

# **Net Profit Request for Applications**

## **Questions and Answers for Producers**

### **1. When is the RFA going to be posted and when does it close?**

The RFA will be posted on January 7, 2009. The closing date is February 27, 2009, 2:00 pm Pacific Time.

### **2. What if my company cannot make it by the deadline?**

The Net Profit Royalty Program is an on-going program, and the Crown is planning to call for applications again in the second half of 2009.

### **3. What kind of projects can be submitted to this RFA round?**

This RFA round will be open to two types of projects only:

- (a) Enhanced oil/gas recovery
- (b) Shale gas primary target in the Horn River basin

### **4. Does that mean that if I have a different project I cannot apply for net profit?**

It means that based on the submissions we have received for the Request for Information released last September, those two types of projects have been deemed to be a priority to the Crown for this first call. Further RFA rounds might be open to other types of projects. The Crown will be very proactive in receiving feedback from industry for future RFA rounds.

### **5. What information do I have to submit?**

You will have to complete a Microsoft Word document template that includes some general questions about your project, complete a Microsoft Excel document with all your technical information, and provide all the mapping and geological/petro-physics information required in the RFA documentation using the format indicated in the RFA package.

### **6. What if I don't have all that information available now?**

The information required in the RFA package is mandatory. We understand some of the information will be very preliminary, or based on assumptions – we still need it to evaluate your project/s. The only way to evaluate your project/s is to have as much information as possible. If your project is still at a very conceptual stage, it might not be ready to apply for net profit at this time.

### **7. Can I receive approval for a net profit scheme if I haven't done any activity in my tenured land?**

No, you can't receive approval in that case. The Net Profit RFA requires an investment of at least \$50 million in your tenured land in the last five years (ending December 31<sup>st</sup>, 2008). This includes seismic, road construction, drilling, etc., but it does NOT include the cost of buying the land rights. The Crown is partnering with industry to get these

projects developed, and as any investor, the Crown needs information to be able to make a decision on a project, and a clear commitment to the project from the producer.

#### **8. Do I have to apply for a ring fence or can I ask for my whole tenured land as a ring fence?**

You have to specify what your desired ring fence is. The Crown will evaluate your project and determine if the requested ring fence corresponds with the level of risk the Crown is ready to take at this point.

#### **9. Will every project receive a net profit in this first RFA?**

All projects that (i) provide all the mandatory information, (ii) are relevant to the scope (i.e. either enhanced oil/gas recovery or shale gas development in the Horn River for this first RFA round), (iii) demonstrate the threshold of required investment in the previous five years has been surpassed, and (iv) have a positive rate of return (gross revenue – all operating and capital costs) will be eligible to receive a net profit in this first RFA round.

#### **10. How will the Crown evaluate the proposals?**

The Crown has developed a framework to assist in determining the ideal size of the ring fence, based on a fair return on investment and adequate risk-sharing between industry and the Crown.

#### **11. Does that mean I might ask for a ring fence and receive something smaller?**

That is a possibility. Based on all the information submitted, a fair rate of return to industry and the level of risk the Crown is ready to take, the approved ring fence might end up being different than the one requested.

#### **12. If my ring fence is smaller than my proposal, will I have some say on the location to the ring fence?**

Yes, you will. After you receive communication that you have been awarded a net profit arrangement for a certain size ring fence, you will have the opportunity to select the ring fence location.

#### **13. How will you determine the ring fences for Horn River?**

The Crown's framework includes a series of factors in determining the ring fence size:

- (1) ***“Minimum Required Price” factor***: using technical discounted costs and Monte Carlo simulations for all variables involved, the model determines the “minimum required price” required to make the project economic (i.e. receive at least an industry appropriate rate of return).
- (2) ***Impact on Crown Revenues factor***: the same information is used to calculate royalty revenues to the Crown in a Net Profit scenario and the existing conventional royalty scenario. The difference in dollars between both through the life of the project should not be significantly more than the amount of dollars invested in the project in the last 5 years (excluding land).

(3) **Phasing factor:** the project is evaluated again using 5 years, 10 years, 15 years and full life staging in existing active tenured land. For example, development expected in the first 5 years might be enough to determine a good-sized ring fence that will balance industry's return on investment and Crown's revenues, while taking care of risk during pre-development.

(4) **Reserves factor:** lower reserves might require a larger ring fence to make the project economic.

These steps will be re-run using different cost reduction and return on investment assumptions (i.e. sensitivity analysis).

**14. Does that mean there will be room for negotiation of the ring fence after the net profit scheme has been awarded?**

The ring fence size will be determined by the Crown. The Crown will evaluate if it is necessary to discuss the exact location of the ring fence with producers.

**15. Why does it have to be so complicated? Why not just approve net profit for the whole Horn River Basin?**

The Net Profit Royalty Program was designed to "jump-start" very costly oil and gas projects in British Columbia. Once the infrastructure is in place and the uncertainties of the pre-development stage are taken care of, simpler and automatic royalty schemes will be more efficient in dealing with the development of the Horn River Basin. The Crown is prepared to analyze new programs and schemes that deal with the commercial development of the Basin, taking into account its remoteness and high cost. The Crown wants to ensure Net Profit is applied carefully now, to avoid complex, expensive and administratively burdensome revisions in the future.

**16. If I don't get net profit this time, can I re-apply later with the same project?**

Yes, you can. Your project might not qualify at this time because your investment in the previous five years is too low. Once you have more investment in place, your project might be able to qualify.

**17. How will you determine the ring fence for enhanced oil/gas recovery?**

There is not actual need for a "ring fence", as the pool itself will determine the extension of the area under net profit.

**18. My company is planning to build a road within the ring fence. Can I include the cost of the building the road in my net profit arrangement?**

The Crown will evaluate it case by case and it has to be strictly related to the project. If inclusion of the road has a minimal footprint or if there is a joint agreement with other producers to use it, it will be favourably considered.

**19. What happens if the approved ring fence only includes part of the road? Are the costs of building the road considered as part of the net profit account or not?**

Yes, it will, if it is strictly related to the project.

**20. What happens if the approved ring fence leaves out part of the area I have been spending seismic dollars on? Will they still be part of the net profit account or not?**

Yes, if they are relevant to the project.

**21. I got an infrastructure royalty credit for a road/pipe I have already built. How will this be treated within net profit?**

If your road/pipe is related to the project and accepted within the ring fence, then the credit will be deducted from your total allowable costs (“no double dipping”).

**22. Can I meet with EMPR’s representatives to discuss my project?**

After the RFA is released, you cannot meet individually with any EMPR’s representatives to discuss your project. Regardless, EMPR is planning to hold a briefing shortly after the RFA is released to present the RFA and related templates.