



Request for Applications

Royalty Credit Program - Roads Initiative

Ministry of Energy and Mines

Request for Applications (RFA) Number: 2004-01

Issue date: October 4, 2004

Closing date, time and location:

Applications must be received:

Prior to 2:00 PM Pacific Time on November 17, 2004

as follows:

COURIER or BY HAND delivery

Two (2) complete copies plus 1 electronic copy on diskette or CD to:

Ministry of Energy and Mines
Business Development Branch
5th floor – 1810 Blanshard Street
Victoria, BC V8T 4J1
Attention: Kathy Thomson

An Applicants' meeting will not be held.

Government Contact Person:

All enquiries related to this Request for Applications are to be directed, in writing, to the following person who will respond if time permits. Information obtained from any other source is not official and should not be relied upon. Enquiries and any responses will be recorded and may be distributed to all Applicants at the Province's option:

Kathy Thomson, Project Manager
e-mail: Kathy.Thomson@gems5.gov.bc.ca
Facsimile: (250) 952-0255

Applicant Section

A person authorized to sign on behalf of the Applicant, and to bind the Applicant to statements made in response to this Request for Applications, must complete and sign this Applicant Section, leaving the rest otherwise unaltered, and return one original with the first copy of the application.

The enclosed application is submitted in response to the above-referenced Request for Applications, including any amendments. We have carefully read and examined the Request for Applications, including the Administrative Section, and have conducted such other investigations as were prudent and reasonable in preparing the application. We agree to be bound by statements and representations made in our application and further agree that any inconsistencies in our application will be as if not written and do not exist.

Signature:	Legal Name of Applicant, and Doing Business As Name if applicable:
Printed Name:	Address:
Title:	
Date:	

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Notes: Appendix A and the RFA cover page are also available from Ministry of Energy and Mines internet site for this RFA for completion by Applicants. That internet site is:

http://www.em.gov.bc.ca/Publicinfo/OilGasStrategySupport_Materials/proposal_index.htm

The internet links in this PDF document have been activated to the internet. If you are reading this document on your PC while it is on-line to the internet then select the ‘hand’ tool in your Adobe reader to use those links.

A Definitions and Administrative Requirements

1 Definitions

Throughout this Request for Applications, the following definitions apply:

- a) “Applicant” means a Producer that submits or intends to submit an application in response to this Request for Applications;
- b) “BDB” (or “Branch”) means the Business Development Branch in the Oil and Gas Division of the Ministry of Energy and Mines;
- c) “Agreement” means a written agreement resulting from this Request for Applications executed by the Province and a Successful Applicant;
- d) “Successful Applicant” means a Producer with whom the BDB intends to enter into negotiations for an Agreement;
- e) “Ministry” means the Ministry of Energy and Mines;
- f) “must”, or “mandatory” means a requirement that must be met in order for an application to receive consideration;
- g) “Producer” means “producer” as defined in the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*;
- h) “Province” means Her Majesty the Queen in Right of the Province of British Columbia and includes the BDB and the Ministry; and
- i) “should” or “desirable” means a requirement having a significant degree of importance to the objectives of the Request for Applications.

2. Application Requirements

The following application requirements will apply to this Request for Applications. Submission of an application in response to this Request for Applications indicates acceptance of all the terms that follow and that are included in any addenda issued by the Province. Provisions in applications that contradict any of the terms of this Request for Applications will be as if not written and do not exist.

3. Eligibility

Applications will only be accepted from Producers having the meaning “producer” as defined in the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*.

4. Receipt Confirmation Form

Applicants are advised to fill out and return the attached Receipt Confirmation Form immediately. All subsequent information regarding this Request for Applications, including changes made to this Request for Applications, will be directed only to those Applicants who return the form and will be distributed by the method authorized on the form.

5. Changes to Applications

By submission of a clear and detailed written notice, an Applicant may amend or withdraw its application prior to the closing date and time. Applicants will not change the wording of their applications after closing and no words or comments will be added to the application unless requested by the Province for purposes of clarification.

6. Late Applications

Late applications will not be accepted and will be returned to the Applicant un-read.

7. Ownership of Applications

All applications submitted to the Province become the property of the Province. They will be received and held in confidence by the Province, subject to the provisions of the *Freedom of Information and Protection of Privacy Act*

8. Acceptance of Applications

- a) This Request for Applications should not be construed as an agreement to purchase goods, services or construction. The Province is not bound to enter into an Agreement with any Applicant. Applications will be assessed in light of the stated review criteria. The Province will be under no obligation to receive further information, whether written or oral, from any Applicant.
- b) Neither acceptance of an application nor execution of an Agreement will constitute approval of any activity or development contemplated in any application that requires any approval, permit or license pursuant to any federal, provincial, regional district or municipal statute, regulation or by-law.

9. Evaluation of Applications

Evaluation of applications will be by a committee formed by the Province and may include employees and contractors of the Province. Applications will be checked against the mandatory criteria. Applications not meeting all the mandatory criteria will be rejected without further consideration. Applications that do meet the mandatory criteria will then be further evaluated against the stated desirable criteria and ranked. The Province’s intent is to enter into Agreement negotiations with Successful Applicants subject to their applications having, in the Province’s sole opinion, attained an acceptable ranking and subject to the approval of the Province’s Treasury Board.

10. Results Notification to Applicants

At the conclusion of the Request for Applications process, all Applicants will be notified of the results. Notice in writing to an Applicant that its application has, in the Province’s sole opinion, received an acceptable ranking will not constitute an Agreement.

11 Negotiation Delay

If an Agreement cannot be negotiated within thirty days of notification of a Successful Applicant, the Province may, at its sole discretion at any time thereafter, terminate negotiations with that Successful Applicant.

12. Applicants’ Expenses

Applicants are solely responsible for their own expenses in preparing an application and for subsequent negotiations with the Province, if any. If the Province elects to reject all applications, the Province will not be liable to any Applicant for any claims, whether for costs or damages incurred by the Proponent in preparing the application, loss of anticipated profit in connection with any final Agreement, or any other matter whatsoever.

13. Limitation of Damages

Further to the preceding paragraph, the Applicant, by submitting an application, agrees that it will not claim damages, for whatever reason, relating to an Agreement, if any, or in respect of the Request for Applications process, in excess of an amount equivalent to the reasonable costs incurred by the Applicant in preparing its application and the Applicant, by submitting an application, waives any claim for loss of profits if no Agreement is made with the Applicant.

14. Currency and Taxes

Prices are to be submitted:

- a) in Canadian dollars;
- b) inclusive of duty, where applicable; FOB destination, delivery charges included where applicable; and
- c) exclusive of Goods and Services Tax and inclusive of Provincial Sales Tax where applicable and any other applicable taxes, permits and fees.

15. Completeness of Applications

By submission of an application the Applicant warrants that all labour, materials and components necessary to design and construct the project described have been identified if its application or will be provided under an Agreement at no additional cost to the Province.

16. Joint Venture Applications

- a) Using a joint venture partner (who should be clearly identified in the application) is acceptable. This includes a joint submission by two Applicants having no formal corporate links. However, in this case, one of these Applicants must be prepared to take overall responsibility for successful performance of the Agreement, if any, and this should be clearly defined in the application.
- b) Using a joint venture partner whose current or past corporate or other interests may, in the Province's opinion, give rise to a conflict of interest in connection with the project or program described in this Request for Application will not be permitted. If an Applicant is in doubt as to whether a proposed joint venture partner gives rise to a conflict of interest, the Applicant should consult with the Government Contact Person listed on page 1 prior to submitting an application.
- c) Where applicable, the names of approved joint venture partners listed in the application will be included in the Agreement, if any. No additional partners will be allowed to be added, nor other changes made, to this list without the written consent of the Province.

17. Agreement

Any Agreement will substantially similar to the terms and conditions of the sample agreement set out in Appendix B and may include reporting requirements as outline in the Request for Applications.

18. Liability for Errors

While the Province has used considerable efforts to ensure information in this Request for Applications is accurate, the information contained in this Request for Applications is supplied solely as a guideline for Applicants. The information is not guaranteed or warranted to be accurate by the Province, nor is it necessarily comprehensive or exhaustive. Nothing in this Request for Applications is intended to relieve Applicants from forming their own opinions and conclusions with respect to the matters addressed in this Request for Applications.

19. Modification of Request for Applications

The Province reserves the right to modify this Request for Applications at any time in its sole discretion. This includes the right to cancel this Request for Applications at any time prior to entering into any Agreement.

20. Use of Request for Applications

Any portion of this document, or any information supplied by the Province in relation to this Request for Applications may not be used or disclosed, for any purpose other than for the submission of applications.

B Requirements and Response

1 Summary of the Requirement

The Business Development Branch (BDB) of the [Ministry of Energy and Mines](#), Oil and Gas Division, invites producers within British Columbia's oil and gas industry to submit applications under its Royalty Credit Program – Road Initiative (the “Program”) to construct and/or upgrade roads that support oil and gas exploration and development activity in British Columbia.

The Province has committed up to \$30 million in royalty credits under the Program for its fiscal year ending March 31, 2006. Applications may be submitted for any portion of the available \$30 million in royalty credits, up to the full allocation.

The objective of the Program is to support, through a provincial royalty credit of up to 50 percent, Eligible Projects approved by the Branch that will be constructed to develop and/or sustain new oil and gas production in British Columbia.

Applicants will be required to fund the entire cost of an approved Eligible Project and pay at least 50% of the entire project cost. For example, to receive \$1 million in royalty credits, the actual cost of the completed approved Eligible Project funded by the Applicant must be at least \$2 million.

Pipeline projects are not included in the Request for Applications but may be added to the Program at a later date by the Ministry.

2 Additional Definitions

- a) “Eligible Project” means one of the following types of projects for which an application may be submitted in response to this Request for Applications:
 - i. construction of a new all-weather resource road that will be eligible for permitting as a Petroleum Development Road;
 - ii. upgrade of an existing resource road to all-weather status and that will be eligible for permitting as a Petroleum Development Road; and,
 - iii. upgrade of an existing Forest Service Road or Mining Access Road to all-weather status provided legislative requirements are upheld.
- b) “Forest Service Road” means a road constructed and operated in accordance with the *Forest Road Regulation*.
- c) “Mining Access Road” means a road constructed and operated in accordance with the *Mining Right of Way Act*.
- d) “Petroleum Development Road” (or “PDR”) means a road constructed and operated in accordance with the *Petroleum Development Road Regulation*.
- e) “all-weather” as applied to a road in this Request for Applications shall mean a road that will support vehicle and equipment weights associated with industrial (oil and gas) activity performed outside of the traditional winter drilling season (December 1 to March 31). An all-weather resource road will be open in adverse weather with reasonable maintenance, however it may be affected by rain, snow or thaw and subject to seasonal weight restrictions.

3 Background

In May 2003 the Ministry received approval from Treasury Board for its comprehensive [Oil and Gas Development Strategy for the Heartlands](#) (OGDS) which was developed to address road infrastructure, targeted royalties, regulatory reduction and British Columbia service-sector opportunities.

The road infrastructure program of the OGDS was designed to increase exploration and development of oil and gas resources and thereby generate incremental royalty revenue to the province. That program provided for up to \$10 million in royalty credits to support the construction and upgrade of oil and gas access roads. Candidate roads were identified through a solicitation process initiated by the Ministry in September 2003 that resulted in overwhelming response – \$98 million in proposed projects – from the oil and gas industry.

As a result of the program’s initial success, Treasury Board has increased the amount of available royalty credits for this year’s program to \$30 million.

The Ministry expects the program to be renewed for the government’s 2005/06 fiscal year.

4 Application Requirements

4.1 Project Details

Applications need to include sufficient project detail to clearly demonstrate that the Applicant:

- has the necessary engineering and technical expertise to plan, design and construct the proposed project;
- is financially capable of carrying out its proposed project to successful completion; and,
- understands the potential risks involved in the proposed project and how it plans to mitigate them.

Applicants will therefore need to provide the details of the proposed project as outlined in the following sections.

4.1.1 Proposed Design and Construction

Applications need to include the following:

- a) Description of route, including location plan and route plan;
- b) Design elements – new and/or improved road, bridges, drainage, all-weather or winter road, surface material;
- c) Design Criteria – road width, cross-section, maximum/minimum gradients, minimum horizontal bend radii;
- d) Design methodology (per Transportation Association of Canada or other suitable reference);
- e) Design Equivalent Single Axle Loads (ESALs);
- f) ESALs attributable to the proposed project;

- g) Description of approval requirements:
 - Technical;
 - Environmental/Impact Assessment;
 - Current Status.
- h) Description of the intended form and scope of community consultation:
 - First Nations;
 - Others;
 - Current Status/Issues.
- i) Maintenance program;
- j) Road operations:
 - Hours of operations;
 - Restrictions on other users.
- k) Commentary on road safety features;
- l) Reclamation plan for road upon termination of use.
- m) Confirmation that the project will use the best available technology that is currently proven and economically feasible;
- n) Confirmation that the project will use construction best practices;

4.1.2 Estimated Project Cost and Schedule

Applications need to include the following:

- a) An itemized costbreakdown for the proposed project, including all design, construction, financing, approvals and any other applicable costs;
- b) A project schedule for the design and construction in bar chart format;
- c) Input the above information into discounted cash flow statement;

4.1.3 Applicant's Capability

Applications need to include the following:

- a) Details of experience in undertaking similar projects as the one proposed; (e.g., past experience in constructing all-weather roads; kilometres of roads built, etc.)
- b) Financial capability to carry out the project; (e.g., corporate financial strength, project financing arrangements etc.);
- c) Details of experience in drilling wells; (e.g., number of wells drilled inc. productio details etc.).

4.1.4 Risks and Significant Issues

Applications need to include the following:

- a) Identification of project risks and steps that will be taken to mitigate them; (e.g., insurance, bonding);
- b) Identification of significant issues and how they will be resolved; (e.g., permit requirements; rights-of-way, access rights, negative effects on the Province's highways system etc.).

4.1.5 Potential Spin-off Benefits

Applications need to provide details of the potential spin-off benefits they expect would result from their proposed project. Examples of such benefits include:

- a) Potential benefits to other Oil and Gas Producers (i.e., land sales, increased value of existing land tenures, increased exploration, increased production);
- b) Potential benefits to other industries (increased production and efficiencies in forestry and mining);
- c) Potential benefits of increased tourism;
- d) Positive effects on the Province's highways system;
- e) Evaluation of improved safety due to proposed development;
- f) Other potential benefits.

4.2 Project Business Case

Applications need to include sufficient project detail to clearly demonstrate that the proposed project:

- will "open up" areas of British Columbia to petroleum exploration and development through the construction of all weather access with higher quality transportation infrastructure; and;
- has the potential to generate a significant return on investment to the Province based on estimates of new royalty revenue for producing wells that are possible as a result of additional drilling activity through the creation of all weather roads and bridges (e.g. longer drilling season).

Applicants will therefore need to provide the details of the proposed project as outlined in the following sections.

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4.2.1 Incremental Royalty Payments

Applications need to include the following:

- a) Location and description of all wells to be drilled and put into production as a result of the project. Applications need to clearly distinguish between in-fill drilling activity in a proven play and exploratory drilling in a field where success rates and well production characteristics are less well known;
- b) Projected annual production of each of the wells to be drilled as a result of the project;
- c) A detailed description of the riskiness of projected new annual royalty payments attributable to the project (drilling wells into production success rates); and,
- d) A schedule that indicates the incremental annual royalty payments to the Province attributable to those wells to be drilled as a result of the project. This schedule should indicate royalty payments to be paid to the Province for during each government fiscal year (which ends on March 31). Applicants need to be aware that this schedule will represent a commitment, on the part of the proponent, if the project is awarded an allocation of royalty credits.

4.2.2 Benefits Attributable to the Project

So as to demonstrate the benefits attributable to the Province’s investment in the project, the application needs to include the following:

- a) A statement from the Applicant indicating whether or not project would be undertaken in absence of a royalty credit; and,
- b) A statement from the Applicant indicating, to the best of its knowledge, the likelihood that a road in the immediate area will be constructed by another company in the near future. If another road in the immediate area is being planned or constructed by another company, the Applicant needs to indicate why their proposed project is still required.

5 Project Timing

It is expected that Request for Applications process will be completed according to the following schedule:

Anticipated Date	Milestone Event
October 4, 2004	Request for Applications issued.
November 17, 2004	Request for Applications closes.
December 15, 2004	Applications evaluated and ranked; applicants notified of results including Eligible Projects supported by the Branch that will be presented to Treasury Board for approval.
January 10, 2005	Supported projects presented to Treasury Board for approval.
February 1, 2005	Treasury Board decisions made; Applicants notified.
February 7, 2005	Commencement of Agreement negotiations with Successful Applicants.
March 7, 2005	Agreement(s) executed.
December 31, 2006	Final date for projects’ completion.

6 Evaluation, Ranking and Selection

This section details all of the criteria against which applications will be evaluated and ranked. Applicants should ensure that they fully respond to all criteria in order to receive full consideration during evaluation.

6.1 Mandatory Criteria

Applications not clearly demonstrating that they meet the following mandatory criteria will be excluded from further consideration during the evaluation process.

Mandatory Criteria	
a)	Applications must be received at the closing location by the specified closing date and time.
b)	Applications must be in English and must not be sent by facsimile or e-mail.
c)	<p>Courier or By Hand delivery:</p> <ol style="list-style-type: none"> 1. Two (2) complete hard copies must be submitted; and, 2. One (1) electronic copy must be submitted on diskette or CD; and, 3. An unaltered, completed and <u>signed</u> Request for Application cover page including Applicant Section must be submitted with the application.

6.2 Desirable Criteria

Applications meeting all of the mandatory criteria (ref. section 6.1) will be further assessed against the following desirable criteria.

Desirable Criteria	Points	
	Total Available	Minimum Required
<p>1. Project Details</p> <ul style="list-style-type: none"> • Proposed Design and Construction. • Estimated Project Cost and Schedule. • Applicant's Capability. • Risks and Significant Issues. • Potential Spin-off Benefits. 	50	35
<p>2. Project Business Case</p> <ul style="list-style-type: none"> • Incremental Royalty Payments. • Benefits Attributable to the Project. 	50	35
TOTAL	100	70

6.3 Evaluation

The Ministry will evaluate applications as follows:

1. Applications will be checked for compliance with the Mandatory Criteria. Applications that do not meet the mandatory requirements will receive no further consideration.
2. The Ministry will check each Applicant's record of royalty payments through the Ministry of Provincial Revenue. The Ministry will reject applications from Applicants that have, in the Ministry's sole opinion, an unsatisfactory record of making royalty payments to the Province.
3. Applications will be evaluated and scored against Desirable Criteria 1 and 2. Applicants who have achieved the minimum scores for criteria 1 and 2 will then be interviewed and interviews will be scored.
4. Applicants who have achieved the minimum required Desirable Criteria scores will have their scores re-set to zero and will advance to the next stage: **6.4 Ranking and Selection.**

6.4 Ranking and Selection

The Ministry will use following process in ranking and selecting projects:

1. Calculate the benefit cost ratio to the province for each project based on a royalty credit of 50 percent of project costs. The benefit cost ratio for each project is to be calculated by dividing the estimated incremental royalty payments over a standardized time period (to be determined) by the estimated royalty credit (i.e. ½ of project cost) as shown below:

$$\text{Benefit cost ratio} = \frac{\text{Incremental royalty payments}}{\text{Estimated royalty credit}}$$

2. Rank projects according to their benefit cost ratio (highest to lowest).
3. In course of evaluating competing projects, the Ministry reserves the right to establish a minimum benefit cost ratio as the threshold "pass/fail" test for all projects. Projects which fail to meet the minimum benefit cost ratio will not be evaluated further.
4. For the projects that exceed the minimum benefit cost ratio, projects will be ranked based on the highest benefit cost ratio until the total credits of the royalty credit program up to \$30 million have been fully allocated across competing projects.
5. The Province reserves the right to approve royalty credits to only one, more than one, or no applications.

7 Application Format

Applications are to be submitted in the following format and sequence to ensure that they receive full consideration during evaluations and that the evaluations themselves may be handled in an efficient and consistent manner. All pages should be consecutively numbered.

1. Follow the Mandatory Criteria section concerning the Applicant Section submission requirements.

2. Follow the Mandatory Criteria section for hard copy and/or electronic submission requirements.
3. A short (two or three pages) cover letter summarizing the key features of the application. The letter also needs to contain a corporate information overview of the Applicant company and for the proposed project:
 - Project Title;
 - Project location/basin;
 - Project description/abstract; and,
 - Legal name of any joint venture company.
4. The body of the application addressing all the Application requirements shown in Section 4.

8 Agreement Form

Any Agreement will substantially similar to the terms and conditions of the sample agreement set out in Appendix B and may include the following reporting requirements to be provided to the Ministry by an Applicant who has executed an Agreement with the Ministry:

8.1 Reporting Requirements

1. Reporting and verification (if required) of actual project costs:
 - a. A statutory declaration and summary of actual project costs.
 - b. Details of actual project costs.
 - c. A report from an independent chartered accountant or CMA indicating actual project costs.
2. Reporting and verification (if required) of the actual incremental production of oil and gas products attributable to the completed project.
 - a. Annual reports for a certain period over all periods which approved royalty credits are claimed or released that provides the following information:
 - Location and description of all wells drilled and put into production as a result of the project;
 - Actual annual production of each of the wells drilled as a result of the project; and,
 - Annual royalty payments to Province directly attributable to those oil and gas wells drilled as a result of the project.
 - b. A report from an independent consulting engineer specializing in oil and gas drilling and production to indicate the actual incremental oil and gas production that has occurred as a result of undertaking the project.

The Province may engage an independent firm with expertise in oil and gas production to undertake to verify the incremental production of oil and gas products attributable to a project. If required, such costs will be borne by the program participant.

Appendix A - Receipt Confirmation Form

Royalty Credit Program - Roads Initiative

Ministry of Energy and Mines

Request for Applications (RFA) Number: 2004-01

Closing date: November 17, 2004

To receive any further information about this Request for Applications please complete and return this form to:

Kathy Thomson, Project Manager
Ministry of Energy and Mines
Business Development Branch
E-mail: Kathy.Thomson@gems5.gov.bc.ca
Facsimile: (250) 952-0255

Company:	<input type="text"/>		
Street address:	<input type="text"/>		
City:	<input type="text"/>	Province/State:	<input type="text"/>
		Postal Code:	<input type="text"/>
Mailing address: (if different)	<input type="text"/>		Postal Code: <input type="text"/>
Phone number:	<input type="text"/>	Fax number:	<input type="text"/>
Contact person:	<input type="text"/>	Title:	<input type="text"/>
e-mail:	<input type="text"/>		<input type="text"/>

Unless it can be sent by facsimile, further correspondence about this Request for Applications should be sent by:

<input type="checkbox"/>	Courier Collect	If 'ticked' provide Courier name and account number:	<input type="text"/>
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<input type="checkbox"/>	Mail
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Note: If neither box above is ticked, further correspondence will be sent by mail.

Road-based Royalty Credit Program
Agreement between the Ministry of Energy and Mines
and Company - Project

This agreement is between:

(hereinafter called the Producer)

and;

Her Majesty the Queen in right of the Province of British Columbia, as represented by the
Royalty Administrator of the Ministry of Energy and Mines
1810 Blanshard Street
Victoria, BC V8W 9N3

(hereinafter called the Administrator)

WHEREAS:

- A. The Producer is a company that is undertaking exploration/production activities in northeastern British Columbia.
- B. The Producer has applied for project deduction amounts (described elsewhere in this agreement as royalty credits) under section 4(6)(b) of the Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation (the Regulation) to construct road and bridges described in Schedule A
- C. The Administrator agrees that the Producer is entitled to the royalty credit, subject to this agreement and all applicable laws.
- D. The parties are entering this agreement pursuant to section 4(9)(b) of the Regulation.

IN CONSIDERATION OF ONE DOLLAR (\$1.00) , RECEIPT AND SUFFICIENCY OF WHICH IS HEREBY ACKNOWLEDGED, THE PARTIES AGREE AS FOLLOWS:

1. The Producer agrees to pay royalty charges and tolls as specified in accordance with the Regulation.

2. This agreement covers work relating to the Projects, as detailed in the application submitted to British Columbia Ministry of Energy and Mines on _____, 2004 and related supplemental material provided by the Producer.

3. In accordance with section 4 (9) of the Regulation, the Administrator agrees that the Producer may recover 50% of the eligible costs (as described in clause 9 of this agreement) incurred in completing the work identified in Schedule A – Summary of Project Work and Milestones. The Producer and Administrator will refer to details relating to projects and their phases as described in the [date to be determined] application submitted by the Producer and supplemental correspondence to the (date of) submission.

4. All project milestones shall be completed by [date to be determined]. Any extension to this agreement beyond this date shall be agreed to in writing by the Producer and the Administrator.

5. The actual amount of costs that can be deducted against royalties due to the Province of British Columbia by the Producer is the lesser of 50% of the actual completion costs or (royalty credit amount)

6. The Producer must identify the project supervisor to the Administrator and ensure, with reasonable notification, that the project supervisor is available to meet with the Administrator throughout all phases of the project.

7. The Administrator reserves the right to conduct interim inspections of the project at its own discretion, cost and risk, at which time the Producer will assist in making relevant records and information available to the Administrator. The Administrator, or designated representative of the Ministry of Energy and Mines, shall at reasonable times and upon the permission of the written notice to the Producer be permitted access at its sole risk and expense to the Project site for the purpose of inspections, monitoring progress and conducting audits.

8. The Producer may make application for release of royalty credits upon completion of each milestone identified in Schedule A. The royalty credit requested may not exceed the amount associated with that milestone. The project shall be deemed to be complete when the Producer has completed the work described in Schedule A and other supporting documents including the original project description prepared at time of making request for royalty credits.

9. Eligible costs will be recognized as all Project- related planning, design, surveying, mapping, licences and approvals and engineering expenditures together with all materials, labour and equipment costs incurred during construction and mobilization / demobilization. The Producer may not claim costs related to Project administration, overhead, accounting interest and the purchase of capital equipment (excludes permanent bridges, culverts, geotextiles) over \$1,000. Costs not identified in Schedule A but subsequently deemed legitimate project costs by the Administrator, will be considered as eligible costs, up to the maximum royalty credit amount identified in clause 5.

10. The Producer agrees to complete the Project in accordance with the specifications attached in both Schedule A, the Producer's (date of) submission and other documents submitted by the Producer.

11. At the time of making application for release of royalty credits for a milestone or the project, the Producer will complete and forward to the Administrator all reports and certificates listed in Schedule B.

12. At its own discretion and its own costs, the Administrator may verify that the project milestones have been completed to the required standards and may audit the project costs. Upon request of the Administrator, the Producer will make all relevant records and information available to the Administrator within 30 days.

13. At time of making a request for royalty credits, the Producer will prepare and submit to the Administrator a description of incremental royalty revenues to be generated to the Province in the same government fiscal year in effect at time of making a request, such fiscal year commencing April 1st and terminating March 31st. The Producer will provide a letter to the Administrator attesting to the certainty of the amount and timing of the incremental royalty revenues, this letter will summarize the number of new wells drilled and into production and current production volumes. The Administrator will compare the incremental revenue stream identified by the Producer to the royalty credit amount requested and the Administrator, at his or her sole discretion acting reasonably, will determine the amount of royalty credits that are to be released in response to a specific request. Where the incremental royalty stream for an individual project is less than the amount of royalty credits requested for the project, the Administrator may allow excess incremental royalties generated from the Producer's other approved projects, in the same government fiscal year, to be applied to the project which exhibits a shortfall. Revenues identified for those new wells drilled and tied into production may only be attributed to a single road project - except to the extent surplus revenues are aggregated into a coverage test for a portfolio of road projects.

14. Within 30 days of the date on which the Producer makes application for release of royalty credits, the Administrator will notify the Producer and the Ministry of Provincial Revenue, in writing, of the verified amount that may be deducted against royalties payable to the Province of British Columbia. Subject to clause 15 of this agreement, the Producer may apply the royalty credit against the next royalty payment due to the Province of British Columbia following receipt of the notification. This deduction shall be requested by the submission of a completed BC-15 form, Petroleum & Natural Gas Remittance Advice.

15. Within six months of the completion of 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 30 days of this submission the Administrator will provide the Producer with a revised royalty credit amount, which may be deducted or added to the next royalty payment.

16. The Producer will notify the Administrator in writing when making a royalty remittance, to the Ministry of Provincial Revenue, of the nature and amount of any deduction it is making under this agreement.

17. In the event that the Producer does not have sufficient royalties payable to offset against a credit earned, the Producer may carry the unused portion of the credit forward after notifying the Administrator in writing.

18. The Producer will not be eligible to claim deductions if delinquent in royalty payments payable to the Province of British Columbia.

19. If, upon verification described in clause 12 of this agreement it is found that the standards have not been met, the Producer will have a period of six months from the date of written notification by the Administrator to rectify the deficiencies and may not claim further royalty credits under this agreement until such time that the standards are met. Failure to rectify the deficiencies will, at the discretion of the Administrator acting reasonably, result in a full or partial reversal of eligible royalty credit amounts identified in clause 5 of this agreement.

20. The Producer will have the right to appeal to the Deputy Minister of the Ministry of Energy and Mines a decision made under clause 19 and 29 of this agreement.

21. Upon request, the Producer will provide the Administrator with copies of expenditure records relating to the work covered by this agreement in order to verify total project cost and eligible costs.

22. The Producer will carry out maintenance necessary for the safe use of the road and bridge sections that are part of the Project. The Producer acknowledges that no portion of eligible costs, for the purposes of calculating eligible credits, will include road maintenance activities.

23. If the Producer applies to have the project covered by the *Petroleum Development Road Regulation*, the Producer agrees that it will only charge third parties based on the value of the project funded by the Producer in excess of the amount of the royalty credit, plus maintenance costs. Upon written request, the Producer will make available to the Administrator within 30 days any and all road use agreements and related revenue records applicable to the Project.

24. The Producer will be solely responsible for attending to any environmental contamination on the project site and all costs associated with remedying an environmental incident caused by the producer in carrying out the Project.

25. The Producer will solely be responsible for all work and costs associated with decommissioning the Project.

26. The Producer agrees that the works covered under this agreement will not form any part of an all-weather road linking British Columbia to any other jurisdiction without the prior written approval of the Ministry of Energy and Mines.

27. The Producer will assume the defense of and will indemnify and save harmless the Administrator and the Ministry, its agents and 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 agents or employees, or any of them at the same time or times before on or after the completion of the term or earlier termination of the agreement where the same or any of them are based upon or arise out of or from anything done or omitted to be done by the Producer, its employees, agents or subcontractors, in connection with the agreement or the Project, which indemnity will survive the completion of the term or earlier termination of the agreement.

28. This agreement terminates on the earlier of:

- a. termination with the written mutual consent of the Parties; and,
- b. [date to be determined].

Road-based Royalty Credit Program
Agreement between the Ministry of Energy and Mines
and Company - Project

29. The Administrator may terminate this agreement in the event of non-compliance with this agreement by the Producer if, after giving 60 days written notice to the Producer, the Producer has not rectified the non-compliance.

Administrator

Date

Company

Date

Schedule A - Summary of Project Work and Milestones

Description of Project:

Timing: Expecting to commence and to complete.

Road Standards:

Project Milestone	Location/ Description	Expected Completion	Projected/ Final Cost	Maximum Royalty Credit
Planning, surveying, and design				
Construction				
Gravel				
Total				

Schedule B

Mandatory Reports and Certificates

Proposed Construction Schedule

Completion Report – Road Layout and Design (form of report to be submitted includes completed bridges).

Completion Certificate.

Statutory Declaration related to completed costs of the Project.