



Request for Applications

Royalty Credit Program - Roads Initiative

Ministry of Energy, Mines and Petroleum Resources

Request for Applications (RFA) Number: 2005-02

Issue date: December 16, 2005

Closing date, time and location:

Applications must be received:

Prior to 2:00 PM Pacific Time on February 28, 2006

as follows:

COURIER or BY HAND delivery

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

Ministry of Energy, Mines and Petroleum Resources

Business Development Branch

5th floor – 1810 Blanshard Street

Victoria, BC V8W 9N3

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@gov.bc.ca

Facsimile: (250) 952-0255

Applicant Section - RFA Cover Page - complete and attach this page to all applications

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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Sample Agreement - Appendix B - see attached.

Notes: RFA cover page is also available from Ministry of Energy, Mines and Petroleum Resources internet sites for this RFA for completion by Applicants. Those internet sites are:

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

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, Mines and Petroleum Resources;
- 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, Mines and Petroleum Resources;
- 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 Royalty Credit Program - Roads Initiative are under the custody and control of the Province and are subject to the provisions of the *Freedom of Information and Protection of Privacy Act*. The applications will be used to assess projects that are eligible under the Program. For more information regarding this Program, refer to the Government Contact Person on page one.

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 in 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 Applications 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) The named approved joint venture partner or partners listed in the application will each execute a separate Agreement with the Ministry. 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, Mines and Petroleum Resources](#) (Ministry), 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 to date over \$50 million in royalty credits under the Program. Applications may be submitted for any portion of up to an additional \$30 million in road royalty credits that are now available.

The objective of the Program is to support, through a provincial royalty credit of up to 50 percent of road costs for Eligible Projects approved by the Branch that will be constructed to develop and/or sustain new oil and gas production in British Columbia. The Program is governed in part by section 4 of the *Petroleum and Natural Gas Royalty and Freehold Production Tax Regulation*.

Applicants will be required to fund the entire cost of an approved Eligible Project and may receive at least 50 percent of the entire Eligible Project costs paid in the form of royalty credits. 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 eligible submissions under this Request for Applications. Only oil and gas road-based projects are eligible.

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 road that will be eligible for permitting as a Petroleum Development Road (PDR);
 - ii. upgrade of an existing resource road to all-weather status and that will be eligible for permitting as a PDR;
 - iii. upgrade of an existing Forest Service Road or Mining Access Road to all-weather status provided legislative requirements are upheld and that will be eligible for permitting as a PDR; and
 - iv. must not form any part of an all-weather road linking British Columbia to any other province or country.
- b) “Forest Service Road” means a road constructed and operated in accordance with the *Forest and Range Practices Act*.
- c) “Mining Access Road” means a road constructed and operated in accordance with the *Mining Right of Way Act*.
- d) “Petroleum Development Road” 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 implemented 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 encourages increased exploration and development of British Columbia's oil and gas resources. To date two instalments of road-based royalty credits have resulted in the implementation of 25 road-based projects with the Province of British Columbia (Province) participating through approximately \$50 million in royalty credits.

As a result of the Program's success, on measures of new roads constructed and new oil and gas royalty revenues generated, the Province has made available further royalty credits in the amount of \$30 million to support new 2006/07 projects.

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

4.1.2 Estimated Project Cost and Schedule

Applications need to include the following:

- a) An itemized cost breakdown 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. production 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 (e.g., additional drilling and production by other Producers who would access the road, 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) positive effects on the Province's highways system;
- d) evaluation of improved safety due to proposed development;
- e) 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 enabled by the creation or upgrade 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.

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 risks 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 an obligation, 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 RFA process will be completed according to the following schedule:

| Anticipated Date | Milestone Event |
|-------------------|--|
| December 16, 2005 | Request for Applications issued. |
| February 28, 2006 | Request for Applications closes. |
| March 31, 2006 | Applications evaluated and ranked; applicants notified of results including Eligible Projects supported by the Branch that will be presented to Treasury Board for approval. |
| April, 2006 | Recommended projects presented to British Columbia Treasury Board for approval. |
| May, 2006 | Applicants notified of decision. |
| May, 2006 | Commencement of execution of Agreement negotiations with Successful Applicants. |
| June, 2006 | All Agreement(s) executed. |
| December 31, 2007 | Final date for each approved project's 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 Small Business and 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 may be contacted to further confirm their commitment, costs and timelines for the project.
4. Applicants who have achieved the minimum required Desirable Criteria scores will advance to the next stage: **6.4 Ranking and Selection.**

6.4 Ranking and Selection

The Ministry will then use the following process in ranking and selecting projects, which qualified based on evaluations in 6.3 above:

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. Calculate the payback period as when incremental royalty revenue attributable to the project exceeds the level of the royalty credit.
3. Rank projects according to 1 and 2 above.
4. 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 Format

On approval of a project the company will be required to sign an Agreement with the Ministry and provide reporting requirements. The company must complete Schedule information that will form a part of the Agreement. This Agreement will be substantially similar to the terms and conditions of the attached sample Agreement and includes the reporting requirements to be provided to the Ministry by the company who executes such Agreement with the Ministry.

9 Further Information

To request or receive further information about this RFA please contact:

Kathy Thomson
Project Manager
Ministry of Energy, Mines and Petroleum Resources
Business Development Branch
Phone Number: (250) 387-1584
Fax Number: (250) 952-0255
Email Address: Kathy.Thomson@gov.bc.ca

APPENDIX B

SAMPLE

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

THIS AGREEMENT dated for reference April ____, 2006

Between:

PRODUCER 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 subsection 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 paragraph 4(9)(c), as limited by subsection 4(10), of the Regulation.

AGREEMENT

Definitions and Interpretation

- 1. In this Agreement
“Act” has the meaning given in the Background;

“Agreement” means this agreement;

“Eligible Costs” means, in respect of the Project

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

(b) all materials, labour and equipment charge-out costs incurred during construction and mobilization and demobilization;

but does not include

(c) maintenance costs; and

(d) contingency allowances, costs related to administration, overhead, accounting, interest, purchase of capital equipment in excess of \$1,000, and amortization and depreciation on capital equipment.

“Fiscal Year” means a period commencing April 1st and terminating March 31st 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 either one of them as applicable;

“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.

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 Steps;
 - (b) Schedule B – Reports and Certificates Required for Release of Royalty Deductions;
 - (c) Schedule C – Road Layout and Design Standards; 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, 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, 2007 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, 2007, or a later date agreed to 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. On completion of the Project, the Producer must provide to the Administrator a letter or other document signed by a duly authorized representative of the Producer that the Project has been completed in accordance with the layout and design specifications set out in Schedule C.

Project Supervisor

12. 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

13. 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.
14. At any time during construction of the Project and within 24 months following the completion of the Project the Administrator 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

15. 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.
16. The application for a deduction must be accompanied by
 - (a) all 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 subsection 4(9)(c) of the Regulation, and
 - (b) the information described in paragraph 19 of this Agreement.
17. 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.
18. If the Administrator determines that any information accompanying the application is inadequate, he or she must provide written notification to the Producer of the inadequacy within 30 days. Upon receipt of 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.

Incremental Royalties

19. 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.
20. If the anticipated Incremental Royalty Revenues identified by the Producer pursuant to paragraph 19 (or a lesser amount if considered more reasonable by the Administrator) are greater than or equal to 50 percent of the estimated completion cost for the Project, then the Administrator, must, subject to this Agreement and the Regulation, allow the royalty deduction for the Step.
21. If the anticipated Incremental Royalty Revenues identified by the Producer pursuant to paragraph 19 (or a lesser amount if considered more reasonable by the Administrator) are less than 50 percent of the estimated completion cost for the Project, then the Administrator, at his or her sole discretion, may allow either the full royalty deduction or a reduced royalty deduction.

Notification to the Ministry of Small Business and Revenue

22. 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.
23. The Producer must provide the Administrator with a copy of any royalty remittance submitted to the British Columbia Ministry of Small Business and Revenue that is affected by a deduction allowed pursuant to this Agreement.

Carrying Forward Deductions

24. 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

25. 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.

26. 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

27. 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.

Road Use

28. If the Producer applies to have the Project covered by the Petroleum Development Road Regulation, the Producer may only seek a contribution respecting the capital cost from industrial users for use of the road based on the capital cost of the road less any deductions allowed pursuant to this Agreement.
29. Upon written request, the Producer must make available to the Administrator, within 30 days, any and all road use agreements and related revenue records related to the Project.
30. The Project must not form any part of an all-weather road linking British Columbia to any other province or country without the prior written approval of the Ministry of Energy and Mines and Petroleum Resources (Ministry).

Producer's Indemnity Related to Work

31. 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

32. This Agreement terminates on the earlier of
- (a) the written mutual consent of the Parties;
 - (b) June 30, 2008;
 - (c) six months after completion of the Project; and
 - (d) termination in accordance with paragraph 31.

33. The Administrator may terminate this Agreement in the event of a breach by the Producer of any obligation under this Agreement if, after giving 60 days written notice to the Producer, the Producer has not rectified the breach.

Governing Law

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

Enurement

35. 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

36. 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

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

Counterpart Execution

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

Administrator

Date

Producer

Date

Schedule A - Summary of Project Work and Steps

Description of Project:

Timing: Expecting to commence and to complete.

Road Standards:

| Project Steps | Description | Expected Completion Date | Projected/ Estimated Cost | Maximum Royalty Credit |
|---|-------------|--------------------------|---------------------------|------------------------|
| Planning, applications, surveying, design and road and or bridge construction | | | | |
| Gravel | | | | |
| Total | | | | |

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

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

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
and Mines and
Petroleum Resources

COMPLETION CERTIFICATE

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

FROM: PROPONENT _____

Description of Works _____

OIL AND GAS COMMISSION PDR PERMIT No. _____
(PETROLEUM DEVELOPMENT ROAD)

Date Opened to Traffic (if applicable) _____

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 10³m³ for fiscal period - 2005/06

| W.A. | Name | Location | Spud Date | Tie In Date | Apr 05 | May 05 | Jun 05 | Jul 05 | Aug 05 | Sep 05 | Oct 05 | Nov 05 | Dec 05 | Jan 06 | Feb 06 | Mar 06 | Total Production Volume | Estimated Royalty |
|--------------|------|----------|-----------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------------|-------------------|
| | | | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | |

Note 1: Estimate production volumes and royalty outcomes for 2005/06 attributable to the Project: from wells tied-in during 2005/06 and wells to be drilled and tied-in during 2005/06

Production Volumes 10³m³ for fiscal period - 2006/07

| W.A. | Name | Location | Spud Date | Tie In Date | Apr 06 | May 06 | Jun 06 | Jul 06 | Aug 06 | Sep 06 | Oct 06 | Nov 06 | Dec 06 | Jan 07 | Feb 07 | Mar 07 | Total Production Volume | Estimated Royalty |
|--------------|------|----------|-----------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------------|-------------------|
| | | | | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | | | | |

Note 2: Estimate production volumes and royalty outcomes for 2006/07 attributable to the Project: from wells tied-in during 2005/06, wells tied-in during 2006/07, and wells to be drilled and tied-in during 2006/07

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 Road 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

| STEPS | Estimated Budget (per Schedule A) | Maximum Royalty Credit (per Schedule A) | Actual As Built Costs |
|---|--|--|----------------------------------|
| Planning, applications, surveying, design and road and/or bridge construction | | | |
| Gravel | | | |
| TOTAL | | | |

Detailed List of Invoices of As Built Actual Costs

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

| STEP(S) | Invoice Number | Item | Supplier | Actual Costs Paid |
|--|--|-------------|-----------------|--------------------------|
| Planning, Surveying, Construction, Bridges | 1. 2. 3. 4. 5. 6. 7. | | | |
| SUB TOTAL | | | | |
| Final Gravel | 1. 2. 3. 4. 5. 6. 7. | | | |
| SUB TOTAL | | | | |
| TOTAL | | | | |

Schedule C - Road Layout and Design Standards

Proposed Construction Schedule (attached)

Road Layout and Design Schedule (includes road, bridges and engineering structure table)
(attached)

Road Layout and Design (attached)

ROAD LAYOUT AND DESIGN

Petroleum Development Road (PDR) Approval Number: _____

Road Name: _____ Company Name: _____

Please complete each section or identify as Not Applicable (N/A)

1. Revegetation specifications shall be:

2. Road design shall be: (R/W, culverts/borrow pits, etc.) Indicate upgrade or new construction.

3. Indicate measures to maintain slope stability or address water saturation and drainage in applicable areas:

4. The following statement is applicable not applicable:
 There is new road encroachment within a Riparian Management Area [reference *Forest Road Regulation*, Section 4(2)] and this is clearly shown on the accompanying map. Rationale for the road location is attached.

5. Road Widening on Curves: the widening required on curves shall be:

| | | | | | | | | |
|--|-----|----|----|----|----|----|----|----|
| Radius of Curve (m) | 180 | 90 | 60 | 45 | 35 | 25 | 20 | 15 |
| Minimum Subgrade Width Required | | | | | | | | |

6. The maximum dimensions and weights of the intended loaded vehicle for use on the road are:
 - Length _____ m
 - Width _____ m
 - Height _____ m
 - Max. log length _____ m
 - Overhang beyond rear trailer bunk _____ m
 - Weight Axle (tandem) _____ kg
 - GVW _____ kg

Continued on following page

(a) **ROAD LAYOUT AND DESIGN**

Complete any or all sections on this page only where plan/profiles are not prepared or where plan/profiles are deficient of necessary information.

Road Name: _____ Company Name: _____

| | | ¹ Standard Specification | Variation from Standard Specification | | |
|-----|--|-------------------------------------|---------------------------------------|--|--|
| 7. | ROAD TYPE: (PERMANENT/ALL WEATHER/PDR) | | | | |
| 8. | STUMPS/ROOTS/LOGS IN ROAD PRISM (YES OR NO) | | | | |
| 9. | CORDUROY/PUNCHEON/INVERTED STUMPS (YES OR NO) | | | | |
| 10. | ROAD SUBGRADE WIDTH: (m) | | | | |
| 11. | TURNOUTS: MAXIMUM DISTANCE BETWEEN (m) | | | | |
| 12. | USABLE LENGTH /WIDTH (m/m) | | | | |
| 13. | MINIMUM CURVE RADIUS: (m) | | | | |
| 14. | MAXIMUM SUSTAINED GRADE: ADVERSE (%) | | | | |
| 15. | FAVOURABLE (%) | | | | |
| 16. | MAXIMUM SHORT PITCH GRADE: ADVERSE (%) | | | | |
| 17. | FAVOURABLE (%) | | | | |
| 18. | MINIMUM CROSS-DRAIN CULVERT SIZE: ROUND PIPE (mm) | | | | |
| 19. | OTHER SHAPES – OPENING SIZE (mm / mm) | | | | |

¹ The standard specifications reflect the proponent’s normal design criteria, and will apply to the roads under consideration unless a variation to the standard specification is provided in the remaining columns. There is no need to reproduce previously submitted standard specifications here.

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

Regulation - Section 4 (attached)

Important Information (disclaimer and copyright information)

B.C. Reg. 495/92
O.C. 1854/92

Deposited December 18, 1992
effective January 1, 1993

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

[includes amendments up to B.C. Reg. 317/2005, October 27, 2005]
(Section 4)

Royalty and tax payment

4 (1) On or before the 25th day of each calendar month, a producer is to pay 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.]

(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) if

- (a) the producer has one or more interests in a well, and
 - (b) the well has a spud date after June 30, 2003 and before December 1, 2003, after March 31, 2004 and before December 1, 2004 or after March 31, 2005 and before December 1, 2005.
- (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.

(10) Despite subsection (9), 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 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.]