

**BRITISH COLUMBIA ROYALTY CREDIT PROGRAM**  
**PIPELINE DEVELOPMENT ROYALTY DEDUCTION AGREEMENT**

**NAME OF PROJECT**

**THIS AGREEMENT** dated for reference August \_\_\_\_\_, 2008

Between:

Company Name, with its head office in \_\_\_\_\_

(the "Producer")

- and -

HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF BRITISH COLUMBIA,  
represented by the Royalty Administrator of the Ministry of Energy and Mines and Petroleum  
Resources, located at 1810 Blanshard Street, Victoria, B.C. V8W 9N3

(the "Administrator")

**BACKGROUND**

- A. The Producer has advised the Administrator pursuant to Section 4(9) of the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation (the "Regulation") that it intends to undertake a project to construct or upgrade pipelines, bridges, roads, rails or trails in support of resource exploration or development. The current version of section 4 of the Regulation is attached to this Agreement as Schedule "D".
- B. The Parties have agreed to enter into this Agreement to determine the Producer's eligibility to deduct from royalty or tax otherwise payable by the Producer under the *Petroleum and Natural Gas Act, RSBC 1996, c. 361* (the "Act") a portion of the costs attributable to its project.
- C. If the Administrator agrees that the Producer is eligible to deduct a portion of the costs attributable to its project from royalty or tax otherwise payable by the Producer under the Act, the amount of the deduction is determined by Section 4(9)(c), as limited by Section 4(10), of the Regulation.
- D. The Producer has obtained all necessary permits or authorizations under the *Pipeline Act, RSBC 1996, c. 364*.

## AGREEMENT

### Definitions and Interpretation

1. In this Agreement:

“**Act**” has the meaning given in the Background;

“**Affiliate**” of any person means any other person who directly or indirectly controls, or is controlled by, or is under common control with, such person and for these purposes:

(a) a body corporate is controlled by a person if (A) securities of the body corporate to which are attached more than 50 percent of the votes that may be cast to elect directors of the body corporate are beneficially owned by the person, and (B) the votes attached to those securities are sufficient to elect a majority of the directors of the body corporate;

(b) an association, partnership or other organization is controlled by a person if (A) more than 50 percent of the ownership interests, however designated, into which the association, partnership or other organization is divided are beneficially owned by the person, and (B) the person is able to direct the business and affairs of the association, partnership or other organization;

(c) a body corporate, association, partnership or other organization is controlled by a person if the person has, directly or indirectly, control in fact of the body corporate, association, partnership or other organization; and

(d) a body corporate, association, partnership or other organization that controls another body corporate, association, partnership or other organization is deemed to control any body corporate, association, partnership or other organization that is controlled or deemed to be controlled by the other body corporate, association, partnership or other organization,

and “**control**” and “**controlling**” have correlative meanings;

“**Agreement**” means this agreement;

“**Approved Parties**” means

(a) the Producer;

(b) any participant or proposed participant in the Project or in the financing of the Project;

(c) the Affiliates of the persons set out in subparagraphs (a) and (b) above;

(d) the respective directors, officers, shareholders, employees, servants, agents, consultants and advisors of the persons set out in subparagraphs (a), (b) and (c) above; and

(e) any judicial or governmental or regulatory authority having jurisdiction over the Producer or the Project.

**“Auditor”** means a Certifying Professional licensed to carry out audits in British Columbia and Alberta, approved by the Administrator, who is at arms length with the Producer and its Subcontractors;

**“Completion of the Project”** means the Project will be deemed complete with the notification of Leave to Open to the Oil and Gas Commission;

**“Eligible Costs”** means, in respect of the Project:

(a) costs related to planning, design, surveying, mapping, obtaining licenses and approvals and engineering expenditures; and

(b) all Pipeline (as defined under this Agreement) materials, labour and equipment charge-out costs incurred during construction and mobilization and demobilization;

but excludes

(c) maintenance costs;

(d) goods and services tax (GST); and

(e) contingency allowances, costs related to administration, overhead, accounting, interest, purchase of capital equipment in excess of \$1,000 other than pipeline capital equipment, and amortization and depreciation on capital equipment;

**“Fiscal Year”** means a period commencing April 1st and terminating March 31<sup>st</sup> of the following year;

**“Incremental Royalty Revenues”** means royalties owing to the Province of British Columbia from production at oil or gas wells, which would not otherwise be generated, but for the Project;

**“Parties”** means the Administrator and the Producer and “Party” means any one of them as applicable;

**“Person”** includes an individual, partnership, firm, trust, body corporate, governmental authority, and unincorporated body of persons or associations;

**“Pipeline”** means a pipe or system or arrangement of pipes by which is conveyed petroleum or natural gas, or water used or obtained in drilling for or in the production of petroleum or natural gas, and property used for, with or incidental to their operation, but does not include a pipe or system or arrangement of pipes to distribute natural gas in a community to ultimate consumers, as outlined in Section 4(9) (2) of the Regulation;

**“Pipeline Company”** means a person that owns, or operates a pipeline, as outlined in Section 4(9) (2) of the Regulation;

**“Project”** means the improvement project approved by the Administrator, as described in Schedule A and developed according to the standards described in Schedule C;

**“Regulation”** has the meaning given in the Background;

**“Step”** means a step of the Project as set out in Schedule A

**“Subcontractor”** means a person, firm, corporation or other legal entity contracting with the Producer to perform a part of the Work, or to supply products according to this Agreement;

**“Work”** means the activities and investments reasonably necessary or desirable to undertake and perform the Project on the basis upon which that Project was ultimately approved by the Administrator.

2. Any headings or titles are for convenience of reference and do not affect the construction or interpretation of this Agreement.

### **Schedules**

3. The following attached schedules form a part of this Agreement:
  - (a) Schedule A – Summary of Project Work and Step(s);
  - (b) Schedule B – Reports and Certificates Required for Release of Royalty Deductions;
  - (c) Schedule C – Project Layout and Design Standards, and Approvals; and
  - (d) Schedule D – Regulation, Section 4.

### **Producer**

4. The Administrator agrees that the Producer is a “producer” within the meaning of that term in section 1 of the Regulation.

### **Project**

5. The Administrator agrees that the Project qualifies as a “project” pursuant to subsection 4(9) of the Regulation.
6. If changes are made to the Project, or to the Approved Parties associated with the Project, the Producer must provide to the Administrator written information describing the changes and a request to change Schedules A and C, as applicable.
7. If the Producer does so, the Administrator must determine whether the Project, as changed, qualifies as a project pursuant to Section 4(9) of the Regulation. The Administrator must provide written notice of the determination to the Producer within 60 days of receipt of the written information referred to in paragraph 6 above.
8. Within 30 days of receiving the notice from the Administrator, the Producer may provide written notification to the Administrator of further changes to the Project for the purpose of enabling it to qualify as a project pursuant to Section 4(9) of the Regulation. If the Producer fails to do so, or if the Administrator determines the further changes do not

enable the Project to qualify as a project pursuant to Section 4(9) of the Regulation, then the Administrator may refuse to allow the Producer to deduct further amounts from royalty or tax otherwise payable under the Act.

### **Completion of Project**

9. The Producer must complete the Project on or before December 31, 2009 to be eligible for deductions related to costs expended on the Project. The parties may agree, in writing, to extend this date.
10. If the Project is not completed by December 31, 2009, or a later date agreed to, in writing, by the parties, then the Administrator may, at his or her sole discretion, refuse to allow the Producer to deduct further amounts from royalty or tax otherwise payable under the Act related to costs expended on the Project.
11. The Project will be deemed complete upon receipt by the Administrator of a letter or other document signed by a duly authorized representative of the Producer indicating that the Project has been completed in accordance with the layout and design specifications set out in Schedule C, and indicating notification of Leave to Open to the Oil and Gas Commission.
12. The Producer will solely be responsible for all work and costs associated with decommissioning the Project.

### **Project Supervisor**

13. The Producer must identify to the Administrator a supervisor for the Project and ensure that the supervisor is available, with reasonable notification, to meet with the Administrator throughout construction of the Project.

### **Inspections, Audits and Safety**

14. The Administrator, or designated representative, may, at reasonable times, with written notice to and with the permission of the Producer, access the Project site, at his or her sole cost, risk and expense, for the purpose of conducting inspections, monitoring progress of the Project and conducting audits. If the Producer allows access to the Project site, the Administrator must cause its designated representative to comply with the worksite health and safety policies of the Producer. If the Administrator or any employee, servant, agent, representative or consultant of the Administrator (an "Administrator Agent") enters the Project site, the Producer is not liable to the Administrator for harm to any Administrator Agent or their property related to entry to the site, absent gross negligence or wilful misconduct of the Producer. The Administrator will fully indemnify and hold harmless the Producer from and against all fines, penalties, losses, suits, claims, causes and actions made against the Producer by a third party, relating to or arising from any death, injury, harm, damage or loss to any Administrator Agent or any damage or loss of an Administrator Agent's property related to or resulting from an Administrator Agent entering or having access to a Project site; provided that the foregoing indemnification will not apply in circumstances where such death, injury, harm, damage or loss arises or occurs as a result of the gross negligence or wilful misconduct of the Producer.

15. At any time during construction of the Project and within 24 months following the completion of the Project the Administrator or an Auditor may request that all relevant records and information related to the Project be made available to him or her. The Producer must comply with this request within 30 days.

### **Application for Royalty Deduction**

16. The Producer may apply to the Administrator for a deduction from royalty or tax otherwise payable by the Producer under the Act for Eligible Costs expended for each Step identified in Schedule A upon completion of the Step.
17. The Producer shall be solely responsible for the timely payment, as and when due of all invoices and costs incurred by it for its account in respect of the Project regardless of any withholding of or adjustments to Eligible Costs expended for each Step. Pursuant to the Statutory Declaration as specified in Schedule B, all payments have been made to contractors and sub-contracts for Work performed on the Project.
18. The application for a deduction must be accompanied by:
  - (a) all documents and completed forms as specified in Schedule B and a statement by the Producer that the Producer's activities in relation to the Step meet the requirements of Section 4(9)(c) of the Regulation. The Administrator may release royalty credits before receiving the Certificate of Operation; however the Certificate of Operation is required to be provided to the Administrator once the Producer has received the Certificate of Operation, and
  - (b) the information described in paragraph 22 of this Agreement.
19. Upon receipt of an application for deduction, the Administrator must review the application within 60 days, and if the application meets the requirements of the Regulation and this Agreement, the Administrator must allow the deduction. If the Administrator approves of a change to the Project under paragraph 7 of this Agreement, the Administrator must allow the resulting deduction accordingly.
20. If the Administrator determines that any information accompanying the application for deduction is inadequate, he or she must provide written notification to the Producer of the inadequacy within 30 days together with reasonable details regarding the inadequacy. Upon receipt of such notification from the Administrator, the Producer may, within 6 months, provide further information to the Administrator. The Administrator need not review the application for a deduction or subsequent applications for deductions concerning the Project until the further information requested of the Producer has been provided to the Administrator and until the Administrator has notified the Producer that the information accompanying the application is adequate.
21. Within 6 months of the Administrator providing deduction for the Project, the Producer must make a final submission to the Administrator reporting final costs if different from the application for release of royalty credits. Within 60 days of this submission the Administrator will provide the Producer with a final revised royalty credit amount, which may be deducted or added to the next royalty payment.

## **Incremental Royalties**

22. At the time of making a request for a deduction after completion of a Step, the Producer must prepare and submit to the Administrator a description of Incremental Royalty Revenues (as specified in Schedule B) which the Producer anticipates will be payable to the Province during the Fiscal Year in which the request is made, and the Fiscal Year immediately following.
23. If the anticipated Incremental Royalty Revenues identified by the Producer pursuant to paragraph 22 (or a lesser amount if considered more reasonable by the Administrator) are greater than or equal to 50 percent of the estimated cost for the Step and any royalty deduction(s) approved for a previous Step(s) in the same fiscal year, then the Administrator, must, subject to this Agreement and the Regulation, allow the royalty deduction for the Step.
24. If the anticipated Incremental Royalty Revenues identified by the Producer pursuant to paragraph 22 (or a lesser amount if considered more reasonable by the Administrator) are less than 50 percent of the estimated cost for the Step and any royalty deduction(s) approved for a previous Step(s) in the same fiscal year, then the Administrator, at his or her sole discretion, may allow either the full royalty deduction or a reduced royalty deduction for the Step.

## **Notification to the Ministry of Small Business and Revenue**

25. After the Administrator has allowed a deduction, he or she must promptly notify the Producer and the British Columbia Ministry of Small Business and Revenue of the amount of the deduction. The Ministry of Small Business and Revenue and the Producer will adjust the capital cost to that paid by the Producer for the Project for the purpose of adjusting the Producer Cost of Service Rate applicable to the Project.

## **Carrying Forward Deductions**

26. If the amount of royalty or tax otherwise payable during a Fiscal Year by the Producer under the Act is insufficient to fully offset the royalty deduction allowed by the Administrator pursuant to this Agreement, the Producer may carry forward the unused portion of the deduction to the next Fiscal Year only, upon written notification to the Administrator.

## **Defaults**

27. The Producer is not eligible to make an application for royalty deductions under this Agreement if it is in arrears in making any royalty payments to the Province of British Columbia, which are not the subject of a bona fide dispute.

28. If the Administrator determines that a deduction allowed pursuant to this Agreement was greater than the amount to which the Producer was eligible, the Administrator may demand from the Producer, and the Producer must pay to the Administrator, an amount equal to but not more than the difference between the amount allowed and the amount to which the Producer was eligible.

### **Arbitration**

29. All disputes arising out of or in connection with this Agreement or in respect of any defined legal relationship associated with it or derived from it must, unless the parties otherwise agree, be referred to and finally resolved by arbitration under the Commercial Arbitration Act.

### **Producer's Indemnity Related to Work**

30. The Producer must assume the defence of and must indemnify and save harmless the Administrator, the Ministry and its employees, from and against all claims, liabilities, demands, costs and expenses, fines, penalties, assessments and levies made against or incurred, suffered or sustained by the Administrator, Ministry, its employees, or any of them at the same time or times before on or after the completion of the Project or early termination of this Agreement where the same or any of them are based upon or arise out of the negligence or for anything done or omitted to be done by, gross negligence or wilful misconduct of the Producer, its employees, agents or subcontractors, in connection with carrying out the Producer's obligations under this Agreement, or the Project, which indemnity will survive the completion of the Project or early termination of this Agreement, whichever comes first, for a period not exceeding 36 months.

### **Termination**

31. This Agreement terminates on the earlier of:
- (a) the written mutual consent of the Parties;
  - (b) June 30, 2010; and
  - (c) termination in accordance with paragraph 32.
32. The Administrator may terminate this Agreement in the event of a breach by the Producer of any obligation under this Agreement as determined by an arbitrator pursuant to paragraph 29 or which is contested by the Producer if, after giving 60 days written notice to the Producer, the Producer has not rectified or commenced to rectify the breach.

### **Governing Law**

33. This Agreement must be interpreted in accordance with the laws of the Province of British Columbia.

### **Enurement**

34. This Agreement may not be assigned by a Party without the prior written consent of the other Party. Neither Party may unreasonably withhold consent to assignment of this

Agreement. This Agreement is binding upon and enures to the benefit of the Parties and their respective administrators, trustees, receivers, successors and permitted assigns.

**Waiver**

35. Either Party may waive a breach of the terms, conditions, representations or warranties in this Agreement. However, no waiver has any effect, or binds the Party making the waiver, unless it is in writing. A waiver does not limit or affect the rights of a Party with respect to any other breach.

**Amendment**

36. The Parties may agree to amend this Agreement. No such amendment will be effective unless it is made in writing.

**Counterpart Execution**

37. This Agreement may be executed in counterpart and all executed counterparts together constitute one agreement

**Public Announcements**

38. With exception of the Approved Parties, the Producer shall not, without the prior written approval of the Administrator, which approval shall not be unreasonably withheld, communicate to anyone, or announce in any form, the existence of this Agreement, or any of its terms. With the exception of the Approved Parties, if the Producer communicates to anyone, or announces in any form, the existence of this Agreement, or any of its terms, without the prior written approval of the Administrator, then this Agreement is terminated, and if so terminated the Producer must pay to the Administrator the amount of any deduction allowed pursuant to this Agreement.

\_\_\_\_\_  
Administrator

\_\_\_\_\_  
Date

\_\_\_\_\_  
Producer

\_\_\_\_\_  
Date

*Schedule A - Summary of Project Work and Step(s)*

**Description of Project:**

**Construction:**

Start date and completion date

**Pipeline Standards:**

Design Criteria – substance to be transported, pipe size and capacity:

<b>Project Step(s)</b>	<b>Expected Completion Date</b>	<b>Projected/ Estimated Cost</b>	<b>Maximum Royalty Deduction</b>
<i>Step 1:</i> <b>Design</b> (planning, applications and surveying) <b>Construction</b> (install a compressor, gas dehydrator and fuel plant) <b>Testing</b> (hydro or pneumatic) <b>Pipeline Commissioning</b> (OGC – Notice of Leave to Open, and OGC Certificate of Operation)			
<b>Total</b>			

*Schedule B - Reports and Certificates Required for Release of Royalty Deductions*

(All Schedule B materials to be provided by the Producer to the Administrator when applying for a royalty deduction)

Evidence of “Leave to Open” for the Project from the Oil and Gas Commission to be provided to the Administrator by the Producer

Written statement from the Producer indicating that a valid Certificate of Operation from the Oil and Gas Commission will be provided to the Administrator.

Completion Certificate (attached)

WELL PRODUCTION AND ESTIMATED ROYALTY ATTRIBUTABLE TO PROJECT  
(attached)

Statutory Declaration (attached)

Summary of Final As Built Costs Per Step(s) (attached)

Detailed List of Invoices of As Built Actual Costs (attached)



Ministry of Energy  
Mines and  
Petroleum Resources

# COMPLETION CERTIFICATE

**TO: MINISTRY OF ENERGY AND MINES AND PETROLEUM RESOURCES  
5<sup>TH</sup> FLOOR, 1810 BLANSHARD STREET  
VICTORIA, BC V8W 9N3**

**FROM: PROPONENT** \_\_\_\_\_  
\_\_\_\_\_

**Description of Works** \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**OIL AND GAS COMMISSION PIPELINE No.** \_\_\_\_\_

Date of "Leave to Open" from the Oil and Gas Commission \_\_\_\_\_

Actual Completion Date \_\_\_\_\_  
(yyyy/mm/dd)

THIS IS TO CERTIFY THAT ALL WORKS ON THE ABOVE PROJECT FOR THE INDICATED STEP(S) HAVE BEEN PHYSICALLY COMPLETED ON THE ACTUAL COMPLETION DATE NOTED ABOVE, TO MY SATISFACTION IN ACCORDANCE WITH THE SPECIFICATIONS, PROVISIONS, AND CONDITIONS OF THE PROJECT AND THE REQUIREMENTS OF SUBSECTION 4(9)(c) OF THE *PETROLEUM AND NATURAL GAS ROYALTY AND FREEHOLD PRODUCTION TAX REGULATION*.

\_\_\_\_\_  
**Company Representative or Designate**

\_\_\_\_\_  
**Date** (yyyy/mm/dd)

## WELL PRODUCTION AND ESTIMATED ROYALTY ATTRIBUTABLE TO PROJECT

### Production Volumes 10<sup>3</sup>m<sup>3</sup> for fiscal period – 2008/09

W.A.	Name	Location	Spud Date	Tie In Date	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	Mar 09	Total Production Volume	Estimated Royalty
<b>Total</b>																		

Note 1: Estimate production volumes and royalty outcomes for 2008/09 attributable to the Project: from wells tied-in during 2008/09 and wells to be drilled and tied-in during 2008/09

### Production Volumes 10<sup>3</sup>m<sup>3</sup> for fiscal period – 2009/10

W.A.	Name	Location	Spud Date	Tie In Date	Apr 09	May 09	Jun 09	Jul 09	Aug 09	Sep 09	Oct 09	Nov 09	Dec 09	Jan 10	Feb 10	Mar 10	Total Production Volume	Estimated Royalty
<b>Total</b>																		

Note 2: Estimate production volumes and royalty outcomes for 2009/10 attributable to the Project: from wells tied-in during 2008/09, and wells to be drilled and tied-in during 2009/10.

Note 3: Estimated Royalty = (Total Production Volume X Price X Royalty Rate)



IN THE MATTER OF THE EVIDENCE ACT, 1996 RSBC c.124 AND IN THE MATTER OF CERTAIN  
DISBURSEMENTS MADE IN CONNECTION WITH THE AGREEMENT

dated the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ between:

**HER MAJESTY THE QUEEN IN RIGHT OF THE PROVINCE OF BRITISH COLUMBIA,  
AS REPRESENTED BY THE MINISTER OF ENERGY AND MINES AND PETROLEUM RESOURCES  
(the Province)**

and:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
**(the Proponent)**

pertaining to Project Name: \_\_\_\_\_

I, \_\_\_\_\_, being the  
(PRINT OR TYPE FULL NAME AND POSITION OR TITLE)

duly authorized representative of and agent for the Proponent, solemnly declare and attest that all of the Proponent's obligations under the Pipeline Royalty Credit Agreement with Ministry of Energy and Mines and Petroleum Resources have been performed as of this date, for the following Project Step(s).

Project Step(s): \_\_\_\_\_

I MAKE THIS SOLEMN DECLARATION, conscientiously believing it to be true and knowing that it is of the same legal force and effect as if made under Oath.

DECLARED BEFORE ME AT THE \_\_\_\_\_ )  
\_\_\_\_\_ )  
\_\_\_\_\_ )  
of \_\_\_\_\_, in the )  
Province of \_\_\_\_\_, on this )  
\_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_ )  
\_\_\_\_\_ )  
A Commissioner for taking Affidavits for \_\_\_\_\_ )  
(Province)

\_\_\_\_\_  
Signature of Contractor's Authorized Representative

## SUMMARY OF FINAL AS BUILT COSTS

(Summary to be provided by the Producer should include the following information, layout below is for illustrative purposes, alternate format to be submitted by Producer is acceptable.)

<b>Component</b>	<b>Estimated Cost (per Schedule A)</b>	<b>Maximum Royalty Deduction (per Schedule A)</b>	<b>Actual As Built Costs</b>
<i>Step 1:</i> <b>Design</b> (planning, applications and surveying) <b>Construction</b> (install a compressor, gas dehydrator and fuel plant) <b>Testing</b> (hydro or pneumatic) <b>Commissioning</b>			
<b>TOTAL</b>			

## Detailed List of Invoices of As Built Actual Costs

(List to be provided by the Producer should include the following information, layout below is for illustrative purposes, alternate format to be submitted by Producer is acceptable.)

STEP(S)	Invoice Number	Item	Supplier	Actual Project Costs Paid
<p><i>Step 1:</i></p> <p><b>Design</b> (planning, applications and surveying)</p> <p><b>Construction</b> (clearing, ditching, stringing and welding)</p> <p><b>Testing</b> (hydro or pneumatic)</p> <p><b>Commissioning</b> Planning and surveying</p>	<p>1.</p> <p>2.</p> <p>3.</p> <p>4.</p> <p>5.</p> <p>1.</p> <p>2.</p> <p>3.</p> <p>4.</p> <p>5.</p> <p>1.</p> <p>2.</p> <p>3.</p> <p>4.</p> <p>5.</p> <p>1.</p> <p>2.</p> <p>3.</p> <p>4.</p> <p>5.</p>			<p>\$</p>
<b>TOTAL</b>				<p>\$</p>

*Schedule C - Project Layout and Design Standards and Approvals*

Proposed Construction Schedule (attached)

Producer to attach a copy of all of the Project's approval(s) issued by the Oil and Gas Commission or any other applicable authority(s), such as the National Energy Board.



*Schedule D - PETROLEUM AND NATURAL GAS ROYALTY AND FREEHOLD  
PRODUCTION TAX REGULATION*

Regulation - Section 4 (attached)

*Petroleum and Natural Gas Act*  
PETROLEUM AND NATURAL GAS ROYALTY AND  
FREEHOLD PRODUCTION TAX REGULATION

[includes amendments up to B.C. Reg. 35/2008, February 19, 2008]

**Royalty and tax payment**

**4** (1) On or before the 25th day of each calendar month, a producer is to pay to the government royalty and tax based on an estimate of the value of

(a) oil produced by the producer in the producing month that is the calendar month before the calendar month of the royalty or tax payment,

(b) marketable gas made available for sale by the producer in the producing month that is the second calendar month before the calendar month of the royalty or tax payment, and

(c) natural gas by-products sold by the producer in the producing month that is the second calendar month before the calendar month of the royalty or tax payment.

(2) A producer to whom Crown invoices are delivered under section 9 (1) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1) (a) of this section in respect of the producing month.

(2.1) A producer to whom Crown invoices are delivered under section 9 (1.1) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1) (b) and (c) of this section in respect of the producing month.

(2.2) Repealed. [B.C. Reg. 191/2005, Sch. 2, s. 1.]

(2.3) A producer to whom Crown invoices are delivered under section 9 (1.2) in respect of a producing month is, on or before the later of the 25th day of the calendar month in which the Crown invoices are delivered and 15 days after the date that the Crown invoices are delivered, to pay the total of those invoiced amounts less the amount paid under subsection (1), (2) and (2.1) of this section in respect of the producing month.

(3) A producer may deduct an overpayment in accordance with section 9 (7).

(4) In addition to any deduction allowed under subsection (3), a producer may deduct a summer drilling deduction amount determined under subsection (5) in respect of a well if

- (a) the producer has an interest in the well at the time the well is completed, and
  - (b) the well has a spud date after June 30, 2003 and before December 1, 2003, or, in any subsequent year, after March 31 of that year and before December 1 of that year,
  - (c) the same drilling rig drills the well from the spud date of the well until the well reaches its final total measured depth, or if, in the opinion of the collector, the same drilling rig is incapable of drilling the well for the whole of that period due to damage, 2 or more drilling rigs drill the well from the spud date of the well until the well reaches its final total measured depth, and
  - (d) the producer files a report for the summer drilling credit in accordance with section 8 (1) (l).
- (5) The summer drilling deduction amount is, for each well referred to in subsection (4), the producer's proportionate interest in the well multiplied by the lesser of the following:
- (a) 10% of the goods and service costs attributable to the well;
  - (b) \$100 000.
- (6) In addition to any deductions allowed under subsections (3) and (4), a producer may deduct
- (a) an infrastructure charge deduction amount if and to the extent that that deduction amount is available to the producer under subsections (7) and (8), and
  - (b) a project deduction amount if and to the extent that that deduction amount is available to the producer under subsections (9) and (10).
- (7) Subsection (8) applies to a producer if
- (a) the producer enters into an agreement with the minister or the BC Transportation Financing Authority under which the producer agrees, for the purpose of providing cost recovery for the use of bridges, roads, rails, trails, utilities or other structures or works, to pay specified charges for specified activities in a specified area,
  - (b) the producer is obliged to pay charges or tolls established for the purpose referred to in paragraph (a) under Part 3 of the *Transportation Act*, or
  - (c) the producer is obliged to pay tolls prescribed for the purpose referred to in paragraph (a) under the *Ministry of Energy and Mines Act*.
- (8) The infrastructure charge deduction amount available to a producer referred to in subsection (7) is 50% of so many of the charges and tolls referred to in that subsection as the administrator is satisfied
- (a) represent cost recovery for the use of bridges, roads, rails, trails, utilities or other structures or works, and
  - (b) have been paid by the producer.

(9) If a producer advises the administrator that the producer intends to undertake a project to construct or upgrade pipelines, bridges, roads, rails or trails in support of resource exploration or development,

(a) the administrator may agree that the producer is entitled to deduct from the royalty or tax otherwise payable by the producer under this Act a portion of the costs attributable to that project,

(b) the administrator may, for the purposes of paragraph (a), enter into an agreement with the producer identifying the various steps that constitute the project and specifying what constitutes the completion of each step, what the estimated completion cost of each step is to be and what the estimated completion cost for the project is to be, and

(c) the project deduction amount available to a producer who has entered into an agreement under paragraph (b) for each of the specified steps of the project is 50% of the lesser of the estimated completion cost for that step and the amount actually spent by the producer to complete that step, if the administrator is satisfied that

(i) the step has been completed in the manner and to the extent required by the agreement,

(ii) the producer intends to complete the project, and

(iii) the completion cost for which the deduction amount is calculated has actually been paid by the producer.

(9.1) If a pipeline company advises the administrator that the pipeline company intends to undertake a project, in a contractual arrangement with one or more producers, to construct or upgrade pipelines in British Columbia in support of resource exploration or development in British Columbia,

(a) the administrator may agree that the producer or producers are entitled to deduct from the royalty or tax otherwise payable by the producer or producers under this Act a portion of the costs attributable to that project,

(b) the administrator may, for the purpose of paragraph (a), enter into an agreement with the parties to the contractual arrangement, identifying the various steps that constitute the project, and specifying what constitutes the completion of each step, what the estimated completion cost of each step is to be and what the estimated completion cost for the project is to be,

(c) the project deduction amount available, for each of the specified steps of the project, to all producers who have entered into an agreement for that project under paragraph (b), is 50% of the lesser of the estimated completion cost for that step and the amount actually spent by the parties to the contractual arrangement to complete that step, if the administrator is satisfied that

(i) the step has been completed in the manner and to the extent required by the agreement,

(ii) the parties to the contractual arrangement intend to complete the project, and

(iii) the completion cost for which the deduction amount is calculated has actually been paid by the parties to the contractual arrangement.

(9.2) For the purposes of subsection (9.1):

**"pipeline"** means a pipe or system or arrangement of pipes by which is conveyed petroleum or natural gas, or water used or obtained in drilling for or in the production of petroleum or natural gas, and property used for, with or incidental to their operation, but does not include a pipe or system or arrangement of pipes to distribute natural gas in a community to ultimate consumers;

**"pipeline company"** means a person that owns, constructs or operates a pipeline.

(10) Despite subsections (9) and (9.1), the total amount of project deduction amounts that may be deducted from the amount of royalty or tax payable by a producer must not exceed 50% of the lesser of

(a) the estimated completion cost for the project, and

(b) the amount actually spent by the producer or the parties to the contractual arrangement, as the case may be, to complete the project.

[am. B.C. Regs. 21/98, s. 3; 50/2001, s. 3; 250/2003, s. 3; 442/2003, s. 2; 546/2004, App. s. 24; 191/2005, Sch. 2, s. 1; 317/2005; 73/2006, s. 5; 35/2008.]