

ORDER OF THE ADMINISTRATOR 2008-02

NET PROFIT ROYALTY PROJECT ALLOWED COST
ORDER OF THE ADMINISTRATOR

NET PROFIT ROYALTY REGULATION

Pursuant to subsection 2(h) of the *Net Profit Royalty Regulation*, I order as follows:

A. The following eligibility criteria are established for allowed capital costs and allowed operating costs to be determined in the calculation of a net profit royalty:

(i) An allowed operating cost must:

- be operating in nature under Canadian Generally Accepted Accounting Principles;
- be directly attributable to the project;
- be incurred by the producer;
- be considered by the administrator to be reasonable in the circumstances;
- not have been recovered from another party; and
- not be specifically excluded pursuant to sections B or C of this Order;

(ii) An allowed capital cost must:

- be capital in nature under Canadian Generally Accepted Accounting Principles;
- be directly attributable to the project;
- be incurred by the producer;
- be considered by the administrator to be reasonable in the circumstances;
- not have been recovered from another party; and
- not be specifically excluded pursuant to sections B or C of this Order;

B. Schedule I to this Order sets out those capital and operating costs that are specifically excluded from the calculation of a net profit royalty under the *Net Profit Royalty Regulation*.

C. Drilling and abandonment costs for dry wells are limited to a maximum of 30% of drilling and abandonment costs incurred in determining allowed historical cost for a project. A dry well is a well that is not capable of producing.

D. A disposition of a capital asset through an arms length sale or through a non-arms length disposition is accounted for as a reduction of allowable capital costs for the reporting period in which the capital asset was disposed of. The disposition of the capital asset is to be valued at the actual consideration received for an arms length disposition or at fair market value for a non-arms length disposition.

Original signed by



Gordon Goodman

Royalty Administrator

Dated at Victoria, British Columbia

this 2nd day of December

SCHEDULE I

NET PROFIT ALLOWABLE COST ORDER OF THE ADMINISTRATOR

NON-ALLOWED CAPITAL & OPERATING COSTS FOR NET PROFIT ROYALTY PROJECTS

- Administration and overhead costs;
- Any portion of a cost for which the project has received a credit, discount or government assistance;
- Charitable donations;
- Communications, public relations and marketing materials and periodicals;
- Company stock awarded as a bonus that is redeemable by the recipient;
- Corporate insurance other than direct insurance for the project;
- Costs of supply and demand studies for products produced from net profit well events within the project;
- Costs relating to dispute resolution which involve disputes with the Crown in relation to the project, or that result from an act or omission that is a breach of any applicable law, rule or regulation of a government or government agency.
- Costs that would not be allowed as a deduction under the Income Tax Act (Canada) with respect to the human consumption of food, beverages or entertainment;
- Crown royalty payments;
- Depreciation and depletion costs;
- Financing costs and penalties related to financing;
- Funding for cultural, sporting or community events or infrastructure;
- Funding for scholarships or other academic financial programs;
- Funding for industry regional agreements including regional benefits agreements;
- Generic computer software that is not specifically designed and required for the operations of the project;
- Goods and services tax;
- Income tax;
- Land tenure payments;
- Loss of Revenue insurance;
- Losses on disposal of capital assets
- Membership fees in business or industry associations;
- Orphan site reclamation fund tax;
- Promotional corporate advertising;
- Social events such as company barbecues, Christmas parties;
- Well licenses, drilling deposit fees, and other Oil and Gas Commission or Crown fees;

