for an Onshore Oil and Gas legislative regime to be modeled after existing regimes in Canada and compatible with the Offshore regime;
- (e) to provide full and fair opportunity for residents, corporations and communities of the Yukon Territory and Canadians in general to compete for economic benefits arising from Oil and Gas activities.

2. AREA OF APPLICATION

- 2.1. This Accord applies in respect of Oil and Gas resources in the Onshore and in the Offshore.

3. DEFINITIONS

- 3.1 "Beaufort Sea" means the geographical area defined as the Beaufort Sea by the International Hydrographic Organization, as set out in Schedule A.

- 3.2 "Beaufort Sea Resource Revenue Sharing Agreement" means an agreement between Yukon and the Government of the Northwest Territories for the sharing between the two territories of all Resource Revenues from the Beaufort Sea.
- 3.3 "Benefits" means capital facilities, goods, services or employment opportunities required by Yukon to be provided by explorers, developers or producers in lieu of Oil and Gas Resource Revenues in the Onshore.
- 3.4 "Federal Minister" means in relation to any provision the Minister designated by Canada to implement that provision of this Accord.
- 3.5 "Federal Oil and Gas Legislation" means the Canada Petroleum Resources Act, the Canada Oil and Gas Operations Act in force on January 1, 1993 and any successor legislation whether contained in either of those Acts or in another Act.
- 3.6 "Formula Financing Agreement" means the Memorandum of Agreement in effect as of April 1, 1990 and dated the 15th day of May, 1991 between Canada and Yukon, or any successor agreement governing the financial arrangements between Canada and the Yukon, that may replace the Formula Financing Agreement.
- 3.7 "Formula Financing Grant" has the meaning ascribed to it in the Formula Financing Agreement.
- 3.8 "Gas" means natural gas and includes all substances other than oil, that are produced in association with natural gas but does not include coal-bed methane.
- 3.9 "Initial Year Offset Revenue Base" means the final estimate of the 1993/94 Formula Financing Grant entitlement prior to any deduction pursuant to clause 7.5.
- 3.10 "Offshore" means the area underlying that part of the Beaufort Sea over which Canada, as of the date of this Accord, has the authority to legislate and the right to explore for or exploit Oil and Gas.
- 3.11 "Oil" means,
- (i) crude oil regardless of gravity produced at the well-head in liquid form, and

- (ii) any other hydrocarbons, except coal, gas, and coal-bed methane, but without limiting the generality of the foregoing includes hydrocarbons that may be extracted or recovered from deposits of oil sand, bitumen, bituminous sand, oil shale or from any other types of deposits on the surface or the subsurface.
- 3.12 "Onshore" means lands in the Yukon Territory, including specifically that area landward of the line as portrayed on the map being Schedule B to this Accord.
- 3.13 "Public Lands" means any land, and any interest in any land, in the Yukon Territory that belongs to or is vested in Her Majesty in right of Canada or of which the Government of Canada has power to dispose, and the term "public lands" does not include lands that include oil and gas that are owned by a Yukon First Nation under a final land claims agreement.
- 3.14 "Resource Revenues" means all Royalties, license fees, well-head taxes, levies, forfeited work expenditure deposits and non-refundable or forfeited rentals and cash bonus bids arising through the issuance and administration of Oil and Gas exploration and production rights pursuant to the applicable legislation, but does not include:
- (a) any other revenues accruing to Yukon through taxes or similar levies, even if those levels of revenues are influenced by resource development activity;
 - (b) taxation revenue associated with Oil and Gas operations which, in a province, would normally accrue to Canada;
 - (c) eligible investment royalty credits claimed; and
 - (d) any aforementioned potential revenues charged or levied by the responsible government but not in fact received and determined by the responsible government to be uncollectible.
- 3.15 "Royalty" or "Royalties" means that share of the petroleum, or proceeds therefrom, reserved to Her Majesty the Queen from every right or interest issued in respect of Oil and Gas, in accordance with the applicable legislation, and payable by the holder of the right or interest.
- 3.16 "Transfer Date" means the date on which administration and control of Onshore Oil and Gas is

transferred to Yukon.

- 3.17 "Yukon Minister" means the Minister designated by Yukon to implement this Accord.

4. ABORIGINAL RIGHTS

- 4.1 For greater certainty, nothing in this Accord shall be construed so as to abrogate or derogate from, nor identify or define, any existing aboriginal or treaty rights of the aboriginal peoples of Canada under section 35 of the Constitution Act, 1982.
- 4.2 In the event of any inconsistency or conflict between legislation enacted pursuant to this Accord and the legislation implementing those treaties referred to in clause 4.1, it shall be resolved in favour of the legislation implementing those treaties.
- 4.3 Legislation implementing this Accord will be consistent with legislation implementing those treaties referred to under clause 4.1 including legislation establishing wildlife, land management and environmental regimes.
- 4.4 Any transfer of authority to Yukon, pursuant to this Accord, is subject to the condition that it not diminish the ability of Canada to negotiate and implement the terms of land claims agreements, including any terms dealing with the vesting or granting of title with Aboriginal Peoples provided that Canada shall first consult with Yukon if such agreement would derogate from the interests or jurisdiction transferred to Yukon hereunder.
- 4.5 In the period of negotiation or prior to ratification of a land claims agreement with Aboriginal Peoples, the Parties will consult with representatives of Aboriginal Peoples on all significant Oil and Gas decisions affecting lands within the Aboriginal Peoples traditional territory, as determined through the land claims negotiation process.

5. INTERNATIONAL OBLIGATIONS

- 5.1 Yukon will not enact any legislation or take administrative measures that are inconsistent with a bilateral or multinational international treaty, international convention or international agreement respecting taxation, tariffs or trade to which Canada is or becomes a signatory and which has come into effect between the signing parties.
- 5.2 Nothing in this Accord shall derogate from the

authority of Canada to implement any such treaty, convention or agreement referenced in clause 5.1 through legislation and any such legislation shall prevail over Yukon legislation to the extent of any inconsistency.

- 5.3 Nothing in this Accord limits the powers of Canada with respect to energy emergencies, such as sudden domestic or imported oil supply shortfall. In addition, Canada may take any necessary measures to meet Canada's obligations under international agreements, including treaties, conventions and the International Energy Agency (IEA) oil sharing agreement, providing such measures are fair and equitable in relation to the other Oil and Gas producing regions of Canada.

6. TRANSFERRING ONSHORE LEGISLATIVE AUTHORITY

- 6.1 As soon as practicable, and no later than 18 months following the signing of this Accord, Canada agrees to introduce and support as a government measure legislation necessary to amend the Yukon Act to transfer to Yukon the additional legislative powers necessary to undertake, through Yukon legislation, all aspects of the management and administration of Onshore Oil and Gas resources including for greater certainty:
- (a) exploration, development, production, conservation and management of Oil and Gas, including the rate of primary production therefrom;
 - (b) the disposition and administration of Oil and Gas rights for which Yukon has administration and control;
 - (c) determination of Resource Revenues and raising of money by any mode of taxation in respect of Oil and Gas resources;
 - (d) intra-territorial pipelines, excepting insofar as such pipelines fall within the jurisdiction of the National Energy Board;
 - (e) benefits programs applicable to Yukon residents and communities; and
 - (f) regulation of the export from Yukon to another part of Canada of the primary production of Oil and Gas in Yukon provided such laws may not authorize or provide for discrimination in prices or in supplies exported to another part of Canada.

- 6.2 The legislation introduced by Canada pursuant to clause 6.1 will provide that the Federal Oil and Gas Legislation becomes non-applicable to Onshore Oil and Gas upon the transfer of its administration and control to Yukon.
- 6.3 The legislation introduced by Canada pursuant to clause 6.1 shall contain amendments to the Yukon Act to authorize the Governor in Council to transfer to Yukon administration and control of the Oil and Gas in, on or under all Onshore Public Lands. Yukon will have the right to the beneficial use and proceeds of Oil and Gas so transferred.
- 6.4 As soon as practicable following the passage of federal legislation to amend the Yukon Act, Yukon shall introduce and support legislation that is in accordance with this Accord.
- 6.5 The legislation passed by Yukon in respect of Onshore Oil and Gas shall:
- (a) provide for the issuance and administration of rights respecting the exploration for, production and transportation of Oil and Gas by a process that is fair and competitive;
 - (b) provide for the regulation of activities and works relating to the exploration for, production and transportation of Oil and Gas for the purpose of safety, protection of the environment and conservation of Oil and Gas in a manner that is generally consistent with standards established under Federal Oil and Gas Legislation;
 - (c) provide for the establishment of an Oil and Gas management regime which recognizes the importance of social and economic benefits to Yukon communities of the Yukon Territory and fiscal and energy benefits to Yukon and Canada as a whole;
 - (d) provide for long-term development of Oil and Gas in Yukon for the benefit of Canada as a whole and Yukon in particular;

- (e) provide a stable and fair management regime which will promote confidence and predictability for industry and for affected communities;
 - (f) provide for an Oil and Gas legislative regime modeled after existing regimes in Canada and compatible with the Offshore Oil and Gas regime;
 - (g) provide for full and fair opportunity of residents, corporations and communities of the Yukon Territory and Canadians in general to compete for economic benefits arising from Oil and Gas activities; and
 - (h) provide for the management of Oil and Gas leases in the Onshore issued other than pursuant to the Canadian Petroleum Resources Act, including specifically those leases referred to in Subsection 114(4) of that Act.
- 6.6 Upon passage of Yukon legislation in respect of Oil and Gas in the Onshore, Canada will transfer to Yukon administration and control of Oil and Gas in, on or under all Onshore Public Lands.

7. FINANCIAL PROVISIONS

7.1 Base Funding Adjustment

Canada agrees to provide a gross expenditure base adjustment under the Formula Financing Agreement of the sum of one million, one hundred thousand dollars (\$1,100,000), in support of administrative costs effective for the fiscal year 1993/94. This amount will be included in the gross expenditure base for that year and adjusted annually thereafter as set out in the Formula Financing Agreement.

7.2 Transition Costs

In addition, Canada will contribute payments of three hundred seventy five thousand dollars (\$375,000) in each of the fiscal periods 1993/94 and 1994/95 to compensate Yukon for transition costs that may be incurred in setting up an Oil and Gas administration.

7.3 Infrastructure

Nothing contained in this Accord shall be deemed to preclude the initiation and conclusion of arrangements relating to joint Canada/Yukon financing for development of public infrastructure designed to further or promote Oil and Gas activity in the Onshore and Offshore. Consistent with national

interests and in recognition of financial benefits, such arrangements would be addressed on a project specific basis.

7.4

Resource Revenue Entitlement

- (a) Upon the Transfer Date, Canada will pay to Yukon an amount equivalent to all Resource Revenues from the Onshore accruing from April 1, 1993. Upon the Transfer Date, Yukon will be responsible for the collection, accounting and deposit of Onshore Resource Revenues, to the credit of Yukon's consolidated revenue fund.
- (b) Upon the later of the Transfer Date and the date of finalization of the Beaufort Sea Resource Revenue Sharing Agreement in a form acceptable to Canada, Canada shall pay to Yukon an amount equivalent to Yukon's share, under that Agreement, of Resource Revenues from the Offshore accruing between April 1, 1993 and that later date. Thereafter, Canada shall pay to Yukon an amount equivalent to Yukon's share, under that Agreement, of Resource Revenues from the Offshore in accordance with procedures to be determined by the Parties.

7.5 Revenue Sharing/Offset Arrangements

- (a) In respect of each fiscal year, beginning with 1993-94, Canada shall deduct from the Formula Financing Grant or its successors an amount equal to the sum of:
 - (i) 60% of Resource Revenues Subject to Offset; and
 - (ii) 5% of Resource Revenues Subject to Offset which are in excess of an amount equal to 5% of the Offset Revenue Base; and
 - (iii) 5% of Resource Revenues Subject to Offset in excess of an amount equal to 10% of the Offset Revenue Base; and
 - (iv) 5% of Resource Revenues Subject to Offset in excess of an amount equal to 15% of the Offset Revenue Base; and

- (v) 5% of Resource Revenues Subject to Offset in excess of an amount equal to 20% of the Offset Revenue Base;

where Resource Revenues Subject to Offset may not exceed 25% of the Offset Revenue Base, and where Resource Revenues Subject to Offset and the Offset Revenue Base are for the fiscal year for which the deduction is being made.

- (b) For fiscal year 1993/94, the Offset Revenue Base referred to in 7.5(a) shall be equal to the Initial Year Offset Revenue Base.
- (c) For fiscal years 1994/1995 and thereafter, the Offset Revenue Base shall be computed by multiplying the Offset Revenue Base for the previous fiscal year by 1.0 plus the annual rate of change in the consumer price index nationally for that year on a calendar year basis as published by Statistics Canada.
- (d) Resource Revenues Subject to Offset in a fiscal year pursuant to 7.5(a) shall be the greater of:
 - (i) the sum of Resource Revenues for that fiscal year less \$3 million dollars (\$3,000,000); and
 - (ii) zero dollars.
- (e) Canada shall reimburse Yukon the value of any Investment Royalty Credit claimed against Yukon Resource Revenues from both the Onshore and Offshore. Such reimbursement shall be added to the Resource Revenues in clause 7.5(d)(i).

7.6 Formula Financing

- (a) Resource Revenues, including investment royalty credit reimbursements, earnings thereon, and the tax bases associated with these revenues shall not be included in calculations under the Formula Financing Agreement and its successor agreements.
- (b) Treatment of revenues other than Resource Revenues associated with Oil and Gas activity and the stabilization of Resource Revenues will be addressed by way of Formula Financing Agreement discussions.

7.7 Benefits Provision

After consultation with Yukon, those Benefits which are deemed by Canada to be inconsistent with similar practices elsewhere in Canada and which excessively reduce Resource Revenues which would otherwise accrue to Yukon, will be quantified by Canada and treated as Resource Revenues and subject to offset under clause 7.5.

7.8 Review Provision

- (a) Beginning on or after the earlier of April 1, 2004 and April 1 of the first fiscal year in which Resource Revenues Subject to Offset exceed 25% of the Offset Revenue Base for that fiscal year, Canada may, following a joint review by the parties, make amendments to Sections 7.5(a) and 7.5(d) provided that any such amendments be consistent with the 1988 Northern Accord Agreement In Principle. For greater certainty, such amendments may include offset rates and sharing rates to be applied to Revenues Subject to Offset in excess of 25% of the Offset Revenue Base.
- (b) Any such amendments may be applied retroactively to the earlier of April 1, 2004 and April 1 of the first fiscal year in which Resource Revenues Subject to Offset exceed 25% of the Offset Revenue Base for that year.
- (c) Any such amendment shall be effective for a period of ten years from its effective date or as otherwise agreed to between the Parties.

8. CONTINUED INTERESTS

8.1 Every valid Oil and Gas right, title or interest in the Onshore issued prior to the Transfer Date shall, after the Transfer Date:

- (a) continue in full force and effect until its expiry or surrender or until the interest holder and Yukon agree otherwise; and
- (b) be governed and administered pursuant to applicable Yukon Oil and Gas legislation except that the Yukon legislation shall not diminish the terms and conditions of the right, title or interest.

8.2 For the purposes of clause 8.1, "right, title or interest" includes successor rights, renewals, replacements and transfers; and "successor rights" are those rights which an interest holder is

entitled, by law, to receive in succession to the extant right.

9. INTERIM ARRANGEMENTS - ONSHORE

For the purposes of this section, "Interim Period" means that period of time between the signing of this Accord and the Transfer Date; and "Decision" means a decision respecting the Onshore made under a discretionary power granted to the Federal Minister by the Federal Oil and Gas Legislation. Only Decisions relating to Onshore Oil and Gas, excluding those within the jurisdiction of the National Energy Board, shall be referred to the Onshore Committee.

9.1 An interim joint Canada - Yukon Onshore committee, "the Onshore Committee", shall be established after the signing of the Accord. Ministers shall each appoint a representative to the Onshore Committee.

9.2 The Onshore Committee shall review and expeditiously make written recommendations which need not be joint respecting Decisions. The Onshore Committee shall be required to make its recommendations not later than 30 days after an issue comes before it. Where both Ministers agree the Federal Ministers may immediately take the final decision. Where the Ministers do not agree within 15 days of the recommendations, the Federal Minister may immediately take the final decision subject only thereafter to a further 15 day period for consideration of the decision by the Yukon Minister before the decision becomes effective.

9.3 For greater certainty, if the Onshore Committee fails to make its recommendations within 30 days after an issue comes before it, then the Federal Minister may immediately take a final decision subject only to a further 30 day period for consideration of the decision by the Yukon Minister before the decision becomes effective.

9.4 Upon the Transfer Date the Onshore Committee shall cease to exist.

9.5 Officials of Canada involved in the administration of Federal Oil and Gas Legislation shall, in the Interim Period, involve Yukon to the extent possible in that administration and will cooperate and consult with Yukon with a view to facilitating implementation of the Accord and coordinating policies affecting matters in the Onshore.

10. INTERIM ARRANGEMENTS - OFFSHORE

For the purposes of this section, "Interim Period" means

that period of time between the signing of this Accord and the coming into force of any Agreement or legislation implementing offshore shared management; and "Decision" means a decision respecting the Offshore made under a discretionary power granted to the Federal Minister by the Federal Oil and Gas Legislation. Only Decisions relating to Offshore Oil and Gas, excluding those within the jurisdiction of the National Energy Board, shall be referred to the Offshore Committee. The Federal Oil and Gas Legislation, as amended from time to time, shall continue to apply to the Offshore.

- 10.1 Canada will consult with Yukon prior to the introduction of any amendments to Federal Oil and Gas Legislation which may regulate the exploration, development or production of Oil and Gas resources in the Offshore, and any regulations pursuant to said legislation.
- 10.2 An interim joint Federal/Territorial Offshore Committee "the Offshore Committee" shall be established after the signing of the Accord. Ministers shall each appoint a representative to the Offshore Committee.
- 10.3 The Offshore Committee shall review and expeditiously make written recommendations, which need not be joint, to the Federal Minister not later than 30 days after an issue comes before it. Upon receipt of the recommendations, or in the absence of recommendations within the 30 day period, the Federal Minister may immediately take the final decision.
- 10.4 Following the Interim Period, the Offshore Committee shall cease to exist.
- 10.5 In the Interim Period officials of Canada involved in the administration of Federal Oil and Gas Legislation shall cooperate and consult with Yukon with a view to facilitating implementation of the Accord and coordinating policies affecting matters in the Offshore.

11. FINALIZATION OF OFFSHORE MANAGEMENT

- 11.1 Within three years following the Transfer Date, the Parties agree to commence negotiations for the finalization of shared Offshore administrative and legislative responsibilities and revenue sharing for Oil and Gas management in the Offshore.
- 11.2 The initial legislative regime for shared Oil and Gas management Offshore will be within the framework of

the Canada Petroleum Resources Act (CPRA) and the Canada Oil and Gas Operations Act (COGOA).

12. INDEMNIFICATION

- 12.1 Yukon shall indemnify and save harmless Canada from and against and be responsible for all claims, demands, actions, suits or other legal proceedings by whomever made or brought against Canada by reason of or arising out of any acts or omissions of Yukon, its employees, servants, agents and contractors in respect of the operation of the Onshore Oil and Gas regime after the Transfer Date.
- 12.2 Effective upon the Transfer Date, Canada shall indemnify and save harmless Yukon from and against and be responsible for all claims, demands, actions, suits, or other legal proceedings by whomever made or brought against Yukon by reason of or arising out of any acts or omissions of Canada, its employees, servants, agents, and contractors in respect of the operation of the Onshore Oil and Gas regime prior to the Transfer Date.
- 12.3 Canada or Yukon, as the case may be, agrees to consult with the other prior to negotiating, settling or compromising any claims under this section.

13. RECORDS AND INFORMATION

- 13.1 During the respective Interim Periods, information or documentation provided for the purposes of Federal Oil and Gas Legislation for the Onshore and Offshore shall be disclosed to Yukon for the effective administration of this Accord.
- 13.2 Subject to the Privacy Act (R.S.C. 1985, c. p-21) and Public Archives Act (R.S.C. 1985, c. p-27), on the Transfer Date, Canada will duplicate and transfer to Yukon all files and records (hard copy and electronic records and any other data storage media in Canada's custody) related solely to the administration of Federal Oil and Gas Legislation and will provide a copy of relevant portions of all other files and records related in part to the administration of Federal Oil and Gas Legislation.
- 13.3 Yukon shall not disclose privileged information or documentation without the consent in writing of the person who originally provided it to Canada.

14. GOVERNMENT CONSULTATIONS

- 14.1 Canada recognizes Yukon as having the status of an

Oil and Gas producing jurisdiction. When Canada negotiates or consults with the governments of the producing provinces regarding national policies in all matters affecting Oil and Gas resources in the Onshore and Offshore, Yukon shall be a full participant in such meetings.

15. RATIFICATION

- 15.1 Except as otherwise provided herein, this Accord shall be effective and in force upon ratification by the legislative Assembly of Yukon of the Oil and Gas legislation referred to in sections 6.4 and 6.5.

16. CONTINUING FEDERAL RESPONSIBILITIES

- 16.1 Any transfer of legislative authority pursuant to this accord shall not impair nor diminish the capacity of the Government of Canada to fulfil its mandate with respect to national security, environmental and other federal responsibilities, both in the Onshore and Offshore. This may include but is not limited to, the creation of national parks, defense installations, coast guard installations, and airports, which may necessitate the inclusion of oil and gas.
- 16.2 Yukon shall not issue rights or permit any activity respecting the exploration for, production or transportation of Oil and Gas in on or under such lands, including lands that are subsequently designated by the Governor in Council, provided however, that lands shall not be so designated unless such rights or activities would be incompatible or interfere with Canada's use of said lands.
- 16.3 Canada will, to the extent reasonably possible, exercise its continuing management of Public Lands in the Yukon Territory in a manner consistent with this Accord.

16.4 Canada further agrees to continue operation of the ISPG core facility in Calgary without cost to Yukon. However, Canada is under no obligation to Yukon for the continued operation of the facility and reserves the right to discontinue its operation at any time without incurring any liability to Yukon, financial or otherwise.

17. ENVIRONMENTAL REVIEW

17.1 The Environmental Assessment and Review Process (EARP) Guidelines Order and successor federal environmental legislation including the Canadian Environmental Assessment Act will continue to be applicable to any Yukon Oil and Gas regulatory board and Yukon department administering or regulating Oil and Gas to the extent an equivalent environmental assessment and review regime is not applied by other legislation.

18. OTHER AGREEMENTS

18.1 The Parties may jointly review this agreement or any terms thereof at the conclusion of five years from the Transfer Date or at such other intervals as may be agreed upon. Such reviews will consider the purposes stated in the 1988 Northern Accord Agreement-in-Principle and will take into account similar agreements existing at that time between Canada and the Northwest Territories and the differences in the relevant needs and circumstances between the two territories.

19. NON-PREJUDICE

19.1 Nothing in this Accord shall be construed so as to prejudice the ability of the Government of the Northwest Territories and Canada to enter into an Oil and Gas Accord.


19.2 The Beaufort Sea line referenced in clause A of the Yukon/Northwest Territories Memorandum Of Agreement (Beaufort Sea) dated May 15, 1991 may be recognized for the purposes of negotiating the Beaufort Sea Revenue Sharing Agreement to be concluded between the Yukon and the Government of the Northwest Territories.

For greater certainty, the aforementioned line is pertinent with respect to Canada only for the sharing of Beaufort Sea Resource Revenues between Yukon and the Government of the Northwest Territories. As such, this line does not constitute a precedent or boundary line for any other purpose; nor does it

predetermine the form of Offshore shared responsibilities to be negotiated at a future date.

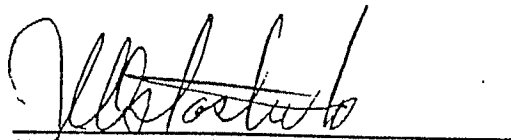
- 19.3 The Parties agree that the form of shared Offshore administrative and legislative responsibilities for Oil and Gas management is in no respect predetermined by the Yukon/Northwest Territories Memorandum of Agreement (Beaufort Sea).

Signed, sealed and delivered by Canada this 28 day of May 1993.



Thomas Siddon
Minister of the
Department of Indian
Affairs and Northern
Development

Signed, sealed and delivered by Yukon this 28 day of May 1993.



John Ostashek
Government Leader
Government of Yukon

SCHEDULE A

DEFINITION OF BEAUFORT SEA

The limits of the Beaufort Sea, situated off the northern coast of Alaska and Canada, and bounded on the East by Prince Patrick and Banks Islands, are the following:

On the Northwest

A line joining Point Barrow ($71^{\circ}24'N - 156^{\circ}28'W$), the northern extremity of Alaska, northeastward to Lands End (a point at $76^{\circ}20'N - 122^{\circ}35'W$), on the northwestern coast of Prince Patrick Island.

On the East

From Lands End southward, along the western coast of Prince Patrick Island, to Griffiths Point ($76^{\circ}05'30''N - 123^{\circ}01'W$), the western extremity of this island; thence a line joining Griffiths Point southward to Cape Prince Alfred ($74^{\circ}20'30''N - 124^{\circ}46'W$), the northwestern extremity of Banks Island; thence from Cape Prince Alfred southward, along the western coast of this island, to Cape Kellett ($71^{\circ}58'N - 126^{\circ}01'W$), the western extremity thereof; and thence a line joining Cape Kellett southwestward to Cape Bathurst ($70^{\circ}34'30''N - 128^{\circ}02'W$), on the northern coast of Canada.

On the South

From Cape Bathurst westward, along the northern coasts of Canada and Alaska, to Point Barrow ($71^{\circ}24'N - 156^{\circ}28'W$), the northern extremity of Alaska.

SCHEDULE B - MAP

