Guidance Notes on claiming Allowable Expenditures

Petroleum Resources Division
Revised January 2015

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PREAMBLE

The Allowable Expenditure provisions of exploration licences are necessitated by the work expenditure criterion by which winning bids for exploration lands are selected. These bids represent the total amount of money that the bidder proposes to spend doing exploratory work on the (licence) lands during Period 1 of the term of the exploration licence. The Schedule of Allowable Expenditures attached to each exploration licence describes how the cost of exploratory work of different categories may be claimed and approved. Until 2002, this has generally been through application of set rates applicable to different types of activity.

During 2002, a Task Force comprising the Northern Oil and Gas Directorate (NOGD) and Canadian Association of Petroleum Producers (CAPP) members with specific experience and interest in petroleum exploration north of 60 examined ways to improve the administration of allowable expenditures. The consensus of the Task Force was that expenditures should be claimed on the basis of actual cost (the ‘at cost’ approach) rather than use of predetermined rates. These Guidance Notes were developed to aid both companies and NOGD to apply the new approach.

Three points should be noted:

1. Firstly, the Guidance Notes address a specific and limited provision of the licence, that is, the draw-down of the deposit against the work proposal bid (and of any rental in Period 2 of the exploration licence). The approach is not intended to cover the entire range of explorer’s costs but rather a high percentage that can act as a close proxy for the full cost. Certain support or ancillary costs will be treated under a miscellaneous category represented by 10% of the major cost items.

   Generally, only costs that apply directly to exploratory work on the specific lands held under licence, and incurred during the term of the licence will be considered. A specific exception to this general rule relates to seismic purchase and reprocessing after the announcement of the winning bid on an exploration licence, described in section G.

2. Secondly, the adequacy of the Guidance Notes will be gauged by their utility in administering future licences issued with the 'at cost' provision and may be revised accordingly. As of January 9, 2015, certain revisions have been included in this document and will apply to the administration of allowable expenditures.

3. Thirdly, an external audit requirement for the major cost category related to drilling will assure the administrator as to the accuracy of these submissions and is expected to streamline the administration of the allowable expenditure provision.

Section A. <u>General</u>

These Guidance Notes describe the classes and scope of expenditures which may be viewed as allowable under the terms of exploration licences (ELs) issued pursuant to Parts II and III of the *Petroleum Resources Act (*PRA) in areas under the jurisdiction of the Minister of Industry, Tourism and Investment (ITI), and are intended to assist an interest holder or representative of the interest owner of ELs to claim refunds from the Petroleum Resources Division of ITI

The bid selection criterion in general use for ELs issued in the North is the Work Proposal Bid. This is the total amount of money that the bidder proposes <u>**to spend doing exploratory work on the EL**</u> within Period 1 of the term of the EL. Schedule III to each EL, the Schedule of Allowable Expenditures, determines the basis for refund of the Work Deposits for Work Proposal Bids related to Period 1 of ELs, and for annual rentals as may apply. Allowable expenditures will be calculated on an 'at cost' (i.e. actual cost) basis, subject to certain limitations outlined in these Guidance Notes.

These Guidance Notes are intended to assist the applicant to identify costs that will be eligible for 'at cost' treatment. Costs attributed to administrative personnel, program management, office overhead and data interpretation will not be considered allowable expenditures. However, the applicant can claim an additional 10 percent of direct allowable expenditures in recognition of miscellaneous costs, including (but not limited) to overhead, incurred in support of exploration work programs.

Eligible costs are submitted net of GST, sales and other taxes. Land use and access fees, surface lease rentals, the cost of preparing applications for regulatory and access approval and for the regulatory process itself are not eligible 'at cost' items, but are recognized indirectly in the 10% miscellaneous cost allowance. Also not eligible are indirect expenses such as depreciation and reserves, interest or other costs of borrowed funds, return on investment, overhead, or any expense that can be deemed unreasonable or that the applicant has not incurred in carrying out exploration work on the exploration licence lands.

With the exception of research costs described under Section I, eligible costs will be related to work authorized by the Regulator under Section 10(1)(b) of the *Oil and Gas Operations Act* (OGOA). Where the work is authorized by the Regulator, reporting requirements required by the Regulator pursuant to the appropriate regulations must be fulfilled before a refund will be processed.

<u>Non-Arm's length Transactions</u>
The following principles and definitions will apply when making an allowable expenditure claim for goods or services that are provided by the applicant or by an 'Affiliate' of the applicant.

A company is considered affiliated with another company if, under subsection 1206(5) of the *Income Tax Regulations* under the *Income Tax Act (Canada)*, the company is considered to be connected with the other company.

***** *"1206(5)* ***………..***

a) a person and a particular corporation are connected with each other if

(i) the person and the particular corporation are not dealing at arm's length,

(ii) the person has an equity percentage in the particular corporation that is not less than 10 per cent, or

(iii) the person is a corporation in which another person has an equity percentage that is not less than 10 per cent and the other person has an equity percentage in the particular corporation that is not less than 10 per cent;

……….. "

***** *Income Tax Act - Income Tax Regulations - Part XII RESOURCE AND PROCESSING ALLOWANCES*

Fair Market Value

For the purposes of the Schedule of Allowable Expenditures, 'Fair Market Value' of a good or service will be a value determined on the basis of commercial transactions occurring in or near to the immediate area among persons who are not affiliated.

The applicant will apply, when possible, the following methods to determine the 'Fair Market Value' for a good or service that is not provided to the applicant by an arm's length transaction:

- the price of comparable goods and services, if that price is published and generally adopted by buyers and sellers of such goods and services;
- an average of the prices paid for comparable goods and services in transactions in which the buyers and sellers are not affiliates of each other;
- the price or average of prices used to determine the market value may be adjusted to reflect transportation or delivery costs, if any, from the point at which fair market value is determined to the work site.

If commercial or competitive rates are not available due to remoteness of location or unique specialized equipment and cannot be determined by the methods specified above, 'Fair Market Value' will be determined in accordance with Petroleum Accountants Society of Canada (PASC) accounting standards and procedures.

The allowable expenditure for a good or service provided to the applicant under a non-arm's length transaction where a 'Fair Market Value' can be reasonably determined will be the lesser of:

a) the amount charged to the applicant;
b) Fair Market Value;
c) the actual cost incurred by the applicant or its affiliate to produce the good or perform the service; or
d) the cost which is shared and billed to all associates under a joint operating agreement.

Fair Market Value rules must also be applied to any arm's length transaction where the expenditure cost claim is inflated due to a collateral benefit, unrelated to the particular operation, that passes from the supplier of the good or service to the applicant.

<u>Utilization of Applicant's (or Affiliate's) Employees</u>
The applicant may claim the salaries and wages of its employees and the employees of its affiliates directly employed at the exploration program site and engaged in the exploration program. For both joint and 100% operations, the applicant will adhere to the direct charge provisions and principles enumerated in the most recent PASC Accounting Procedure applicable to exploration joint operations in the particular region. If there is no PASC Accounting Procedure generally accepted by industry for frontier regions at the time of application, then the standards set out in the most recent PASC Accounting Procedure, applicable to exploration joint operations in Western Canada will apply.

<u>Certification and Audit</u>
All claims for allowable expenditures must be accompanied by a statement under corporate seal issued by an officer of the company or a professional engineer, geologist or geophysicist that the cost statement is true and accurate to the best of his or her knowledge.

Claims for Drilling Operations must be accompanied by a cost statement prepared and certified by an external auditor in accordance with audit and professional standards established by the Canadian Institute of Chartered Accountants (CICA).

All claims are subject to approval by the Minister and may be subjected to a post audit if ordered by the Rights Administrator.

<u>Application Procedure</u>
A claim for allowable expenditure must be made by the Interest Holder in an EL (where there is a single Interest Holder), or in the case of two or more interest holders, the Representative of the Interest Owner. Multiple claims from interest holders in the same EL will not be accepted.

A claim for allowable expenditure credit for a given work program may be submitted at any time during Period I of an EL (in relation to a Work Deposit) or any time in Period II (in relation to Rentals) subject to the terms and conditions of the specific EL. Claims should be received by the Rights Administrator within 6 months of expiration of Period 1 for the purpose of offsetting the work deposit or within 6 months of expiration of Period 2 for the purpose of offsetting refundable rentals, subject to the Rights Administrator being informed in writing of outstanding claims, and subject to the continuation or substitution of an appropriate negotiable financial instrument to secure such proportion of the original deposit as may remain. The Rights Administrator retains the right to cash the deposit at any time after the expiry of Period I and to refuse late claims in relation to Rentals.

Only one complete application per individual program (as authorized by the Regulator) will be accepted. Once the Rights Administrator has approved the application, no further costs will be allowed. If the applicant anticipates that there will be late costs that will be outstanding after the 6-month deadline, the applicant may submit an estimate of the outstanding costs, subject to the approval of the Rights Administrator. If the applicant is unable to submit a comprehensive claim because of an unresolved contract dispute or other extenuating circumstance, he may apply to the Rights Administrator to consider an extension to the 6-month deadline.

The applicant should consult with the Rights Administrator in cases where these Guidance Notes do not adequately address a proposed work program or where there is an issue respecting the application or interpretation of the Guidance Notes.

The Petroleum Resources Division has developed these Guidance Notes to facilitate the introduction of the new 'at cost' approach to claiming allowable expenditures. It is our intent that this document will be dynamic in nature and will develop and improve over time as both Industry and the Directorate gain more experience with its application.

Section B. Mobilization and Demobilization

The applicant may claim the costs of mobilization and/or demobilization of equipment and supplies that are distinct cost elements of an operation and are charged directly to the operation. The costs must be reasonable in the circumstance and must be adequately documented (such as by a third party invoice or a joint venture billing statement).

Contract termination charges incurred by the applicant for contracts that were entered into in good faith by the applicant in order to mobilize and retain equipment in the north may be included as a demobilization expense.

When equipment (e.g. seismic party or drilling rig) is mobilized to a region or area to conduct more than one operation then there will be a reasonable allocation of mobilization and/or demobilization costs among the operations utilizing the equipment. In such cases the allowable cost will be the lesser of:

a) the actual mobilization/demobilization cost charged against the operation and documented by a third party invoice or a joint venture billing statement;

or

b) a reasonable allocation of cost using the following formula or a similar calculation method;

Allocated Mob/Demob Cost =

$$\frac{\text{(full cost of mob/demob) X (operational days for operation subject to the allowable expenditure claim)}}{\text{(total operational days between mob and demob)}}$$

For a drilling operation: 'operational days' commence on the spud date and conclude at the rig release date of the well.
For a seismic operation: 'operational days' commence when data recording or shot hole drilling (if applicable) commences and concludes when data recording concludes.

Example 1
A seismic party is mobilized to the North for a single season and used by Company A for a 30 program and by Company B for a 60 day program. The full cost of mobilization and demobilization is $1,000,000.

Mob/Demob Cost Allocated to Company A = $\frac{(\$1{,}000{,}000) \text{ X } (30)}{(90)}$ = $333,333.33

Mob/Demob Cost Allocated to Company B = $\frac{(\$1{,}000{,}000) \text{ X } (60)}{(90)}$ = $666,666.67

Example 2
A drilling rig is mobilized to the North and remains in the region for 3 drilling seasons. The full cost of mobilization and demobilization is $2,000,000. Company A drilled a 100 day well in year 1, Company B drilled a 120 day well in year 2, and Company C drilled an 80 day well in year 3.

Mob/Demob Cost Allocated to Company A = $\frac{(\$2{,}000{,}000) \text{ X } (100)}{(300)}$ = $666,666.67

Mob/Demob Cost Allocated to Company B = $\frac{(\$2{,}000{,}000) \text{ X } (120)}{(300)}$ = $800,000.00

Mob/Demob Cost Allocated to Company C = $\frac{(\$2{,}000{,}000) \text{ X } (80)}{(300)}$ = $533,333.33

Section C. Standby Costs Between Seasons

Generally, standby charges will be an integral cost component of a drilling or seismic operation and will be evidenced by a joint venture billing statement or an approved AFE with a supporting third party invoice. However, the applicant may incur between-season standby charges that may not be directly charged to an operation. The applicant may include additional standby costs in the claim for allowable expenditures if the following conditions are met.

1. An associated operation has in fact been carried out. Stand-alone standby charges are not an allowable expenditure.
2. The costs have been incurred by the applicant and are supported by documentation such as a third party invoice.
3. The costs are deemed reasonable in the circumstance.
4. There is a fair allocation of the standby costs to all operations that utilized the equipment (*e.g*. drilling rig or seismic party) prior to and following the standby period.

Example 1:

During Season 1 a drilling rig was used to drill a 60 day well (Well #1) on a significant discovery area and a 90 day well (Well #2) on exploration licence lands. The applicant was billed $2,000,000 for standby between Season 1 and Season 2. During Season 2 the applicant drilled two 75 day wells (Well #3 and Well #4) on exploration licence lands.

An acceptable allocation of the $2,000,000 standby charge is $400,000 to Well #1, $600,000 to Well #2 and $500,000 to each of Well #3 and Well #4. There may be additional standby charges allocated to Well #3 and Well #4 if the applicant incurs standby charges between Seasons 2 and 3.

Section D. Staging Areas

Costs incurred by the applicant to construct and maintain a multi-season, regional staging area/base camp or staging area/base camp charges billed to the applicant by a third party are not an allowable expenditure. These costs are considered to be within the category of support costs offset by the 10 percent miscellaneous allowance.

The costs of a establishing a single season or single purpose staging site will be considered as an allowable expenditure for the associated operation or operations and will receive full 'at cost' treatment.

Section E. Drilling Operations

The usual starting point for accumulation of eligible costs is the commencement of access road and drilling site construction or the commencement of movement of the drilling rig, consumables and equipment from a staging area to the drilling location, whichever occurs first.

Eligible cost accumulation will usually terminate when the drilling rig and equipment have been re-stacked at a staging area or at conclusion of the applicant's contractual obligations for the drilling rig, whichever occurs last. However, if drilling in a tight petroleum bearing rock (such as shale) which warrants the use of hydraulic fracturing and extended flow testing in order to evaluate the productivity and characteristics of the unconventional petroleum reservoir, the eligible cost accumulation in Period 1, whichever occurs first. Any remaining cost could be applied to Period 2 rentals.

Under the conditions described in sections B and C, the applicant may also include costs of mobilization and/or demobilization and 'between seasons' standby charges in the allowable expenditure claim.

The applicant can claim costs for drilling site preparation, such as offshore island and berm construction or access road construction that were incurred in the operating season(s) prior to the season when the well is spudded. However, these costs are not submitted, nor claimable, until the well operation is complete.

The applicant can also claim an additional 10 percent of the allowable expenditures to offset miscellaneous costs such as internal general and administrative expenses, community consultation visits, project supervision and management, data interpretation and analysis, report preparation, regional staging area and base camp charges, regional office operations and follow-up site clean-up and reclamation carried out after the end of Period 1 (or end of Period 2 for an operation conducted during the rental period). No documentation is required to support a claim for miscellaneous costs.

The applicant shall submit an itemized cost breakdown, using the following format as a model where applicable. However, the applicant may choose an alternative format that presents drilling operation costs at a comparable level of detail as the prescribed format. If the applicant submits a copy of an approved AFE to support the expenditure claim, it must be adjusted to reflect actual incurred costs and must conform to all the cost eligibility limitations set out in this document. For example; any land use fees and surface rentals appearing on the AFE should be excluded from the claim application.

1. Access and Drilling Site Preparation

(may include airstrips, staging areas or docking facilities specifically constructed to support the drilling operation)

Note: A claim for access facility preparation will be reduced by the value of any remuneration or consideration received by the applicant from another party for rental or usage of the access road, airstrip or staging area. Also, if the facility is utilized to support other operations, the applicant should make a reasonable cost allocation between operations and adjust the claim accordingly.

Date operation commenced ______________ Date operation concluded __ Total Constructio

Length of Access Road _______kms.
Specify type and location of any other support facilities. (for example: airstrip, staging area, docking facility)

____
____
____

Access Facility Construction Costs

Access road $_____
Airstrip $_____

Staging area and/or docking facility $_____
Other construction costs (specify) $_____

- Less: revenue received from 3rd party $_____ users
- costs allocated to other operations $_____

Total Access Facility Construction Costs $_________

Drilling Site Construction

Date construction commenced _____________ Date construction concluded _____

Total Construction Days _____________

Drilling Site Construction Cost $_________

Use of Company (or Affiliate) Equipment and Personnel
(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during access road and drilling site preparation that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________ Employment of On-site

Total Cost of Access and Drilling Site Preparation: $__________

2. Transportation
(include any transportation charges that are not captured elsewhere in the application such as within the drilling daywork rates or mobilization/demobilization charges)

Air Transportation $________

Trucking costs (including rig and camp moves, etc) $________

Marine Services $________

Other transportation (specify) $________

Toll Charges for 3rd Party Access Roads and Facilities
(include usage charges for 3rd Party airstrips, staging areas or docking facilities used to directly support the drilling operation)

Location and description of 3rd party access road or other facility

____
____
____

Unit Cost (i.e. cost per kilometer, cost per day, etc. if applicable) $_________

Name of Party Receiving the Payments ___________________

Road use tolls $_____
Airstrip landing fees $_____
Other (specify) $_____

Total Toll Charges $_________

Use of Company (or Affiliate) Equipment and Personnel
(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during transportation that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________ Employment of On-site

Total Transportation Costs: *$*________

3. Drilling and Abandonment Operations

(including the setting of surface and intermediate casings, logging, coring, drillstem testing and well abandonment.

Spud Date ______________
Rig Release Date ______________
Total Drilling Days ______________

Drilling Daywork	$____________
Directional Drilling and Surveys	$____________
Logging programs	$____________
Coring programs	$____________
Drillstem Testing (open or cased hole)	$_________

CONSUMABLES

Fuels and Lubricants	$__________
Drilling Fluid Products	$__________
Bits	$__________
Cement	$__________
Casing and Tubulars	$__________
Other (specify)	$__________
Total Consumables	$__________
Equipment Rentals	$__________
Camp and Catering Costs	$__________
Well Abandonment	$__________
Other Costs associated with Drilling and Abandonment. (Identify any individual cost item that exceeds $50,000.)	$__________

____

USE OF COMPANY (OR AFFILIATE) EQUIPMENT AND PERSONNEL

(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during drilling and abandonment that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________

Employment of On-site Company (or Affiliate's) Personnel $_________

Total Drilling and Abandonment Costs: *$*________

4. Hydraulic Fracutiring

Hydraulic fracturing commencement date	$
Hydraulic fracturing end date	$

Total hydraulic fracturing days

Hydraulic fracturing daywork	$
Logging/monitoring programs	$

CONSUMABLES

Fuels and lubricants	$
Hydraulic fracturing fluid products	$
Proppant	$
Chemical additives	$
Other (specify)	$

USE OF COMPANY (OR AFFILIATE) EQUIPMENT AND PERSONNEL

(include any additional costs of company (or affiliate) equipment and/or personnel utilized on-site, during hydraulic fracturing operations that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant (or Affiliate) Employees set out in the general section of these notes.)

Use of company (or affiliate) equipment	$
Employment of on-site company (or affiliate) personnel	$

TOTAL HYDRAULIC FRACTURING COSTS:	$

5. Extended Flow Testing

EFT commencement date

EFT end date

Total EFT days

EFT daywork	$ ________
Monitoring programs	$ ________
Flowback and wastewater disposal	$ ________

CONSUMABLES

Fuels and lubricants	$ ________
Other (specify)	$ ________

USE OF COMPANY (OR AFFILIATE) EQUIPMENT AND PERSONNEL

(include any additional costs of company (or affiliate)equipment and/or personnel utilized on-site, during hydraulic fracturing operations that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of applicant (or Affiliate) Employees set out in the general section of these notes.)

Use of company (or affiliate) equipment	$ ________
Employment of on-site company (or affiliate) personnel	$ ________

TOTAL EFT COSTS	$ ________

6. <u>Site Clean-up, Restoration and Environmental Services</u>
(include all costs of clean-up and restoration of the drilling site, access road, etc. and for environmental services incurred before the expiration of Period 1 (or expiration of Period 2 for operations conducted during the rental period).

Drilling site clean-up and restoration $_______

Access Road and other facility restoration $_______
Environmental Services (including monitors) $_______

<u>Use of Company (or Affiliate) Equipment and Personnel</u>
(Include any additional costs of company (or affiliate) equipment and/or personnel utilized on-site, during clean-up, restoration and environmental monitoring that has not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________
Employment of On-site Company (or Affiliate's) Personnel $_________

<u>Total Clean-up, Restoration and Environmental*:* *$*____</u>

7. <u>Additional Costs (if applicable)</u>

Mobilization/Demobilization

Attach the following:

a) a brief description of the mobilization and/or demobilization operation, including points of departure, transfer and/or return, key dates, mode(s) of transport, etc. ;
b) documentation supporting the charge (*e.g.* third party invoice, joint venture billing statement);
c) if total costs are allocated among more than one drilling operation, provide the allocation formula (refer to the Mobilization/Demobilization section)

Cost of Mobilization and/or Demobilization: $ ________

Standby Charges

Attach the following:

a) a brief justification statement for the standby charges, including key dates and location(s) of the stacked equipment;
b) documentation supporting the charge (*e.g.* third party invoice, joint venture billing statement);
c) if total costs are allocated among more than one drilling operation, provide the allocation formula (refer to the Standby Costs Between Seasons section).

Standby Costs: **$ _________**

Total Additional Costs: *$* ________

Total Drilling Operation Cost: **$ _________**

10% Miscellaneous Cost Allowance: **$ _________**

Section F. <u>Geophysical (Seismic) Operations</u>

The usual starting point for accumulation of eligible costs is the commencement of access road, airstrip, seismic line or camp site construction or the commencement of movement of the seismic and/or clearing equipment from a staging area, whichever occurs first.

Eligible cost accumulation will usually terminate when the seismic party has been re-stacked at a staging area or at the conclusion of the applicant's contractual obligations for the seismic party, whichever occurs last.

Under the conditions described in sections B and C, the applicant may also include costs of mobilization and/or demobilization and 'between seasons' standby charges in the allowable expenditure claim.

The applicant can claim costs for facility construction (*e.g.* airstrips, staging areas, access roads, docking facilities) that were incurred in the operating season(s) prior to the season when the seismic operation commenced. However, these costs are not submitted, nor claimable, until the operation is complete.

Seismic over lands within the exploration licence boundaries and for a distance of 3 kilometres (km) outside the boundaries is eligible. For certain operations, primarily in the offshore, an extension beyond 3 km may be permitted to ensure that full-fold imagery of the subsurface within the licence boundaries can be acquired. If requested by the applicant, this may be approved on a program by program basis following consultation with the Regulator.

In addition, individual lines extending beyond the 3-km limit, acquired for the purpose of establishing well tie-ins or tie-ins to existing proximate seismic surveys, may be accepted upon the approval of the Rights Administrator.

The applicant can also claim an additional 10 percent of the allowable expenditures to offset miscellaneous costs, such as internal general and administrative costs, community consultation visits, project supervision and management, data interpretation and analysis, report preparation, regional staging area and base camp charges, regional office operations and follow-up site clean-up and reclamation carried out after the end of Period 1 (or end of Period 2 for an operation conducted during the rental period). No documentation is required to support a claim for miscellaneous costs.

The applicant shall submit an itemized cost breakdown, using the following format as a model where applicable. However, the applicant may choose an alternative format that presents seismic operation costs at a comparable level of detail as the prescribed format. If the applicant submits a copy of an approved AFE to support the expenditure claim, it must be adjusted to reflect actual incurred costs and must conform to all the cost eligibility limitations set out in this document. For example; any land use fees and surface rentals appearing on the AFE should be excluded from the claim application.

1.Access Road Preparation and Maintenance

(may include airstrips, staging areas or docking facilities specifically constructed to support the seismic operation)

Note: A claim for access facility preparation will be reduced by the value of any remuneration or consideration received by the applicant from another party for rental or usage of the access road, airstrip or staging area. Also, if the facility is utilized to support other operations, the applicant should make a reasonable cost allocation between operations and adjust the claim accordingly.

Date operation commenced________________
Date operation concluded_________________
Total Construction Days___________________

Length of Access Road _______km

Specify type and location of any other support facilities. (for example: airstrips, staging area, docking facility)

____
____
____

Access Construction and Maintenance Costs

	Access road		$_____
	Airstrip		$_____
	Staging area and/or docking facility		$_____
	Other construction costs (specify)		$_____
Less:	_ revenue received from 3rd party users	$_____	
	_ costs allocated to other operations	$_____	

Total Access Facility Construction and Maintenance Costs $_________

Use of Company (or Affiliate) Equipment and Personnel

(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during preparation of access road and other facilities that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's

(or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment	$__________
Employment of On-site Company (or Affiliate's) Personnel	$__________

Total Cost of Access Preparation: *$*_____

2.Transportation

(include any transportation charges that are not captured elsewhere in the application such as within geophysical contractor rates or mobilization/demobilization charges)

Air Transportation $______

Trucking costs (including camp and/or party moves) $______

Other transportation (specify) $______

Toll Charges for 3rd Party Access Roads and Facilities

(include usage charges for 3rd party airstrips, staging areas or docking facilities used to directly support the seismic operation)

Location and description of 3rd party access road or other facility

____

____

____

Unit Cost (i.e. cost per kilometer, cost per day, etc. if applicable) $________

Name of Party Receiving the Payments __________________

Road use tolls $_____
Airstrip landing fees $_____
Other (specify) $_____

Total Toll Charges $________

Use of Company (or Affiliate) Equipment and Personnel

(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during transportation that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________
Employment of On-site Company (or Affiliate's) Personnel $_________

Total Transportation Costs: $____

3.Seismic Operations

Date seismic operations commenced ______________
Date seismic operations concluded ______________
Total operational days (including "weather days") ______________

Line Preparation (slashing, bulldozing, etc.) $_______

Drilling (if applicable) $_______

Recording (including cost of vibrator or air gun operations) $_______

Consumables

- Fuel and Lubricants $________
- Explosives $________
- Drill Supplies $________
- Other (specify) $________

Total Consumables $________

Camp and Catering $________

Other Costs associated with seismic operations (Identify any individual cost item that exceeds $50,000.) $_________

Use of Company (or Affiliate) Equipment and Personnel
(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during seismic operations that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General section of these notes.)

Use of Company (or Affiliate's) Equipment $_________
Employment of On-site Company (or Affiliate's) Personnel $_________

Total Seismic Operations Costs: $_________

4.Site Clean-up, Restoration and Environmental Services

(include all costs of clean-up and restoration of seismic lines, camp sites, access road, etc. and for environmental services incurred before the expiration of Period 1 (or expiration of Period 2 for operations conducted during the rental period).

Seismic line and campsite clean-up and restoration $_______

Access Road and other facility restoration $_______

Environmental Services (including monitors) $_______

Use of Company (or Affiliate) Equipment and Personnel

(Include any additional costs of company (or affiliate) equipment and/or personnel utilized during clean-up, restoration and environmental monitoring that have not been captured in the above cost items. The applicant should refer to the rules for Non-Arm's length Transactions, Fair Market Value and Utilization of Applicant's (or Affiliate's) Employees set out in the General Section of these Notes.)

Use of Company (or Affiliate's) Equipment $_________
Employment of O\on-site C\company (or affiliate's) personnel $_________

Total Clean-up, Restoration and Environmental*:* *$*___

5.Seismic Data Processing

The applicant can claim the full cost of seismic data processing subject to an arm's length contract with a non-affiliated contractor. If the processing is carried out by an affiliated company or performed "in-house" utilizing the applicant's own data processing facilities, then the rules pertaining to Non-Arm's Length Transactions shall apply. Claims for non-arm's length processing should include an explanation and justification for the claimed amount in accordance with the rules outlined in the Non-Arm's Length Transactions section.

Name of Processing Contractor(s) ______________________
Contract cost *(specify by individual contract if more than one contract is involved):*
$ _________

and/or

Name of Affiliate providing processing service ________________
Cost *(in compliance with non-arm's length rules*): $_________

and/or

Cost of "in-house" processing *(in compliance with non-arm's length rules*):
$_________

6.Additional Costs (if applicable)

Mobilization/Demobilization

Attach the following:

a) a brief description of the mobilization and/or demobilization operation, including points of departure, transfer and/or return, key dates, mode(s) of transport, etc. ;
b) documentation supporting the charge (*e.g.* third party invoice, joint venture billing statement);
c) if total costs are allocated among more than one seismic operation, provide the allocation formula (refer to the Mobilization/Demobilization section)

Cost of Mobilization and/or Demobilization: $ ________

Standby Charges

Attach the following:

(a) a brief justification statement for the standby charges, including key dates and location(s) of the stacked equipment;
(b) documentation supporting the charge (*e.g.* third party invoice, joint venture billing statement);
(c) if total costs are allocated among more than one seismic operation, provide the allocation formula (refer to the Standby Costs Between Seasons section).

Standby Costs: **$ _________**

***Total Additional Costs*:** **$ _________**

Total Geophysical (Seismic) Operation Cost*: $* ___

***10% Miscellaneous Cost Allowance*:** **$ _________**

Section G. Seismic Purchase and Reprocessing

Seismic purchase and reprocessing costs incurred by the company after the announcement of the winning bid on an exploration licence but prior to the effective date of the licence may be approved, in addition to any such costs incurred during the term of the licence.

The applicant may claim the actual cost of seismic purchased from an arms-length vendor. Seismic over lands within the exploration licence boundaries and

for a distance of 3 kilometers outside the boundaries is eligible. Variation to the 3-km rule may be considered in accordance with the provisions stated in Section F above. In addition, individual lines extending beyond the 3-km limit, acquired for the purpose of establishing well tie-ins or tie-ins to existing proximate seismic surveys, may be accepted upon the approval of the Rights Administrator.
The claim should include:

a) a copy of the purchase invoice;
b) a copy of the licensing agreement, providing evidence that rights to the data have passed from the original owner to the applicant; and
c) a map indicating the locations of the purchased seismic lines and the boundaries of the exploration licence.

The applicant may also claim the direct cost of reprocessing the purchased seismic if performed by an arm's length party. Reprocessing of the purchased seismic under a non-arm's length arrangement or reprocessing carried out by the applicant's own personnel and computing equipment will be governed by the applicable rules set out in Section A. - General.

In order to claim the costs of a reprocessing project, the applicant is required to obtain Regulator authorization prior to commencement of the project and to comply with the reporting requirements as per s. 38(6) of the *Oil and Gas Geophysical Operations Regulations*.

The applicant can also claim the additional 10% miscellaneous allowance, calculated on the full cost of the purchase and reprocessing.

Section H. <u>Regional and Other Work Programs</u>

The cost of all or a portion of a regional geophysical (e.g. aero-magnetic survey, gravity survey) or geological field program that relates directly to the exploration licence lands may be considered as eligible work program. The applicant should consult with the Rights Administrator prior to commencing work if the intention is to claim any work program that will be conducted on or over lands beyond the boundaries of the exploration licence. Off-licence work may eligible if the applicant can demonstrate that the work will directly contribute to the evaluation of the licence lands.

Studies and surveys that are authorized by the Regulator as geophysical or geological programs or drilling programs, or as field environmental studies directly relevant to proposed programs will generally be considered eligible. Socio-economic studies, engineering feasibility studies, in-house studies and purchased studies are not considered as comprising exploratory work on the licence and will not be considered. However, the Rights Administrator may approve certain programs that will directly or indirectly contribute to evaluation of the licence lands through the application or testing of new technology or techniques.

Section I. Costs for Research on the Bio-Physical Environment

Requirements and costs to undertake substantial work to characterize the bio-physical environment related to primary exploration activities are becoming increasingly significant and not easily accommodated within the ‘Miscellaneous Cost’ category. Cost-effective ways of collecting such information which minimize effects on the environment can be achieved through collaboration with non-industry entities and using shared research platforms.

These costs may be considered allowable expenditures if supported by a statement of the nature of the research undertaken, and how and where results will be published or otherwise made available to the public.

Such research may be regional in nature and may be apportioned between extant licences represented by the applicant on the basis of area or as otherwise agreed with the Administrator.

The amount claimed under this category is limited to the greater of 5 percent of the original work expenditure bid or $100,000.