



Allowable Expenditure Credit Guideline

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Summary of Changes		
Date Revised	Sections (if applicable)	Description of Change
October 28, 2024	All	Placed into new format for guidelines; updated to include the latest regulatory references, changes in terminology and remove any duplication with other guidelines.

Foreword

The Canada-Newfoundland and Labrador Offshore Petroleum Board (the *Regulator*) has issued this Guideline to assist *Licence Representatives* in understanding the process of applying for and approving *Allowable Expenditure Credits*.

Guidelines are developed to provide assistance to those with statutory responsibilities (including operators, employers, employees, supervisors, providers of services, suppliers, etc.) under the *Accord Acts* and regulations. Guidelines provide an understanding of how legislative requirements can be met. In certain cases, the goals, objectives and requirements of the legislation are such that no guidance is necessary. In other instances, guidelines will identify a way in which regulatory compliance can be achieved.

The authority to issue Guidelines and Interpretation Notes with respect to legislation is specified by subsections 151.1(1) and 205.067(1) of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act, S.C. 1987, c.3 (C-NLAAIA)* and subsections 147(1) and 201.064(1) of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act, RSNL 1990, c. C-2*. The *Accord Acts* also state that Guidelines and Interpretation Notes are not deemed to be statutory instruments.

For the purposes of this Guideline, these Acts are referred to collectively as the *Accord Acts*. Any references to the C-NLAAIA or to the regulations in this Guideline are to the federal versions of the *Accord Acts* and the associated regulations.

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1.0 Acronyms and Abbreviations

C-NLOPB	Canada-Newfoundland and Labrador Offshore Petroleum Board
CSEM	Controlled Source Electromagnetic
CSRC	Core Storage and Research Centre
EL	Exploration Licence
GGE	Geoscientific, Geotechnical and Environmental
OA	Operations Authorization
R&D/E&T	Research and Development/Education and Training
SDL	Significant Discovery Licence

2.0 Definitions

In this Guideline, the terms such as “authorization”, “board”, “call for bids”, “exploration licence”, “fundamental decision”, “interest holder”, “interest owner”, “offshore area”, “significant discovery licence” and “well” referenced herein have the same meaning as in the *Accord Act*.

In this Guideline, “geoscientific programs”, “environmental programs”, and “geotechnical program” referenced herein have the same meaning as in the *Framework Regulations*.

For the purposes of this Guideline, the following terms have been capitalized and italicized when used throughout this Guideline. The following definitions apply:

<i>Allowable Expenditure</i>	is the <i>Cost of Work</i> that meets the terms and conditions of the licence, as approved by the <i>Regulator</i> , permitting credit against any outstanding <i>Security Deposit</i> on ELs in <i>Period I</i> or against <i>Rentals</i> respecting either ELs in <i>Period II</i> or commencing year six of SDLs
<i>Allowable Expenditure Credit</i>	is the amount that a <i>Security Deposit</i> is reduced by an <i>Allowable Expenditure</i>
<i>Applicant</i>	is the entity that submits an <i>Application</i> , typically the <i>Licence Representative</i>

Application	<i>Application for Allowable Expenditure Credit</i>
Board	means the Board members appointed pursuant to section 10 of the <i>Accord Act</i>
Cost of Work	is the amount expended by an interest owner, in Canadian Dollars, exclusive of taxes
Cost Recovery Regulations	means the <i>Canada-Newfoundland and Labrador Offshore Petroleum Cost Recovery Regulations, SOR/2016-21</i>
De-mobilization	includes any activities related to preparing an installation for the conclusion of the activity on a licence. The <i>de-mobilization</i> period commences when well operations on the last well are completed and concludes when the installation commences transit off the licence
Direct Cost	is the <i>Cost of Work</i> directly applicable to activity being carried out on the licence
Exclusive Data	is data collected during a GGE program that is intended for the exclusive use of the owner(s) of that data and which will not be licenced, in whole or in part, to the public by the data owner
Framework Regulations	means the <i>Canada-Newfoundland and Labrador Offshore Area Petroleum Operations Framework Regulations, SOR/2024-25</i>
Hybrid Model	this refers to the Hybrid Security Deposit Write-Down Model. It is the <i>Uplift</i> model for <i>Allowable Expenditure Credit</i> associated with early-term drilling and multiple well programs in accordance with the respective terms and conditions of an EL
Licence Representative	is the interest holder appointed as a representative of an interest owner, where interest owners consists of two or more interest holders
Maximum Entitlement Area	is the geographical area on which <i>Allowable Expenditures</i> related to <i>Programs with Fieldwork</i> are applicable, equal to the area of the licence, plus the area of the appropriate buffer surrounding the licence
Mobilization	includes any activities related to preparing an installation for an upcoming well operation campaign after the installation contract has commenced and transit to the licence has begun upon either entering the <i>Offshore Area</i> or transiting from lands within the

	<i>Offshore Area</i> to the licence. The installation <i>Mobilization</i> period concludes once the first well operation has commenced
Multi-Well Model	this refers to the Multi-Well Security Deposit Write-Down Model. It is the <i>Uplift</i> model for <i>Allowable Expenditure Credit</i> associated with multi-well programs in accordance with the respective terms and conditions of the EL
Non-exclusive Data	is data collected during a GGE program that is conducted to acquire such data for the purpose of licensing, in whole or in part, to the public by the data owner
Offshore Area	is the offshore area as defined by the <i>Accord Acts</i>
Original Model	refers to the Original Security Deposit Write-Down Model. It is the model where the standard 25% write-down of the <i>Security Deposit</i> is applied to determine <i>Allowable Expenditure Credit</i> in accordance with the respective terms and conditions of the EL
Overhead	is an amount claimable as an <i>Allowable Expenditure</i> in respect of indirect costs incurred during the planning, execution and post activity phases of a drilling program, <i>GGE Program with Fieldwork</i> or <i>GGE Program without Fieldwork</i>
Period	in relation to an EL and as per the terms and conditions of the licence, the nine-year term of the licence has two <i>Periods</i> , referred to as <i>Period I</i> and <i>Period II</i>
Pre-Licence Period	is the timeframe that extends from the date of initial announcement of the call for nominations (area of interest) for that scheduled round, up to and including the effective date of an EL issued from that round
Program Commencement	means the program has commenced. This is the date when an OA has been issued for a GGE program, as referred to in the requirements and associated guidance for section 184 of the <i>Framework Regulations</i>
Program Conclusion of Fieldwork	means the program has concluded. This is the date that authorized activities have permanently ceased, as referred to in the requirements and associated guidance for section 184 of the <i>Framework Regulations</i>
Programs with Fieldwork	are those GGE programs that involve the direct collection of materials or data in the <i>Offshore Area</i> , as referred to in section 13

	of the <i>Guidelines for Petroleum Related Authorizations and Approvals</i>
Programs without Fieldwork	are those GGE programs carried out by using readily available materials and data (no acquisition required) to complete scientific analysis, as referred to in section 14 of the <i>Guidelines for Petroleum Related Authorizations and Approvals</i>
Regulator	means the Canada-Newfoundland and Labrador Offshore Petroleum Board
Rentals	are the annual per hectare fee, in Canadian dollars, charged on an EL in <i>Period II</i> , or a SDL commencing at the end of year six of the SDL, in accordance with the respective terms and conditions of the licence
Security Deposit	is the amount, in Canadian dollars, equal to the percentage of the <i>Work Commitment Bid</i> that is required to be deposited with the <i>Regulator</i>
Uplift	is the increase, expressed as a percentage, in the rate of <i>Security Deposit</i> write-down in accordance with the terms and conditions of a licence
Work Commitment Bid	is the amount, in Canadian dollars, that a successful bidder on a parcel offered in a call for bids commits to spending on exploration, and on R&D/E&T within <i>Period I</i> of the resulting EL

3.0 Purpose and Scope

The *Regulator* is responsible for the administration of land rights in the *Offshore Area* pursuant to the *Accord Act*. This Guideline and the *Application* have been prepared to help *Applicants* better understand the processes for approving *Allowable Expenditures* and preparing an *Application*.

Pursuant to subsections 58(4), 59(3), 67(1) (for ELs) and 73(4) (for SDLs) of the *Accord Act*, the terms and conditions of a licence specify requirements for approval of *Allowable Expenditures* by the *Regulator*.

In its administration of land rights, the *Regulator* is responsible for processing *Applications* and for applying credits for *Allowable Expenditures* against either *Security Deposits* or *Rentals*.

4.0 Fundamentals of Allowable Expenditures

This section provides general information associated with *Allowable Expenditure Credit*, including the differentiation between three *Security Deposit* write-down models: the *Original Model*, the *Multi-Well Model* and the *Hybrid Model*.

4.1 General Information – ELs

Upon receipt of a successful *Work Commitment Bid* for a parcel, a resulting EL is normally issued the following January. The successful bidder on a parcel is required to post a *Security Deposit* generally equal to twenty-five percent (25%) of the *Work Commitment Bid* within 15 days of official notification of being the successful bidder. This *Security Deposit* is a term and condition of the resulting EL and is fully recoverable against *Costs of Work* incurred up to the end of *Period I* that qualify as *Allowable Expenditures*.

An *Allowable Expenditure Credit* against the *Security Deposit* will be calculated in accordance with the terms and conditions of a given licence for any *Allowable Expenditures* incurred in the *Pre-Licence Period* and/or during *Period I*. This process continues until either the *Security Deposit* is fully refunded or the outstanding *Security Deposit* is forfeited at *Period I* expiry. Figure 4.1 illustrates the general *Allowable Expenditure* process.

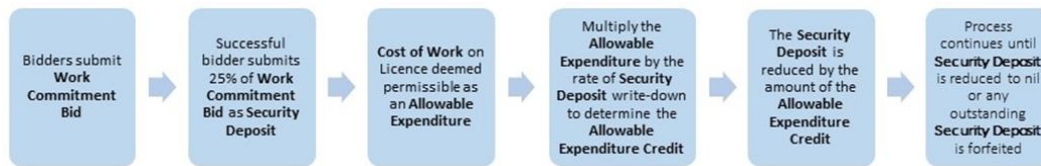


Figure 4.1: Illustration of the general *Allowable Expenditure* process.

A drilling deposit can be filed to extend *Period I* (if *Period I* has not been validated in accordance with the terms and conditions of the EL) in order to afford time for drilling a validating well. Additionally, in the event that an EL is being diligently pursued and remains in *Period I*, any *Allowable Expenditure* can be credited against the *Security Deposit*.

Costs of Work incurred after *Period I* cannot be claimed as *Allowable Expenditures* against the *Security Deposit*. However, in relation to the *Multi-Well Model* and the *Hybrid Model*, subsequent drilling of an EL in *Period II* can result in *Uplift* on *Allowable Expenditures* previously credited in *Period I*, where applicable, as long as the *Security Deposit* term was extended. For clarity, if the *Security Deposit* remains in place, further wells in *Period II* can provide *Uplift* on previous expenditures in *Period I*. If the *Security Deposit* is relinquished at the end of *Period I*, then no such *Uplift* can take place.

If a *Security Deposit* on an EL requires extension, contact Legal Services at least six weeks prior to the *Security Deposit* expiry date.

For more information on *Rentals*, see Section 4.5 of this Guideline which shows the general process and includes a numerical example specific to *Rentals*.

4.2 Terms and Conditions of a Licence

While this Guideline has been developed from the standard terms and conditions of ELs/SDLs, *Applicants* are encouraged to review the specific terms and conditions of their licence, which explicitly prescribe what qualifies for *Allowable Expenditure Credit* for their respective licence. During the *Application* process, if questions arise regarding the acceptability of certain *Costs of Work*, it is recommended that the *Applicant* consult with the *Regulator*. *Applicants* should seek pre-approval from the *Board* on the applicability of *Cost of Work* as an *Allowable Expenditure* for “Seabed & Other Surveys/Studies” as described in the terms and conditions prior to incurring such costs. Applicability can be granted post survey as well, but this does result in a risk to the *Applicant* that the incurred expense is not eligible in whole or in part for *Allowable Expenditure*.

The terms and conditions of a licence offer flexibility for other *Cost of Work* to be considered by the *Regulator* on a case by case basis. Note that such cases will require *Board* approval. Instances that may trigger such a request include technological advancements and other costs not previously contemplated at the time of licence issuance.

The terms and conditions of a licence also require authentication of any *Costs of Work* brought forward by the *Applicant* for *Allowable Expenditure Credit* against the *Security Deposit*. This is achieved by having such expenditures audited by a third-party auditor. An audit report from an accredited auditing firm, attesting to the legitimacy of expenses being claimed, is a requirement of an *Application*. The scope of an audit should be in accordance with Canadian generally accepted auditing standards. The *Regulator* reserves the right, however, to require that an *Applicant* to have a more detailed audit conducted where it believes it is necessary to confirm the acceptability of *Allowable Expenditures* being claimed.

In advance of the *Application's* submission, the *Applicant* should provide a draft third-party audit letter of engagement (sample found in Appendix B) to the *Regulator*. This draft third-party audit letter of engagement must be vetted prior to the commencement of the third-party audit to ensure audit instructions are consistent with the terms and conditions of the licence and this Guideline.

4.3 Temporal Validity for Credit Against a Security Deposit

For any EL awarded prior to January 15, 2016 in accordance with the scheduled land tenure system, *Costs of Work* must be incurred within *Period I* of the licence to be considered *Allowable Expenditures* towards the *Work Commitment Bid*.

For all other licences, *Allowable Expenditures* may be submitted for credit against the *Security Deposit* for any *Costs of Work* incurred by any interest holder in the *Pre-Licence Period* and/or during *Period I*.

Where work occurs during the *Pre-Licence Period* or *Period I*, any *Cost of Work* can only be recognized as an *Allowable Expenditure* if the interest holder was a registered interest holder in respect of a given EL at the time the work was conducted.

Costs of Work incurred in *Period II* cannot be claimed as *Allowable Expenditures* against the *Security Deposit*, but may be credited against *Rentals* in accordance with the terms and conditions of the licence. Conversely, *Costs of Work* incurred in *Period I* cannot be brought forward and claimed against *Rentals* in *Period II*. For more information on *Rentals*, see Section 4.5 of this Guideline which shows the general process and includes a numerical example specific to *Rentals*.

4.4 Rate of Security Deposit Write-Down

The sections that follow describe the various *Security Deposit* write-down models, focusing on when and how each model can be applied. Figure 4.2 illustrates the general *Allowable Expenditure* process, highlighting the step where there are three possible *Security Deposit* write-down models: *Original Model*, *Multi-Well Model* and *Hybrid Model*.

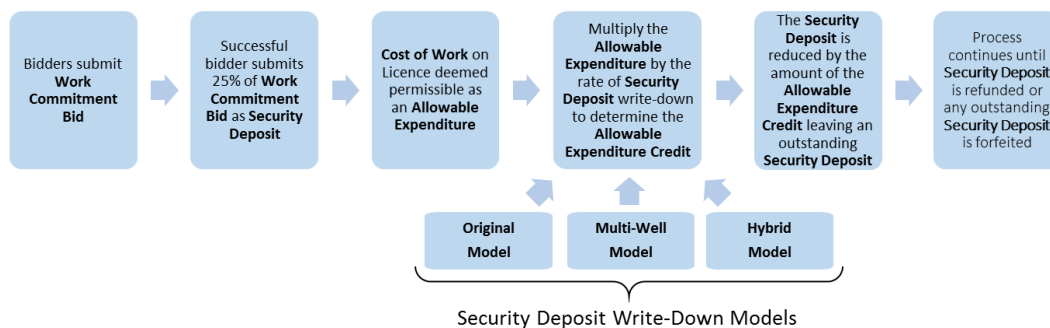


Figure 4.2: Illustration of general *Allowable Expenditure* process showing the three possible *Security Deposit* write-down models.

4.4.1. *Original Model*

The *Original Model* is defined by a *Security Deposit* write-down of 25% of the *Costs of Work* as an *Allowable Expenditure Credit*.

This is the de facto model for licences awarded prior to January 15, 2021, as per the terms and conditions of the licence. However, as addressed in Section 4.4.2 of this Guideline, the terms and conditions can be amended if requested.

4.4.2. *Multi-Well Model*

The *Multi-Well Model* provides a means to accelerate the write-down of the *Security Deposit* such that the permissible percentage of *Security Deposit* write-down increases as the number of wells drilled on the EL increases. *The Multi-Well*

Model was approved by Ministers on August 20, 2020 via a fundamental decision of the *Board*.

Interest owners of ELs issued prior to January 15, 2021 can avail of either the *Original Model* or the *Multi-Well Model* by requesting the necessary amendments to their licence from Legal Services of the *Regulator*.

Unlike the *Original Model* that offers a flat rate of reduction of 25% of the *Security Deposit*, the *Multi-Well Model* affords a 30% write-down of the *Security Deposit* as a baseline, which increases as the number of wells drilled on the EL increases. For amended licences, the additional 5% will automatically apply on all go forward *Applications*. Retroactively, the additional 5% is permissible, but must be requested by the *Licence Representative*.

Figure 4.3, explains pictorially and numerically that in the *Multi-Well Model*, the percentage write-down escalates as the number of wells drilled increases, and that with each successive well drilled, any previously completed *Application* may be entitled to additional *Uplift*.

For example, having drilled the first well, an *Application* was assessed for drilling costs and a 30% write-down of the *Security Deposit* was awarded. Subsequently, a second well was drilled. In that instance, when the second *Application* was assessed, a 40% write-down of the *Security Deposit* was awarded for the second well and additionally an *Uplift* of 10% (reflective of the step from 30% to 40%) write-down of the *Security Deposit* was therefore awarded on the initial *Application* for the first well.

As the *Security Deposit* write-down rates change with the increase in the number of wells drilled, it is recommended that the *Licence Representatives* submit a single *Application* for all wells drilled on programs with multiple wells, rather than submitting individual, per well, *Applications*. In the instances where *Applications* are submitted on an individual well basis, the *Regulator* will recalculate and award any *Allowable Expenditure Credit* as necessary; however, the onus is on the *Licence Representative* to complete section 7.0 of the *Application* to request *Uplift* credit for *Costs of Work* approved under previous *Applications*.

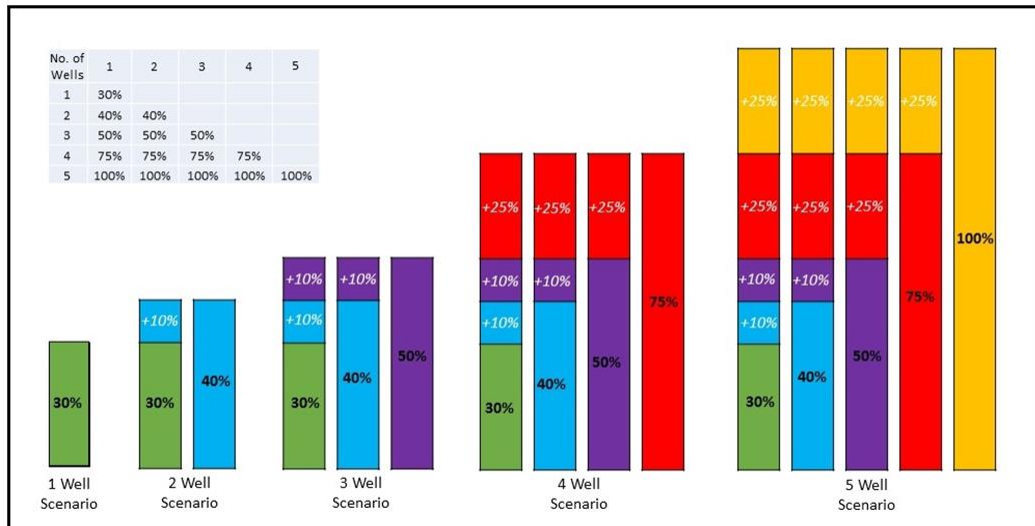


Figure 4.3: Pictorial and numerical example of how *Uplift* applies on previous *Allowable Expenditure Credits* as the number of wells drilled increase in the *Multi-Well Model*. The bold black text represents the percentage *Security Deposit* write-down for the given number of wells drilled and the white italicized text represents applicable *Uplift*.

Although the percentage of *Security Deposit* write-down is based on the number of wells drilled on the EL, all classes of *Allowable Expenditures* are eligible at the applicable percentage write-down. Please refer to Section 5.0 of this Guideline for specific classes of *Allowable Expenditures*.

4.4.3. Hybrid Model

The *Hybrid Model* incorporates the principles of the *Multi-Well Model* combined with increased write-downs for early EL term exploration expenditures.

ELs issued by the *Regulator* commencing January 15, 2021, contain the terms and conditions associated with the *Hybrid Model*.

As set out in Figure 4.4, the *Hybrid Model* allows for different baseline percentages of *Security Deposit* write-down for work carried out in the *Pre-Licence Period*, and at various points throughout *Periods I* and *II*. However, in instances where the drilling of multiple wells exceeds the baseline percentage of *Security Deposit* write-down, the *Multi-Well Model*, as outlined in Figure 4.3, can be applied.



Figure 4.4: Illustration of the *Hybrid Model*. Note that this figure assumes a *Period I* of six years.

As the *Security Deposit* write-down rates change with the number of wells drilled and the timing of exploratory work, interest owners should consider submitting a single *Application* based on multiple *Costs of Work* incurred over time rather than individual *Applications*. In the instances where *Applications* are submitted on an individual activity basis, the *Regulator* will recalculate and award any *Allowable Expenditure Credit* as necessary; however, the onus is on the *Licence Representative* to complete section 7.0 of the *Application* to request *Uplift* credit for *Costs of Work* approved under previous *Applications*.

4.4.4. Comparative Examples of Three Security Deposit Write-Down Models

Table 4.1 below is a numerical comparison between the three *Security Deposit* write-down models for this sample exploration program and demonstrates how the *Multi-Well Model* and the *Hybrid Model* accelerate the rate of *Security Deposit* write-down as compared to the *Original Model*.

This example is premised on a sample exploration program on an EL with the following particulars:

- *Work Commitment Bid* of \$400 million, with a resulting *Security Deposit* of \$100 million;
- Seismic program (acquired pre-term) at a cost of \$10 million; and
- Two wells drilled (one in year two and one in year five of *Period I*) at a cost of \$100 million each.

Table 4.1: Comparison of the three *Security Deposit* write-down models for the same sample exploration program.

Security Deposit Write-Down Model	Timing	Bid Amount	Security Deposit	Allowable Expenditure	Rate of Security Deposit Write-Down	Allowable Expenditure Credit	Outstanding Security Deposit
Original	Historical	\$400 M	\$100 M	Seismic: \$10 M Well 1: \$100 M Well 2: \$100 M	25% 25% 25%	\$2.5 M \$25 M \$25 M	\$52.5 M \$47.5 M

Multi-Well	Licences Issued prior to Jan 15, 2021 by request	\$400 M	\$100 M	Seismic: \$10 M Well 1: \$100 M Well 2: \$100 M	30% + 10%* 30% + 10%* 40%	\$4 M \$40 M \$40 M	\$84 M	\$16 M
Hybrid	Licences Issued Jan 15, 2021 onwards	\$400 M	\$100 M	Seismic: \$10 M Well 1: \$100 M Well 2: \$100 M	75% 50% 40%	\$7.5 M \$50 M \$40 M	\$97.5 M	\$2.5 M

* Denotes the entitled *Uplift* allowed on seismic and first well as a result of drilling the second well in the *Multi-Well*

Model

4.5 Rentals

An EL in *Period II* or an SDL in year six or beyond is subject to *Rentals* as per the terms and conditions of a given licence. *Allowable Expenditures* incurred during *Period II* can be applied for credit against *Rentals* at 100%, as illustrated in Figure 4.5, which shows the general process and includes a numerical example.

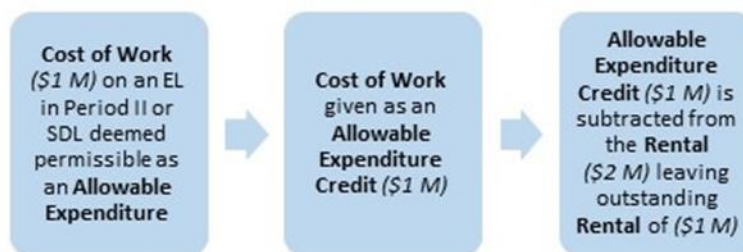


Figure 4.5: Illustration of *Allowable Expenditures* credited towards *Rentals* with a numerical example.

During any given year on January 15, if the *Allowable Expenditure Credit* during *Period II* is greater than the outstanding *Rental*, any remaining *Allowable Expenditure Credit* may be brought forward to be applied against any future annual *Rentals* in relation to the subject licence.

For greater certainty, outstanding *Security Deposits* at the end of *Period I* cannot be carried forward and applied against *Rentals*.

5.0 Classification of Allowable Expenditures

The following sections outline the specific *Allowable Expenditure* classifications as described in the terms and conditions of a licence, and they provide additional explanations related to each classification.

Compliance with any data submission requirements for specific approved programs (i.e., associated data and reports) as set out by the associated guidance for sections 187 and 188 of the *Framework Regulations* should be met as a pre-requisite for any review by the *Regulator* of an *Application for Allowable Expenditure Credit*.

5.1 Allowable Expenditures Associated with Drilling

5.1.1 Direct Costs

Direct Costs related to drilling on an EL in the *Offshore Area* include costs incurred during the *Mobilization to De-mobilization* time frame and are specifically related to the drilling of the well on the respective licence. Such costs would normally capture day rates for drilling (which could include downtime), vessel and aircraft operations, support operations such as medical or weather services and data acquisition costs associated with activities such as logging while drilling, data collection, sampling or formation flow testing for that well. Activities which occur outside of the *Mobilization to De-mobilization* time frame may be considered by the *Regulator*, consistent with licence terms and conditions, on a case-by-case basis.

5.1.1.1. Arm's Length Costs

Direct Cost drilling activities are typically carried out by a third party contracted by or on behalf of the interest owner. The interest owner may be charged a daily rate for drilling services and negotiated fees for other *Direct Cost* activity, including data acquisition programs.

Direct Costs related to drilling are to be claimed at cost when carried out by a third party at arm's length from the interest owner.

5.1.1.2. Non-Arm's Length Costs

Direct Cost expenses related to drilling may also be incurred directly by the interest owner. For example, this may include the costs of travel to the installation by expert personnel as required from time to time.

Non-arm's length *Direct Costs* related to drilling shall be the lesser of cost or fair market value as established by an independent third-party expert engaged by the *Applicant* or, if necessary, by the *Regulator*, such cost to the *Regulator* being recoverable from the *Applicant*.

5.1.2 Overhead

Overhead costs associated with a drilling program are considered to be those incurred outside of the *Mobilization to De-mobilization* time frame and can include administrative expenses such as report generation, pre-

well planning and expenses associated with maintaining an office in Newfoundland and Labrador.

As a result of a May 29, 2020 fundamental decision by the *Board*, when calculating *Allowable Expenditure Credits*, there are two ways to claim *Overhead* for drilling costs on a per well basis. The *Applicant* can apply a flat rate of 10% of the *Direct Costs* related to drilling as *Overhead* to a maximum of \$25 million per well in accordance with the terms and conditions of the licence. Alternatively, where an *Applicant* chooses to submit itemized costs as *Overhead*, the assessment will be subject to a review where additional auditing (at the expense of the interest owner) and *Board* approval may be required.

The decision is left with the *Applicant* to decide which method is the most advantageous, as the eligible amount to be claimed must be the lesser of \$25 million or 10% of the total *Allowable Expenditures* per well, reflective of the terms and conditions of the licence. Under no circumstance is double counting of *Overhead* permitted, whereby both itemized costs and 10% *Overhead* are submitted.

5.1.3 Areal Applicability Regarding Drilling

When a well is drilled on a licence, the typical percentage applicability to that licence, for the purpose of *Allowable Expenditure Credits*, is 100%. However, in situations where the trajectory of a well straddles licences, or a multiple well program across a number of ELs is being conducted, not all completed work occurs within the subject licence boundary and therefore such work must be allocated across licences for the purpose of determining *Allowable Expenditure Credits*. For example, if a supply vessel is supporting drilling operations at the subject licence and at some point leaves to conduct pre-drilling work (e.g., laying of mobile offshore drilling unit transponders) for a different well on another licence, then this work must be allocated between the licences proportionately.

5.2 Allowable Expenditures Associated with GGE Programs with Fieldwork

Common types of *GGE Programs with Fieldwork* for which *Costs of Work* may be approved as *Allowable Expenditures* include 2D, 3D, 4D and high-resolution seismic, vertical seismic profiling, CSEM, gravity or magnetic surveys, bathymetry, side scan sonar, seep/slick sampling, collection of grab samples, heat flow, wave riders, coral surveys and piston cores. This list is meant only to be a guide and is not intended to be a restrictive list of such GGE programs.

5.2.1 Direct Costs

Direct Costs related to *GGE Programs with Fieldwork* include costs incurred from the *Program Commencement* through to *Program*

Conclusion of Fieldwork. Examples can include cost of data acquisition, the contracting of a program manager, as well as monitoring services such as for weather and fisheries.

5.2.1.1. Arm's Length Costs

GGE Programs with Fieldwork that are at arm's length may include the scenario where the interest owner contracts a third party to carry out fieldwork for the exclusive use of the interest owner. This can be achieved whether the OA for the *Program with Fieldwork* is held by the interest owner or the third party.

Direct Costs related to *GGE Programs with Fieldwork* are to be claimed at cost when carried out by a third party at arm's length from the interest owner.

5.2.1.2. Non-Arm's Length Costs

Non-arm's length costs that are typically associated with *GGE Programs with Fieldwork* include where the interest owner conducts the data acquisition itself (i.e. not contracted out).

Direct Costs related to *GGE Programs with Fieldwork* that are non-arm's length shall be the lesser of fair market value as established by an independent third-party expert (obtained at the expense of the interest owner) or at cost.

5.2.2 Overhead

When calculating *Allowable Expenditure Credits*, a flat rate of 10% of the *Direct Costs* related to the *Program with Fieldwork* can be added as an *Overhead* to cover indirect costs as per the terms and conditions of the licence. Examples of such costs associated with a *Program with Fieldwork* include administrative expenses from report generation and data preparation as per data submission requirements, as well as office rental space and supplies when obligated to have an office presence in Newfoundland and Labrador.

The *Overhead* amount that can be claimed for a *Program with Fieldwork* is 10% of the total *Allowable Expenditures* as described in the terms and conditions. There is no maximum amount of *Overhead* that can be claimed in this case, unlike in the case of *Allowable Expenditures* associated with drilling.

5.2.3 Areal Applicability Regarding GGE Programs with Fieldwork

Typically, to be considered *Allowable Expenditures*, *Costs of Work* have to be carried out directly on the licence. However, policies described in

Sections 5.2.3.1 and 5.2.3.2 of this Guideline outline situations where *Costs of Work* can be considered as *Allowable Expenditures* beyond the licence boundary for specific types of GGE *Programs with Fieldwork*.

5.2.3.1. Application of a Buffer around a Licence

To be considered an *Allowable Expenditure*, a *Cost of Work* must be proven to be applicable to the licence. To that end, it has been scientifically shown that to effectively study a licence using geophysical methods, acquisition would normally have to extend beyond the licence boundary to allow for proper processing and subsurface imaging of the data. For this reason, the *Regulator* will allow for a buffer surrounding the licence, as illustrated in Figure 5.1, to determine the *Maximum Entitlement Area*. *Maximum Entitlement Area* is equal to the area of the licence, plus the area of the appropriate buffer surrounding the licence.

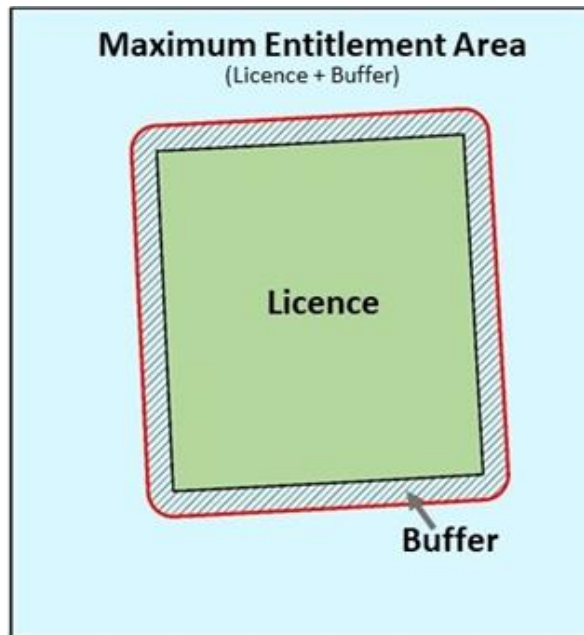


Figure 5.1: An illustration of *Maximum Entitlement Area*. This concept is employed for programs employing geophysical methods such as seismic, CSEM, gravity and magnetic surveys.

In the case of seismic and CSEM programs, the *Maximum Entitlement Area* includes a 4 km buffer around a licence. For gravity and magnetic surveys, a buffer of 10 km can surround a licence to achieve the *Maximum Entitlement Area*.

The *Regulator* also recognizes that when licences are contiguous, buffer areas created in associated *Applications* may overlap. In such cases, the

Maximum Entitlement Area should remain as described above, with no obligation to remove areas of overlapping buffers.

5.2.3.2. Wellsite Survey Allowances

Section 13 of the *Guideline for Petroleum-Related Authorizations and Approvals* recommends a 4 km by 4 km grid pattern for 2D or 3D high-resolution seismic to complete a geohazard assessment for a proposed well location which is to accompany the well approval as referred to in section 17 of the *Framework Regulations*. As a result, for any reasonably sized survey conducted for the purpose of evaluating a proposed well location, *Costs of Work* incurred for the entirety of the survey can be considered as an *Allowable Expenditure*, even if portions of the survey fall outside the licence boundary, as illustrated in Figure 5.2.

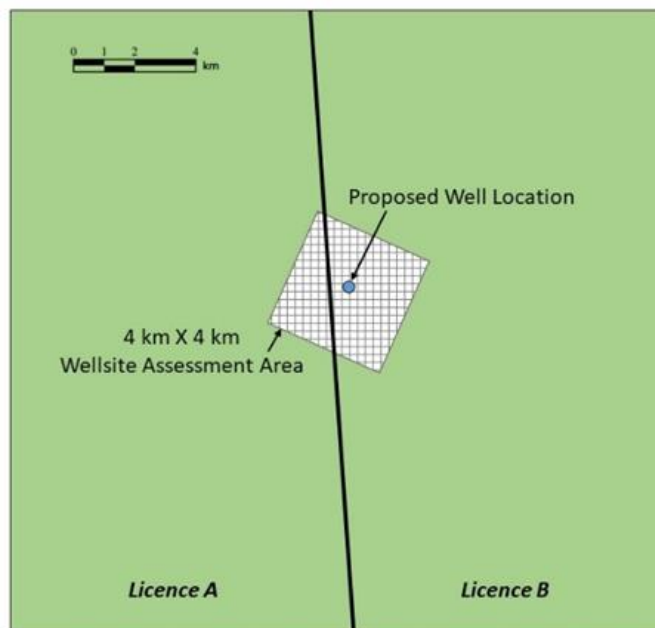


Figure 5.2: Example illustrating contiguous licences, A and B, with a proposed well location on Licence B near boundary. The associated 4 km by 4 km wellsite assessment area can be considered allowable to Licence B at 100%, or alternatively, allocated proportionately between Licence A and Licence B.

If such a survey is being relied upon for the purposes of drilling multiple wells on contiguous licences, the total cost of the survey can only be applied to a single licence alone, or alternatively, it can be allocated proportionately between the licences.

5.3 Allowable Expenditures Associated with GGE Programs without Fieldwork

Common types of *GGE Programs without Fieldwork* for which *Costs of Work* may be approved as *Allowable Expenditures* include reprocessing of existing data, purchase of *Non-exclusive Data* or reports and the generation or purchase of reports completed after analyzing samples borrowed from the CSRC. Such *Costs of Work* will be approved as *Allowable Expenditures* if the *Applicant* applies and receives approval for a *Program without Fieldwork*.

5.3.1 Direct Costs

Direct Costs related to *GGE Programs without Fieldwork* can include costs incurred by the *Applicant* for shipping and analysis of physical samples, data processing and data purchases.

5.3.1.1. Arm's Length Costs

Arm's length costs can include an interest owner procuring a third party to complete *Exclusive Data* reprocessing of existing data or to complete analysis on borrowed materials from the CSRC. Additionally, the scenario where an interest owner purchases *Non-exclusive Data* falls into the arm's length category.

Such *Direct Cost* related to *GGE Programs without Fieldwork* must be claimed at cost when carried out by a party at arm's length from the interest owner.

5.3.1.2. Non-Arm's Length Costs

Sometimes *Direct Cost* expenses related to *GGE Programs without Fieldwork* are incurred directly by an interest owner. For instance, highly specialized processing of existing seismic data could be carried out by experts in the employ of an interest owner.

Direct Cost expenditures related to *GGE Programs without Fieldwork* that are non-arm's length shall be the lesser of fair market value as established by an independent third-party expert (obtained at the expense of the interest owner) or at cost.

5.3.2 Overhead

When calculating *Allowable Expenditure Credits*, a flat rate of 10% of the *Direct Costs* related to the *Program without Fieldwork* can be added as an *Overhead* to cover indirect costs as per the terms and conditions of the licence. Examples of such costs associated with a *Program without Fieldwork* could include administrative expenses from report generation and data preparation as per data submission requirements, as well as

office rental space and supplies when obligated to have an office presence in Newfoundland and Labrador.

The *Overhead* amount that can be claimed for a *Program without Fieldwork* is 10% of the total *Allowable Expenditures* as described in the term and conditions. There is no maximum amount of *Overhead* that can be claimed in this case, unlike in the case of *Allowable Expenditures* associated with drilling.

5.3.3 Areal Applicability Regarding GGE Programs without Fieldwork

The areal applicability policies described in Section 5.2.3 of this Guideline pertaining to *GGE Programs with Fieldwork* also apply to *GGE Programs without Fieldwork*. Additionally, there may be instances where exploratory work was not completed directly on the licence but may be applicable to the licence, like a biostratigraphic study completed using wells drilled on regional licences for example. In this example, the onus is on the *Applicant* to demonstrate applicability of the biostratigraphic study to the licence. Cases such as these are subject to *Board* approval.

5.3.4 Fee for Program Approval Application (GGE Programs without Fieldwork)

In order for a *Program without Fieldwork* to be considered as an *Allowable Expenditure*, an application for a *Program without Fieldwork*, accompanied by the prescribed fee as per the *Cost Recovery Regulation*, is required. Submission of an application for a *Program without Fieldwork* ensures that all data and report submissions have been completed prior to issuing any *Allowable Expenditure Credit*.

In the case where an interest owner has multiple *Program without Fieldwork* expenditures related to contiguous licences, the *Applicant* should contact the *Regulator* prior to the submission of an application for a *Program without Fieldwork*. At the discretion of the *Regulator*, a single fee and/or a single interpretation report covering all data over the associated licences may be adequate.

Although any application for a *Program without Fieldwork*, if required, can be completed concurrently with the *Application*, note that the *Application* cannot be concluded without the approval of the application for a *Program without Fieldwork*.

5.3.5 Considerations for Multiple Licence Holders

Typically, *Allowable Expenditures* incurred by individual interest holders are submitted as part of the *Application* by the *Licence Representative*. However, the *Regulator* may consider any *Allowable Expenditures*

incurred and submitted directly by an individual interest holder provided the amount is to be credited against the total outstanding *Security Deposit* and not the proportionate share of that interest holder. For clarity, such independent expenditures could include the individual purchase of *Non-exclusive Data* that qualify as *Allowable Expenditures* in accordance with the terms and conditions of the licence.

5.4 Allowable Expenditures Associated with R&D/E&T

An *Applicant* who makes expenditures on R&D/E&T is permitted to apply such expenditures as an *Allowable Expenditure* during *Period I*, up to a maximum of 5% of the licence *Work Commitment Bid*. All R&D/E&T expenditures should meet the eligibility criteria listed in the *Benefits Plan Guideline*. Any questions about applying R&D/E&T expenditures as credit against the *Security Deposit* should be directed to the *Regulator*.

Alternatively, R&D/E&T expenditures may be credited towards the R&D/E&T expenditure obligations of a development project as indicated in the *Benefits Plan Guideline*.

5.5 Application for Allowable Expenditure Credit Expenses

There are requirements of the *Application* process that impose expenditures on the *Applicant*. As a result, upon issuance of this Guideline, the *Regulator* will allow such costs to be considered *Allowable Expenditures*. These costs may include the *Application* fee, third-party auditor fees and fair market value assessments.

6.0 Application for Allowable Expenditure Credit Process

6.1 Responsibilities of the Applicant

It is the responsibility of the *Applicant* to:

- Submit an *Application* on behalf of all interest holders of the licence;
- Ensure *Costs of Work* are permitted *Allowable Expenditures* in accordance with the terms and conditions of the licence and that data submission requirements set out in sections 187 and 188 of the *Framework Regulations* are met;
- Correspond with the *Regulator* respecting matters relating to assessment of the *Application*;
- Advise interest holders of any *Allowable Expenditure Credit* amounts approved by the *Regulator* to be credited against the total outstanding *Security Deposit*;
- Secure replacement security from interest holders to reflect any reduced outstanding *Security Deposit*; and
- File the replacement *Security Deposits*.

6.2 Application Deadline and Processing

An *Application* must be submitted in accordance with the timelines provided in the prescribed terms and conditions of the licence. Any outstanding *Security Deposit* in place at the time an *Application* is submitted must remain in place until processing of the *Application* is complete and determinations on the awarding *Allowable Expenditure Credits* are made.

Typically, if an outstanding *Security Deposit* remains following the assessment of the *Application* after the end of *Period I*, the *Regulator* will request that either a forfeiture cheque be provided by the *Licence Representative* or the forfeiture amount be provided directly to the Receiver General of Canada. If there is no response to the request for forfeiture funds within 30 days of such request, the *Regulator* commences actions to make a demand for payment. However, in accordance with the licence terms and conditions approved pursuant to fundamental decisions in 2020 amending licence terms, *Licence Representatives* may have the option to amend and extend the *Security Deposit* term into *Period II*, upon request, to allow for *Uplift* on *Allowable Expenditure Credit* that was awarded in *Period I*.

6.3 Application for Allowable Expenditure Credit Template

The *Application* template can be found digitally on the *Regulator's* website. It includes detailed instructions and information with references back to this Guideline as appropriate and will guide the *Applicant*, ensuring that all information needed to assess the *Application* is included. Additionally, Appendix A: Sample Application for Allowable Expenditure Credit, which forms part of this Guideline, was prepared to assist *Applicants* in determining the completeness and accuracy of their *Application*. Any questions related to completing the *Application* can be sent to the *Regulator*.

All required documentation necessary for the *Regulator* to assess the *Application* is to be entered directly within the spaces provided in the *Application*, or alternatively, attached in digital format as per the instructions.

6.4 Application for Allowable Expenditure Credit Fee

In 2016, amendments to the *Accord Acts* and the introduction of the *Cost Recovery Regulations* increased transparency and predictability of cost recovery for regulatory activities. These amendments allow the *Regulator* to recover its costs related to the review of any *Application*.

The fee for an *Application* is determined annually and is based on the average time required for *Regulator* to assess an *Application*. Components of the review include review of the audit report, calculation of percentage applicability of *Costs of Work* to the licence and data submission and quality control.

The fee payable to assess an *Application* is on a per licence basis. In the case of a multi-licence program, a single *Application* may be acceptable with permission; however, separate fees are required for each licence.

No review of an *Application* will commence until this fee is paid.

The *Regulator* posts its updated Formula Fees Table related to cost recovery on its website annually.

For more information on cost recovery, *Applicants* should refer to the *Cost Recovery Guideline*.

6.5 High-Level Workflow

Figure 6.1 illustrates a high-level workflow that includes the key steps in the *Application* process.

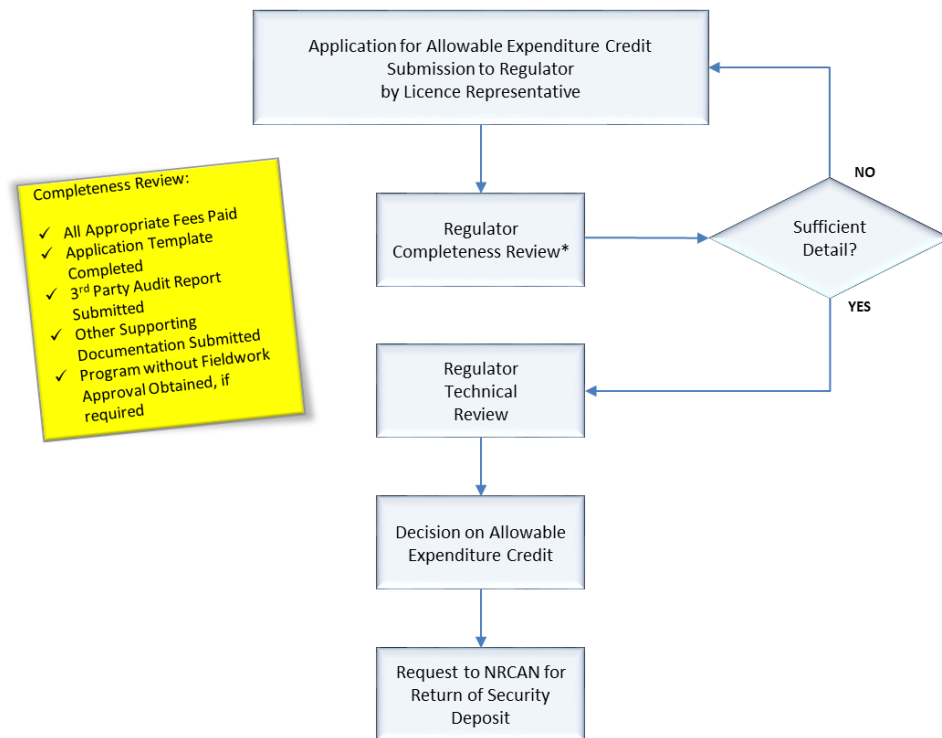


Figure 6.1: High-level workflow of the *Application for Allowable Expenditure Credit*.

Appendix A: Sample Application for Allowable Expenditure Credit

APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT TEMPLATE


To aid in the submission of an Application for Allowable Expenditure Credit, the Licence Representative can complete the following Application for Allowable Expenditure Credit template.

Licence Type and Number ¹	EL 1234
Licence Representative ²	New Found Energy Company

Information submitted in this document is subject to section 119 of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act* and section 115 of the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act*, and shall not be released or made public except as provided for in accordance with the *Accord Acts*.

The Licence Representative hereby applies for an Allowable Expenditure Credit pursuant to the terms and conditions of the Licence.

The Licence Representative hereby declares that, to the best of their knowledge, the information contained or incorporated herein is true, accurate and complete.

Signed:  _____
 Title: CEO _____
 Date: March 4, 2021 _____

For Internal Use Only

Assigned Application for Allowable Expenditure Credit Filing Number: _____

¹ Indicate Exploration or Significant Discovery Licence and provide licence number. In the case where permission was obtained to submit a single Application for a multi-licence program, list all applicable licence types and numbers.

² Per schedule III of the Licence

1.0 GENERAL LICENCE INFORMATION

Table 1.0: Licence Information

Interest Holders ³	New Found Energy Company (100%)
Licence Effective Date	January 15, 2018
Period I Expiry Date	January 15, 2024

2.0 COVER LETTER

New Found Energy Company hereby submits the following for consideration as Allowable Expenditures over EL 1234:

- *Expenses associated with 2 wells, Dory A-01 and Barker B-02, on EL 1234*
- *Expenses associated with the acquisition of 2 seismic programs, a 2D and a 3D, on EL 1234*
- *Expenses associated with the completion of a biostratigraphic study on nearby wells (pre-qualification obtained)*

3.0 KEY CONTACT INFORMATION

Table 3.0: Key Contact Information

Name	Alex Murray
Title	CEO
Email	amurray@newfoundenergy.com
Phone	(709) 123-4567

4.0 ACCOMPANYING FEES

✓	Approved Program without Fieldwork has been obtained	C-NLOPB Program No. ⁴	12345-020-003
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Approved Program without Fieldwork will be obtained concurrent with this Application
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5.0 ALLOWABLE EXPENDITURE CLASSIFICATION

³ List all interest holders with percentage ownership

⁴ If applicable to this Application, state the approved program number as assigned by the *Regulator*

5.1 Drilling

Table 5.1: Calculation of Total Drilling Cost of Work

Well Name	A Summarized Direct Cost of Work	B Percentage Applicability to Licence	C Applicable Direct Cost of Work (AxB)	D Overhead (10% of C to maximum or itemized list)	E Total Cost of Work (C+D)	Supporting Documentation Included with Application ⁵
<i>Dory A-01</i>	\$100 M	100%	\$100 M	\$10M	\$110 M	AllCosts.xls Audit.doc
<i>Barker B-02</i>	\$150 M	100%	\$150 M	\$15M	\$165 M	AllCosts.xls Audit.doc
Total Cost of Work associated with drilling (all wells) (Sum of E) Result, if applicable, to be included in Line 1 of Table 6.1					\$275 M	

5.2 Seismic, Well-Site, Electromagnetic, Seabed or Other Surveys/Studies via Acquisition (Programs with Fieldwork)

**Table 5.2: Calculation of Total Seismic, Well-Site, Electromagnetic, Seabed or Other Surveys/Studies via Acquisition
(Programs with Fieldwork) Cost of Work**

Program Number ⁶	A Summarized Direct Cost of Work	B Percentage Applicability to Licence	C Applicable Direct Cost of Work (AxB)	D Overhead (10% of C)	E Total Cost of Work (C+D)	Supporting Documentation Included with Application ⁷
12345-020-001 2D Seismic	\$5 M	16% <i>(see section 5.2.3 below)</i>	\$0.80 M	\$0.08 M	\$0.88 M	AllCosts.xls Audit.doc
12345-020-002 3D Seismic	\$10 M	100% <i>(see section 5.2.3 below)</i>	\$10 M	\$1 M	\$11 M	AllCosts.xls Audit.doc
Total Cost of Work associated with Program with Fieldwork (all programs) (Sum of E) Result, if applicable, to be included in Line 2 of Table 6.1					\$11.88 M	

5.2.3 Percentage Applicability to Licence (B)

⁵ List all applicable files accompanying the Application associated with this well

⁶ State the approved program number as assigned by the *Regulator*

⁷ List all applicable files accompanying the Application associated with this program

APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT TEMPLATE



Calculation to determine the percentage 2D and 3D Seismic acquired within the Maximum Entitlement Area

$$= \frac{\text{Length of 2D lines/area of 3D polygon in the Maximum Entitlement Area}}{\text{Total length of 2D lines/area of 3D polygon}}$$

2D Seismic Percent Applicable to EL 1234	
=	$\frac{544 \text{ km (red dashed line)}}{3385 \text{ km (solid gray line)}}$
=	16%

3D Seismic Percent Applicable to EL 1234	
=	$\frac{1370 \text{ km}^2 \text{ (orange polygon within Maximum Entitlement Area)}}{1370 \text{ km}^2 \text{ (orange polygon - total)}}$
=	100%

5.3 Seismic, Well-Site, Electromagnetic, Seabed or Other Surveys/Studies via non-Acquisition (Programs without Fieldwork)

Table 5.3: Calculation of Total Seismic, Well-Site, Electromagnetic, Seabed or Other Surveys/Studies via non-Acquisition (Programs without Fieldwork) Cost of Work

Program Number ⁸	A Summarized Direct Cost of Work	B Percentage Applicability to Licence	C Applicable Direct Cost of Work (AxB)	D Overhead (10% of C)	E Total Cost of Work (C+D)	Supporting Documentation Included with Application ⁹
12345-020-003 Biostratigraphic Study	\$1 M	100%	\$1 M	\$0.1 M	\$1.1 M	Allcosts.xls Audit.doc
Total Cost of Work associated with Program without Fieldwork (all programs) (Sum of E) Result, if applicable, to be included in Line 3 of Table 6.1					\$1.1 M	

5.3.3 Percentage Applicability to Licence (B)

Prior to undertaking this biostratigraphic program without fieldwork, New Found Energy Company sought pre-qualification from the C-NLOPB for this study (using samples from wells nearby to EL 1234 but not directly on EL 1234) to be considered allowable at 100%. A presentation detailing the rationale was provided at the time of request. The approval was granted by the C-NLOPB in a letter dated February, 24, 2019.

5.5 Application for Allowable Expenditure Credit Expenses

Table 5.5: Summary of Costs of Work Associated with Application Expenses

Description of Application Expense	A Cost of Application Expense
Audit	\$100,000
Application for Allowable Expenditure Fee	\$20,650
Total of Application Expenses (Sum of A) Result, if applicable, to be included in Line 5 of Table 6.1	\$120,650

⁸ State the approved program number as assigned by the *Regulator*

⁹ List all applicable files accompanying the Application associated with this program

6.0 TOTAL COSTS OF WORK SUMMARIZED BY ALLOWABLE EXPENDITURE CLASSIFICATION

Table 6.1: Total Costs of Work from All Allowable Expenditure Classes with Appropriate Security Deposit Write-Down

Line No.	Totals of all Allowable Costs of Work	Subtotal of Costs of Work
1	Total from Costs of Work Associated with Drilling (Sum of E) from Table 5.1	\$275,000,000
2	Total from Costs of Work Associated with Programs with Fieldwork (Sum of E) from Table 5.2	\$11,880,000
3	Total from Costs of Work Associated with Programs without Fieldwork (Sum of E) from Table 5.3	\$1,100,000
4	Total from Costs of Work Associated with R&D/E&T (Sum of A) from Table 5.4	nil
5	Total from Costs of Work Associated with Application for Allowable Expenditure Credit Expenses (Sum of A) from Table 5.5	\$120,650
6	Total Cost of Work from All Allowable Expenditure Classes TOTAL (Add Lines 1 through 5)	\$288,100,650
7	Appropriate percentage of Security Deposit Write-Down	40%* *Multi-Well Model applied
Total Security Deposit Write-Down (Line 5 X Line 6)		\$115,240,260

7.0 UPLIFT ON PREVIOUS APPLICATIONS FOR ALLOWABLE EXPENDITURE CREDIT

Table 7.1: Summary of Costs of Work Associated with Uplift on previously approved Allowable Expenditure Credits

Previous Allowable Expenditure Application No.	A Amount of Previously Approved Allowable Expenditure	B Percentage Uplift	C Uplift Allowable Expenditure Credit Amount (A X B)
M001001	\$25 M	10%	\$2.5 M
Total of all Uplift Amounts (Sum of C)			\$2.5 M

Appendix B: Sample Third-Party Audit Letter of Engagement

Title

Address

Date

To whom it may concern;

The purpose of this letter is to outline the terms of our engagement to perform specified auditing procedures with respect to [COMPANY] (“the Company”) statement of allowable expenditures (“financial information”) for Exploration/Significant Discovery Licence (“EL/SDL [No. xxxx]”) as at [DATE].

The attached Terms and Conditions form an integral part of the terms of this engagement and are incorporated herein by reference (collectively the “Engagement Letter”).

PURPOSE OF THE ENGAGEMENT

The procedures that we will perform are solely to assist you in complying with condition 8 of EL/SDL [No.] as issued by the Canada-Newfoundland and Labrador Offshore Petroleum Board.

MANAGEMENT’S RESPONSIBILITIES

Management acknowledges and understands that they are responsible for:

- a) the preparation of the financial information referred to above;
- b) determining the objectives, scope, and extent of the specified auditing procedures to be performed by us; and
- c) evaluating the findings arising from the specified auditing procedures engagement.

OUR RESPONSIBILITIES

We will perform the specified auditing procedures described below in accordance with Canadian generally accepted standards for specified auditing procedures engagements established by Chartered Professional Accountants of Canada.

In performing this specified auditing procedures engagement, we are required to be, and to remain, independent with respect to the Company within the meaning of the Rules of Professional Conduct/Code of Ethics under which we are governed.

SPECIFIED AUDITING PROCEDURES

As determined and agreed to by Management, the specified auditing procedures we will perform and on which we will report our findings are below. The specified auditing procedures will be carried out to assist in compliance with condition 8 of EL/SDL [No.] as issued by the Canada-Newfoundland and Labrador Offshore Petroleum Board.

Specified Auditing Procedures	Findings
Obtain a listing of allowable costs for EL [No.], as prepared by the Company’s management, and agree the totals to the accounting records of the Company as at DATE.	To be included in final report
For each invoice listed, agree the allowable dollar value of invoice amount, before GST, sales and other taxes, to the supporting invoices, as supplied by Company management.	To be included in final report
For the supporting invoices examined above, observe that the allowable costs relate to EL/SDL [No.].	To be included in final report
For the supporting invoices examined above, observe the date of the allowable expenditures and observe if the date is prior to DATE.	To be included in final report

For the supporting invoices examined above, recalculate the allowable costs based on the factor outlined by management.	To be included in final report
---	--------------------------------

The sufficiency and appropriateness of the specified auditing procedures listed above is solely the responsibility of Management and we accept no responsibility with respect to the sufficiency and appropriateness of such procedures. We have not made an attempt to assess the sufficiency and appropriateness of the specified auditing procedures for your purposes. Further we have no obligation to perform any procedures beyond those referred to above.

OUR DELIVERABLES

Our report will reflect our findings as of the date we complete our work. The expected form and content of our specified auditing procedures engagement report is provided in Appendix 1 – Expected Form of Report. However, there may be circumstances in which a report may differ from its expected form and content.

OTHER MATTERS

The above listed specified auditing procedures do not constitute an audit or review of the financial information, and therefore we are unable to and will not provide any assurance on the financial information. Our report will make a statement to that effect.

Our report addressed to the Company is intended solely for the Canada-Newfoundland and Labrador Offshore Petroleum Board and the Company and should not be distributed or used by parties other than Company and the Canada-Newfoundland and Labrador Offshore Petroleum Board. Our report will make a statement to that effect.

FEES

The Company and [ACCOUNTING FIRM] agree to a fee based on actual hours incurred at a mutually agreed upon rate. The estimated fee for the agreed-upon procedures is [FEE AMOUNT].

Yours very truly,
[ACCOUNTING FIRM]

The terms of the engagement set out are as agreed.

Title
[COMPANY NAME]

DATE

Appendix 1 - Expected Form of Report

To the Board of Directors of [COMPANY NAME]

As specifically agreed, we have performed the specified auditing procedures enumerated below in connection with article 8 of EL/SDL[No.] issued by the Canada-Newfoundland and Labrador Offshore Petroleum Board as to the statement of allowable expenditures on EL [No.]. The specified auditing procedures are summarized, along with the findings, as follows:

- 1) We obtained a listing of costs for EL/SDL [No.], as prepared by Company management, totaling [AMOUNT], and agreed the totals to the accounting records of the Company. No exceptions were found as a result of applying the procedure.
- 2) For each item listed, Accounting Firm obtained the supporting invoices, as supplied by Company management. We agreed the dollar value of the invoice amount, before GST, sales and other taxes, to the supporting invoices. No exceptions were found as a result of applying the procedure.
- 3) For the supporting invoices examined above, we observed that the costs relate to EL/SDL [No.]. No exceptions were found as a result of applying the procedure.
- 4) For the supporting invoices examined above, we observed the date of the expenditures and found the dates to be prior to the relinquishment of the licence on [DATE]. No exceptions were found as a result of applying the procedure.
- 5) For the supporting invoices examined above, we recalculated the eligible costs based on the factor outlined by management of [PERCENTAGE], as applicable, and found the amounts to be in agreement with the amounts determined by Company management. No exceptions were found as a result of applying the procedure.

Our engagement was performed in accordance with Canadian generally accepted standards for specified auditing procedures engagements.

We make no representation regarding the appropriateness and sufficiency of the specified auditing procedures. These specified auditing procedures do not constitute an audit or review of the statement of allowable expenditures on EL/SDL [No.], and therefore we are unable to and do not provide any assurance on the statements of allowable expenditures. The above listed findings relate only to the financial information specified above and does not extend to any of the Company's financial statements taken as a whole.

Our report is intended solely for the Board of Directors of the Company and the Canada-Newfoundland and Labrador Offshore Petroleum Board and should not be distributed or used by parties other than the Board of Directors of the Company or the Canada-Newfoundland and Labrador Offshore Petroleum Board.

Chartered Professional Accountants

Address

Date