

# Allowable Expenditure Credit Guideline

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DRAFT

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# Table of Contents

- Table of Contents ..... III
- List of Figures & Tables ..... IV
- Glossary of Key Terms.....V
- 1.0 INTRODUCTION.....7
  - 1.1 Purpose.....7
  - 1.2 Legislative Authority.....7
  - 1.3 Contact Information .....7
  - 1.4 Application for Allowable Expenditure Credit Template.....7
  - 1.5 Application for Allowable Expenditure Credit Fee.....8
- 2.0 FUNDAMENTALS OF ALLOWABLE EXPENDITURES .....9
  - 2.1 General Information.....9
  - 2.2 Terms and Conditions of a Licence..... 10
  - 2.3 Temporal Validity for Credits Against a Security Deposit..... 10
  - 2.4 Rate of Security Deposit Write-Down ..... 11
  - 2.5 Rentals..... 14
- 3.0 CLASSIFICATION OF ALLOWABLE EXPENDITURES ..... 15
  - 3.1 Allowable Expenditures Associated with Drilling ..... 15
  - 3.2 Allowable Expenditures Associated with Programs with Fieldwork..... 16
  - 3.3 Allowable Expenditures Associated with Programs without Fieldwork ..... 18
  - 3.4 Allowable Expenditures Associated with Research and Development/Education and Training..... 20
- 4.0 APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT PROCESS..... 21
  - 4.1 Responsibilities of the Applicant..... 21
  - 4.2 Application Deadline and Processing..... 21
  - 4.3 High Level Workflow..... 22
- APPENDIX A ..... 23
- APPENDIX B..... 30

# List of Figures & Tables

Figure 2.1: Illustration of general Allowable Expenditure process .....9

Figure 2.2: Illustration of general Allowable Expenditure process showing the three possible Security Deposit Write-Down Models ..... 11

Figure 2.3: 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..... 12

Figure 2.4: Illustration of the Hybrid Security Deposit Write-Down Model ..... 13

Table 2.1: Comparison of the three Security Deposit Write-Down Models for the same sample Exploration Program..... 14

Figure 2.5: Illustration of Allowable Expenditures credited towards Rentals with a numerical example..... 14

Figure 3.1: An illustration of Maximum Entitlement Area ..... 17

Figure 3.2: Example illustrating contiguous licences, A and B, with a proposed well location on Licence B near boundary... 18

Figure 4.1: High level workflow of the Application for Allowable Expenditure Credit ..... 22

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# Glossary of Key Terms

Any capitalized terms in the Guideline, which are not defined in this glossary, are defined in the *Accord Acts*.

**Allowable Expenditure** is the Cost of Work that meets the terms and conditions of the licence, as approved by the C-NLOPB, permitting credit against any outstanding Security Deposit on Exploration Licences in Period I or Rentals respecting either Exploration Licences in Period II or commencing year 5 of Significant Discovery Licences.

**Allowable Expenditure Credit** is the amount that a Security Deposit is reduced by an Allowable Expenditure.

**Cost of Work** is the amount expended by an Interest Owner, in Canadian Dollars.

**De-mobilization** includes any activities related to preparing an installation for the conclusion of the activity on a licence. The de-mobilization period commences when the last well operations on the last well are completed and concludes when the installation commences transit off the licence.

**Direct Costs** are as those Costs of Work directly applicable to activity being carried out on the licence.

**Environmental Programs** are programs in the Offshore Area involving the study of physical, chemical and biological elements of the lands, oceans or coastal zones.

**Exclusive Data** is data collected during a Geoscientific 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.

**Geological Programs** are programs involving the collection of samples from the Offshore Area or the use of samples from the Core Storage and Research Centre.

**Geophysical Programs** are programs in the Offshore Area involving the indirect measurement of physical properties of the earth.

**Geotechnical Programs** are programs in the Offshore Area involving the measurement of physical and mechanical properties of seabed and subsoil, primarily related with foundation design, construction, maintenance and decommissioning of man-made structures.

**Hybrid Security Deposit Write-Down Model** is the Uplift model for Allowable Expenditure Credits associated with early-term drilling and multi-well programs in accordance with the respective terms and conditions of an Exploration Licence.

**Licence Representative** is an Interest Holder appointed as a representative of the Interest Owner, where an Interest Owner consists of two or more Interest Holders.

**Maximum Entitlement Area** is the geographical area on which Allowable Expenditures related to Programs with Fieldwork 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 entering the Offshore Area or transit from lands in the Offshore Area to the licence. The installation mobilization period concludes once the first well operation has commenced.

**Multi-Well Security Deposit Write-Down Model** is the Uplift model for Allowable Expenditure Credit associated with multi-well programs in accordance with the respective terms and conditions of the exploration licence.

**Non-exclusive Data** is data collected during a Geoscientific 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.

**Original Security Deposit Write-Down Model** is the model where the standard 25% write-down of the Security Deposit is applied to determine Allowable Expenditure Credits in accordance with the respective terms and conditions of the exploration licence.

**Overhead** is an amount claimable as an Allowable Expenditure in respect of indirect costs incurred during the planning, execution and post activity phases of a drilling program, Program with Fieldwork or Program without Fieldwork.

**Programs with Fieldwork** are those Geophysical, Geological, Geotechnical or Environmental Programs carried out by the direct collection of materials or data in the Offshore Area.

**Programs without Fieldwork** are those Geophysical, Geological, Geotechnical or Environmental Programs carried out by using readily available materials and data (no acquisition required) to complete scientific analysis.

**Rentals** are the annual, per hectare fee, in Canadian dollars, charged on an Exploration Licence in Period II, or a Significant Discovery Licence commencing at the end of year five of the Significant Discovery Licence, in accordance with the respective terms and conditions of the licence.

**Security Deposit** is the amount, in Canadian dollars, equal to 25% of the Work Commitment Bid that a successful bidder deposits with the C-NLOPB.

**Uplift** is the increase, expressed as a percentage, in the rate of Security Deposit 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 Research and Development/Education and Training within Period I of resulting Exploration Licence.

# 1.0 INTRODUCTION

The Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) is responsible for the administration of land rights in the Canada-Newfoundland and Labrador Offshore Area (Offshore Area) pursuant to the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Act* and the *Canada-Newfoundland and Labrador Atlantic Accord Implementation Newfoundland and Labrador Act* (the *Acts*). Any references to the *Accord Act* herein are to the Federal version.

In its administration of land rights, the C-NLOPB is responsible for the processing of Applications for Allowable Expenditure Credit (Application) and by applying credits for Allowable Expenditures against either the Security Deposit or Rentals.

The administration of an Application and associated Security Deposit, Rentals, credits and/or forfeitures is coordinated through Legal Services in consultation with the Exploration and Information Resources Department as well as the Operations Department.

## 1.1 Purpose

This Allowable Expenditure Credit (AEC) Guideline, along with the Application in template format, have been prepared to assist Applicants (normally the Licence Representative), in understanding the process for approving Allowable Expenditures and preparing an Application.

This AEC Guideline and supporting Application template may be amended by the C-NLOPB from time to time as required to ensure accuracy and efficacy.

## 1.2 Legislative Authority

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 respective licence specify the requirements for the approval of Allowable Expenditures by the C-NLOPB.

## 1.3 Contact Information

Applicants are encouraged to consult with C-NLOPB staff should any questions or concerns arise prior to or throughout the Application process.

Any questions related to Allowable Expenditures should be directed to [information@cnlopb.ca](mailto:information@cnlopb.ca).

## 1.4 Application for Allowable Expenditure Credit Template

The Application template can be found digitally at **XXXX**. It includes detailed instructions and information with references back to this AEC 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 (Completed Template)) 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 C-NLOPB at [information@cnlopb.ca](mailto:information@cnlopb.ca).

All required documentation necessary for the C-NLOPB 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.

## 1.5 Application for Allowable Expenditure Credit Fee

In 2016, amendments to the *Accord Acts* and the introduction of the *Canada-Newfoundland and Labrador Offshore Petroleum Cost Recovery Regulations (Cost Recovery Regulations)* increased transparency and predictability of cost recovery for regulatory activities. These amendments allow the C-NLOPB to recover its costs related to the review of any Application.

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 C-NLOPB 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 Regulations*, the *Cost Recovery Guidelines* and the C-NLOPB's website: [www.cnlopb.ca](http://www.cnlopb.ca).

For additional cost recovery information visit <http://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/energy/pdf/offshore-oil-gas/2356.pdf>.

Any questions regarding the cost recovery process can be submitted to [information@cnlopb.ca](mailto:information@cnlopb.ca).

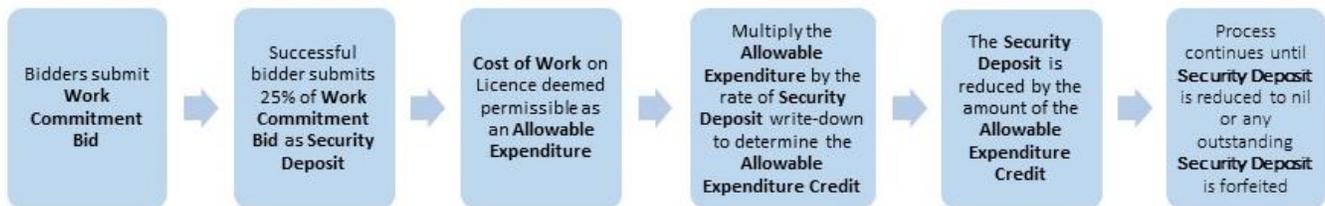
## 2.0 FUNDAMENTALS OF ALLOWABLE EXPENDITURES

This section provides general information associated with Allowable Expenditure Credits including the differentiation between three Security Deposit Write-Down models: the Original, Multi-Well and Hybrid.

### 2.1 General Information

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 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 an Allowable Expenditure.

An Allowable Expenditure Credit against the Security Deposit will be calculated in accordance with the terms and conditions of the respective licence for any Allowable Expenditures incurred in the pre-licence award period and/or during Period I. The pre-licence period 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. This process continues until either the Security Deposit is fully refunded or the outstanding Security Deposit is forfeited at Period I expiry. Figure 2.1 illustrates the general Allowable Expenditure process.



**Figure 2.1: Illustration of 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 and Hybrid Security Deposit Write-Down Models, subsequent drilling in Period II of an EL can result in Uplift on Allowable Expenditures previously credited in Period I, where applicable, as long as the Security Deposit term was extended.

For more information on Rentals, see Section 2.5 which shows the general process and includes a numerical example specific to Rentals.

## 2.2 Terms and Conditions of a Licence

While this AEC 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. If, during the Application process questions arise regarding the acceptability of certain Costs of Work, it is recommended that the Applicant consult with C-NLOPB staff via [information@cnlopb.ca](mailto:information@cnlopb.ca).

The terms and conditions of a licence offer the flexibility for other Costs of Work to be considered by the C-NLOPB 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 costs not previously considered as being available for credit.

The terms and conditions of a licence also require that Costs of Work brought forward by the Applicant for Allowable Expenditure Credit against the Security Deposit be authenticated. This is typically achieved by having such expenditures audited by a third party auditor or providing invoices of those Costs of Work being submitted for Allowable Expenditure Credit, as is dictated by the terms and conditions of a particular licence.

An audit statement from an accredited auditing firm which attests to the legitimacy of expenses being claimed is a typical element of an Application. The scope of an audit that is normally required should be in accordance with Canadian Generally Accepted Auditing Standards. The Board reserves the right, however, to require an Applicant to have a more fulsome 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 Legal Services with a draft third party audit letter of engagement (sample of such a document is found in Appendix B). 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 subject licence and this AEC Guideline.

## 2.3 Temporal Validity for Credits Against a Security Deposit

For any EL awarded prior to the Scheduled Land Tenure System (January 15, 2016), Costs of Work must be incurred within Period I of the licence to be considered Allowable Expenditures towards the Work Commitment Bid.

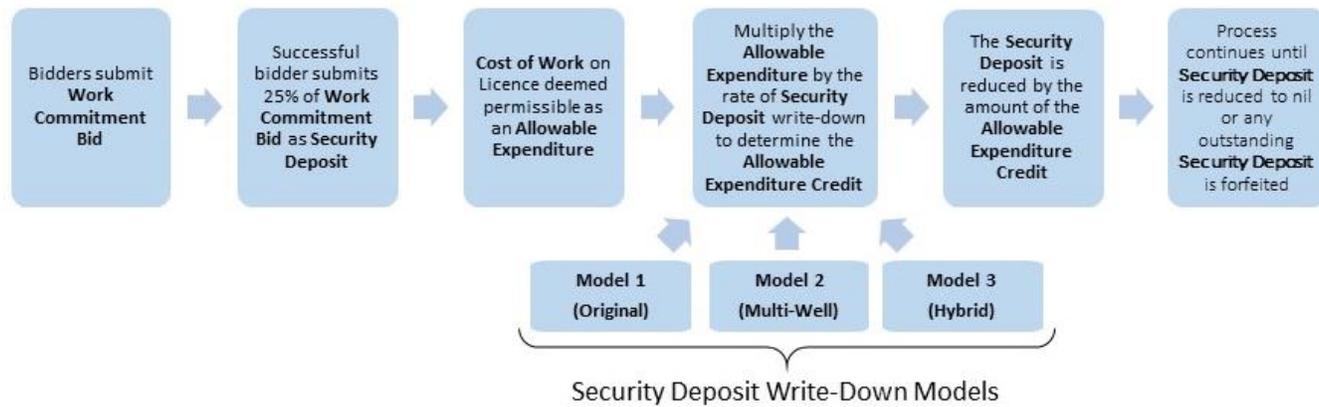
For all other licences, Allowable Expenditures may be submitted for credit against the Security Deposit for any Cost of Work incurred by any Interest Holder in the pre-licence award period (i.e. from the date of initial announcement of the Call for Nominations (Area of Interest) for that scheduled round, up to and including the effective date of a resulting EL issued from that round and/or during Period I).

Where work occurs in Period I, any Cost of Work can only be recognized as an Allowable Expenditure if the interest holder was a registered interest holder on the respective EL at the time the work was conducted. For greater certainty, work incurred on the EL lands when a party was not an interest holder cannot be claimed as Allowable Expenditures if the party subsequently becomes an interest holder on that EL.

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 2.5 which shows the general process and includes a numerical example specific to Rentals.

## 2.4 Rate of Security Deposit Write-Down

The subsections that follow describe the various models of Security Deposit Write-Down, focusing on when and how each model can be applied. Figure 2.2 illustrates the general Allowable Expenditure process, but highlights the step where there are three possible Security Deposit Write-Down Models: Original, Multi-Well and Hybrid.



**Figure 2.2: Illustration of general Allowable Expenditure process showing the three possible Security Deposit Write-Down Models.**

### 2.4.1 Original Security Deposit Write-Down Model (Original Model)

Model 1 (Original Model) is defined by a Security Deposit Write-Down of 25% of the Costs of Work as an Allowable Expenditure Credit.

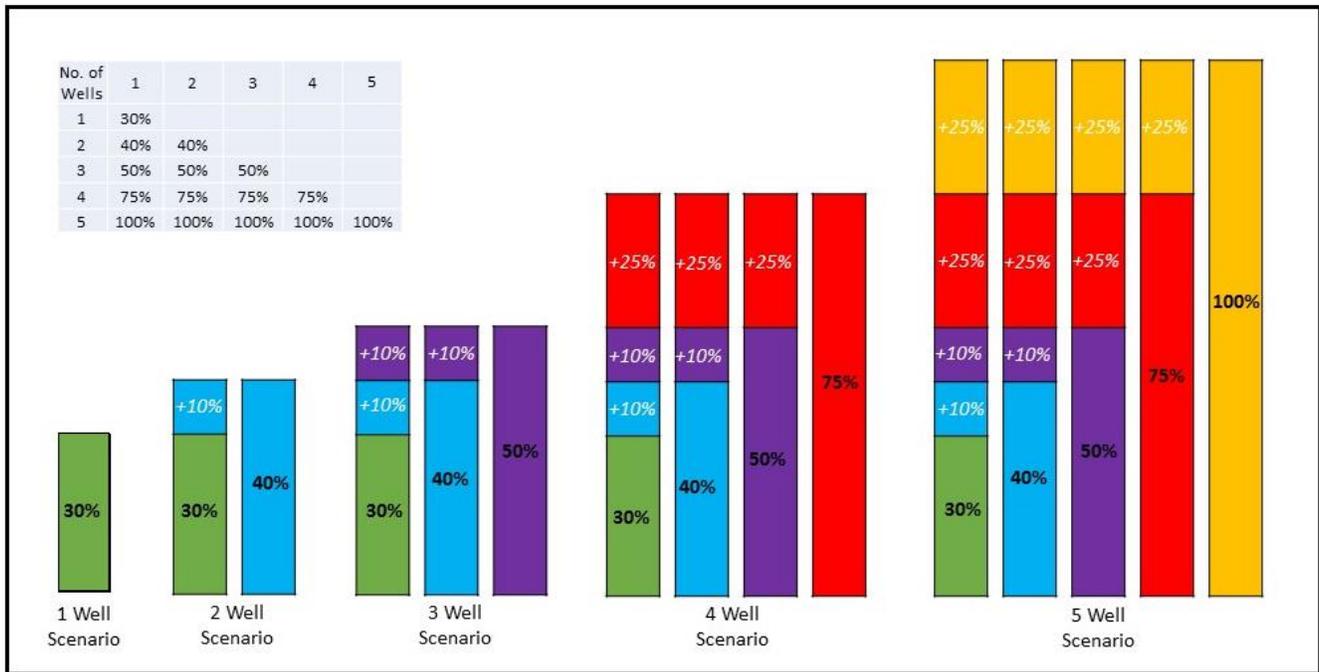
This is the *de facto* model effective on all licences awarded prior to January 15, 2021, as per the terms and conditions of the licence. However, as will be addressed in Subsection 2.4.2 below, the terms and conditions can be amended if requested.

### 2.4.2 Multi-Well Security Deposit Write-Down Model (Multi-Well)

Model 2 (Multi-Well Model) provides a means to accelerate the write-down of the Security Deposit such that the percentage Security Deposit write-down permissible 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 or Multi-Well Models by requesting the necessary amendments to their licence from Legal Services.

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 then increases as the number of wells drilled on the EL increases. Figure 2.3, 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.



**Figure 2.3: 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.**

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 Interest Owners submit a single Application for all wells drilled on multi-well programs, rather than submitting individual, per well, Applications. In the instances where Applications are submitted on an individual well basis, the C-NLOPB will recalculate and award any Allowable Expenditure Credit as necessary; however, the onus is on the Interest Owner to complete Section 7.0 of the Application to request Uplift credit for Costs of Work approved under previous Applications.

Although the percentage of Security Deposit Write-Down is based on the number of wells drilled on the EL, all classes of Allowable Expenditures (see Section 3.0 for specific classes of Allowable Expenditures) are eligible at the applicable percentage write-down.

### 2.4.3 Hybrid Security Deposit Write-Down Model (Hybrid Model)

Model 3 (Hybrid Model) incorporates the principles of the Multi-Well Model combined with increased write-downs for early EL term exploration expenditures.

As of January 15, 2021, the terms and conditions of the Hybrid Model are contained in ELs issued by the C-NLOPB.

The Hybrid Model allows for different baseline percentages of Security Deposit write-down for work carried out pre-term, and at various points throughout Periods I and II, as set out in Figure 2.4. However, in those instances where the drilling of multiple wells exceeds the baseline percentage of Security Deposit write-down, the Multi-Well Model (outlined in Figure 2.3 above) can be applied.



**Figure 2.4: Illustration of the Hybrid Security Deposit Write-Down 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 C-NLOPB will recalculate and award any Allowable Expenditure Credit as necessary; however, the onus is on the Interest Owner to complete Section 7.0 of the Application to request Uplift credit for Costs of Work approved under previous Applications.

### 2.4.4 Comparative Examples of the Three Security Deposit Write-Down Models

In this subsection, consider a sample exploration program on an EL with the following particulars:

- Work Commitment Bid of \$400 M with a resulting Security Deposit of \$100 M;
- Seismic program (acquired pre-term) at a cost of \$10 M; and
- Two wells drilled (one in year 2 and one in year 5 of Period I) at a cost of \$100 M each.

Table 2.1 below, is a numerical comparison between the three Security Deposit Write-Down Models for this sample exploration program and demonstrates how the Multi-Well and Hybrid Models accelerate the rate of Security Deposit Write-Down as compared to the Original Model.

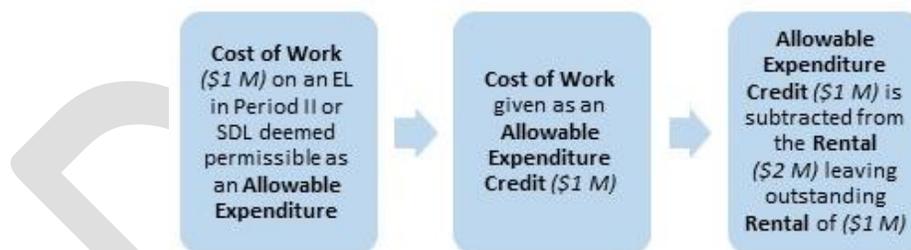
**Table 2.1: Comparison of the three Security Deposit Write-Down Models for the same sample Exploration Program.**

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 1<sup>st</sup> well as a result of drilling the 2<sup>nd</sup> well in the Multi-Well Model.

## 2.5 Rentals

An EL in Period II or an SDL in year 5 or beyond is subject to Rentals as per the terms and conditions of the respective licence. Allowable Expenditures incurred during Period II can be applied for credit against Rentals, at 100%, as illustrated in Figure 2.5, which shows the general process and includes a numerical example.



**Figure 2.5: Illustration of Allowable Expenditures credited towards Rentals with a numerical example.**

If during any given year on January 15, 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.

## 3.0 CLASSIFICATION OF ALLOWABLE EXPENDITURES

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

Compliance with any prescribed data submission requirements for specific approved programs (i.e. associated data and reports, as set out in the *Newfoundland Offshore Area Petroleum Geophysical Operations Regulations (SOR/95-334)*, the *Geophysical, Geological, Environmental and Geotechnical Guidelines (GGEGs)* and the *Data Acquisition and Reporting Guidelines*) is a pre-requisite for any review by the C-NLOPB of an Application for Allowable Expenditure Credit.

### 3.1 Allowable Expenditures Associated with Drilling

#### 3.1.1 Direct Costs

Direct Costs related to drilling on an EL in the Offshore Area include costs incurred within 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 from wireline and logging while drilling data collection, sampling or formation flow testing for that well. Activities which occur outside of Mobilization or De-mobilization may be considered by the Board, consistent with licence terms and conditions, on a case-by-case basis.

##### 3.1.1.1 Arm's Length Costs

It is typical that Direct Cost drilling activities are carried out by a contracted third party and not the Interest Owner itself. In this case an Interest Owner is often charged a daily rate for drilling services or other 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.

##### 3.1.1.2 Non-Arm's Length Costs

Sometimes Direct Cost expenses related to drilling are incurred directly by the Interest Owner. For example, this may include the costs of travel to the installation by expert personnel, which may be 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 C-NLOPB, such cost to the C-NLOPB being recoverable from the Applicant.

#### 3.1.2 Overhead

As a result of a May 29, 2020 Fundamental Decision the Board, when calculating Allowable Expenditure Credits, a flat rate of 10% of the Direct Costs related to drilling can be added as Overhead to a maximum of \$25 M per well in accordance with the term and conditions of the licence. Examples of such costs associated with a drilling program could include administrative expenses such as report generation, pre-well planning and expenses associated with maintaining an office in Newfoundland and Labrador.

The option does exist for the Interest Owner to submit itemized costs rather than the flat rate of 10% of Direct Costs for Overhead. In this situation, the assessment will be subject to a review where additional auditing (at the expense of the Interest Owner) and Board approval may be required. Under no circumstance is double counting of Overhead permitted, whereby both itemized costs and 10% Overhead are applied. Unlike Direct Costs, itemized Overhead can be incurred during the planning, execution and post activity phases of a drilling program.

### **3.1.3 Areal Applicability Regarding Drilling**

When a well is drilled on a subject 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 boat 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.

## **3.2 Allowable Expenditures Associated with Programs with Fieldwork**

Common types of Geological, Geophysical, Environmental and Geotechnical Programs with Fieldwork, for which costs may be considered as Allowable Expenditures are 2D, 3D, 4D and high-resolution seismic, vertical seismic profiling, controlled source electromagnetic (CSEM), gravity or magnetic surveys, bathymetry, side scan sonar, seep/slicks sampling, collection of grab samples, heat flow, wave riders, coral surveys and piston cores. This list is meant to be a guide and is not all inclusive.

### **3.2.1 Direct Costs**

Direct Costs related to Programs with Fieldwork include costs incurred from the commencement of the authorized program through to the completion or termination of the authorized program. Examples can include cost of data acquisition, the contracting of a program manager as well as monitoring services such as for weather and fisheries.

#### **3.2.1.1 Arm's Length Costs**

Programs with Fieldwork that are 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 authorization for the Program with Fieldwork is held by the Interest Owner or the third party.

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

#### **3.2.1.2 Non-Arm's Length Costs**

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

Direct Costs related to 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.

### 3.2.2 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.

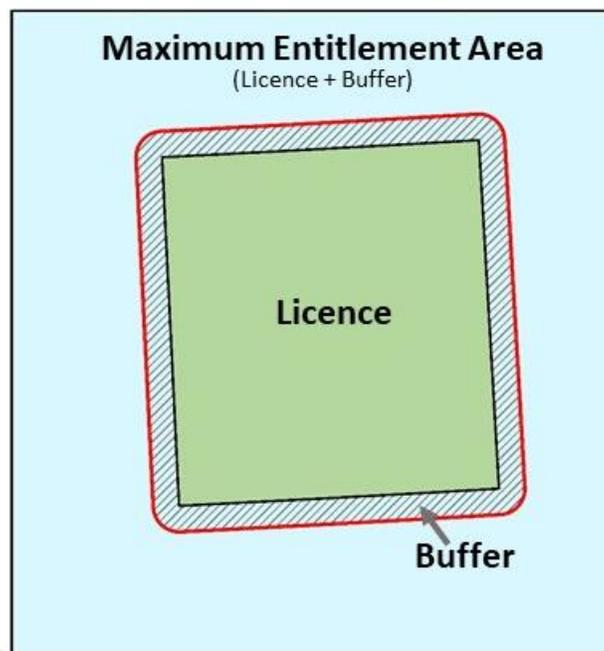
The Overhead amount that can be claimed for a Program with Fieldwork is 10% of the total Allowable Expenditures as described in the term and conditions. There is no maximum amount of Overhead that can be claimed in this case, unlike in the case of Allowable Expenditures associated with drilling.

### 3.2.3 Areal Applicability Regarding Programs with Fieldwork

Typically, to be considered Allowable Expenditures, Costs of Work have to be carried out directly on the licence. However, the following policies described in subsections 3.2.3.1 and 3.2.3.2 outline situations where Costs of Work can be considered as Allowable Expenditures beyond the licence boundary for specific types of Programs with Fieldwork.

#### 3.2.3.1 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, a 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 C-NLOPB will allow for a buffer surrounding the licence, as illustrated in Figure 3.1, 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.



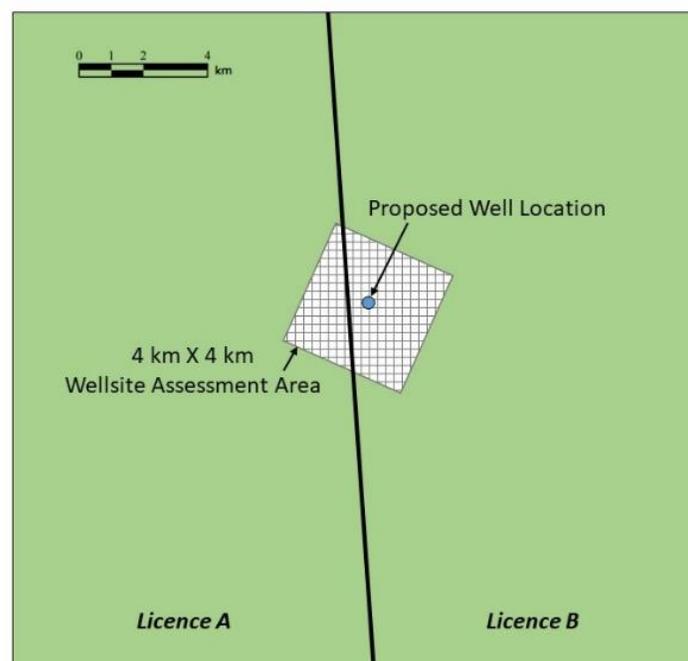
**Figure 3.1: An illustration of Maximum Entitlement Area. This concept is employed for geophysical programs such as seismic, CSEM, gravity and magnetic surveys.**

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 C-NLOPB 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.

### 3.2.3.2 Wellsite Survey Allowances

The GGEGs recommend a 4 km x 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 Application to Drill a Well. As a result, any survey of this type within a reasonable size range required to evaluate a proposed well location will be considered allowable at 100% of the Cost of Work, even if portions of the survey fall outside the licence boundary, as can be observed in Figure 3.2.



**Figure 3.2: Example illustrating contiguous licences, A and B, with a proposed well location on Licence B near boundary. The associated 4 km x 4 km wellsite assessment area can be considered allowable to Licence B at 100%, or alternatively, proportioned between Licence A and 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 or alternatively proportioned between the two.

## 3.3 Allowable Expenditures Associated with Programs without Fieldwork

Common types of Geological, Geophysical, Environmental and Geotechnical Programs without Fieldwork, for which Costs of Work may be approved as Allowable Expenditures can include, but are not limited to, reprocessing of existing data, purchase of Non-exclusive Data and/or reports and the generation and/or purchase of reports using and analyzing samples borrowed at the Core Storage and Research Centre (CSRC). Such Costs of Work will be approved as Allowable Expenditures as long as the Applicant applies and receives approval for a Program without Fieldwork.

### **3.3.1 Direct Costs**

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

#### **3.3.1.1 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 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 Costs related to Programs without Fieldwork must be claimed at cost when carried out by a party at arm's length from the Interest Owner.

#### **3.3.1.2 Non-Arm's Length Costs**

Sometimes Direct Cost expenses related to 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 within the employ of an Interest Owner.

Direct Cost expenditures related to 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.

### **3.3.2 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.

### **3.3.3 Areal Applicability Regarding Programs without Fieldwork**

The areal applicability policies described in Section 3.2.3 pertaining to Programs with Fieldwork also apply to 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, for instance, a biostratigraphic study completed using wells drilled on regional licences. In this case, the onus is on the Applicant to demonstrate applicability of the biostratigraphic study to the Licence. Cases such as these are subject to Board pre-approval.

### 3.3.4 Program Approval Application (for Programs without Fieldwork) Fee

In order for a Program without Fieldwork to be considered as Allowable Expenditures, a Program Approval Application (for Programs without Fieldwork), accompanied by its prescribed fee as per the *Cost Recovery Regulations* is required. Submission of a Program Approval Application (for Programs without Fieldwork) ensures that all data and report submission requirements of the Program without Fieldwork, as outlined in the GGEGs, have been met.

In the case where an Interest Owner has multiple Program without Fieldwork expenditures related to contiguous licences, the Applicant should contact the C-NLOPB via [information@cnlopb.ca](mailto:information@cnlopb.ca) prior to the submission of a Program Approval Application. At the discretion of the C-NLOPB, a single Program Approval Application fee (for Programs Without Fieldwork) and/or a single interpretation report covering all data over the associated licences may be adequate.

Although the Program without Fieldwork Application, if required, can be completed concurrently with the Application, note that the Application cannot be concluded without the approval of the Program without Fieldwork Application. Again, this ensures that all data and report submission requirements of the Program without Fieldwork as outlined in the GGEGs have been met prior to issuing any Allowable Expenditure Credit.

### 3.3.5 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 C-NLOPB 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.

## 3.4 Allowable Expenditures Associated with Research and Development/Education and Training

An Applicant who makes expenditures on Research and Development or Education and Training (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.

R&D/E&T expenditures must meet the eligibility criteria of the C-NLOPB's *Benefits Plan Guidelines (Appendix II - Guidelines for Research and Development Expenditures)*. All R&D/E&T expenditures will require Board approval. Applicants should file a R&D/E&T Work Expenditure Application Form for each planned R&D/E&T project to confirm the project's eligibility. The forms should be submitted to and approved by the Board prior to commencement of the R&D project. Applicants should refer to the *Guidelines for Research and Development Expenditures* for further information on eligible expenditures: [https://www.cnlopb.ca/wp-content/uploads/ibguide/guidelines\\_for\\_research\\_and\\_development\\_expenditures.pdf](https://www.cnlopb.ca/wp-content/uploads/ibguide/guidelines_for_research_and_development_expenditures.pdf).

Alternatively, R&D/E&T expenditures may be credited towards the R&D/E&T expenditure obligations of a development project in accordance with the Board's R&D Guidelines.

Any questions regarding applying R&D/E&T expenditures as credit against the Security Deposit can be directed to [information@cnlopb.ca](mailto:information@cnlopb.ca).

# 4.0 APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT PROCESS

## 4.1 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 the GGEGs;
- Correspond with the C-NLOPB respecting matters relating to an assessment of the Application;
- Advise Interest Holders of any Allowable Expenditure Credit amounts approved by the C-NLOPB 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.

## 4.2 Application Deadline and Processing

An Application must be submitted in accordance with the timelines provided in the prescribed terms and conditions of the subject 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 following the assessment of the Application after the end of Period I an outstanding Security Deposit remains, the Board will request that either a forfeiture cheque be provided by the Interest Owner, or that 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 Board 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, some Interest Owners 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.

### 4.3 High Level Workflow

Figure 4.1 illustrates a high level workflow that includes the key steps in the Application process.

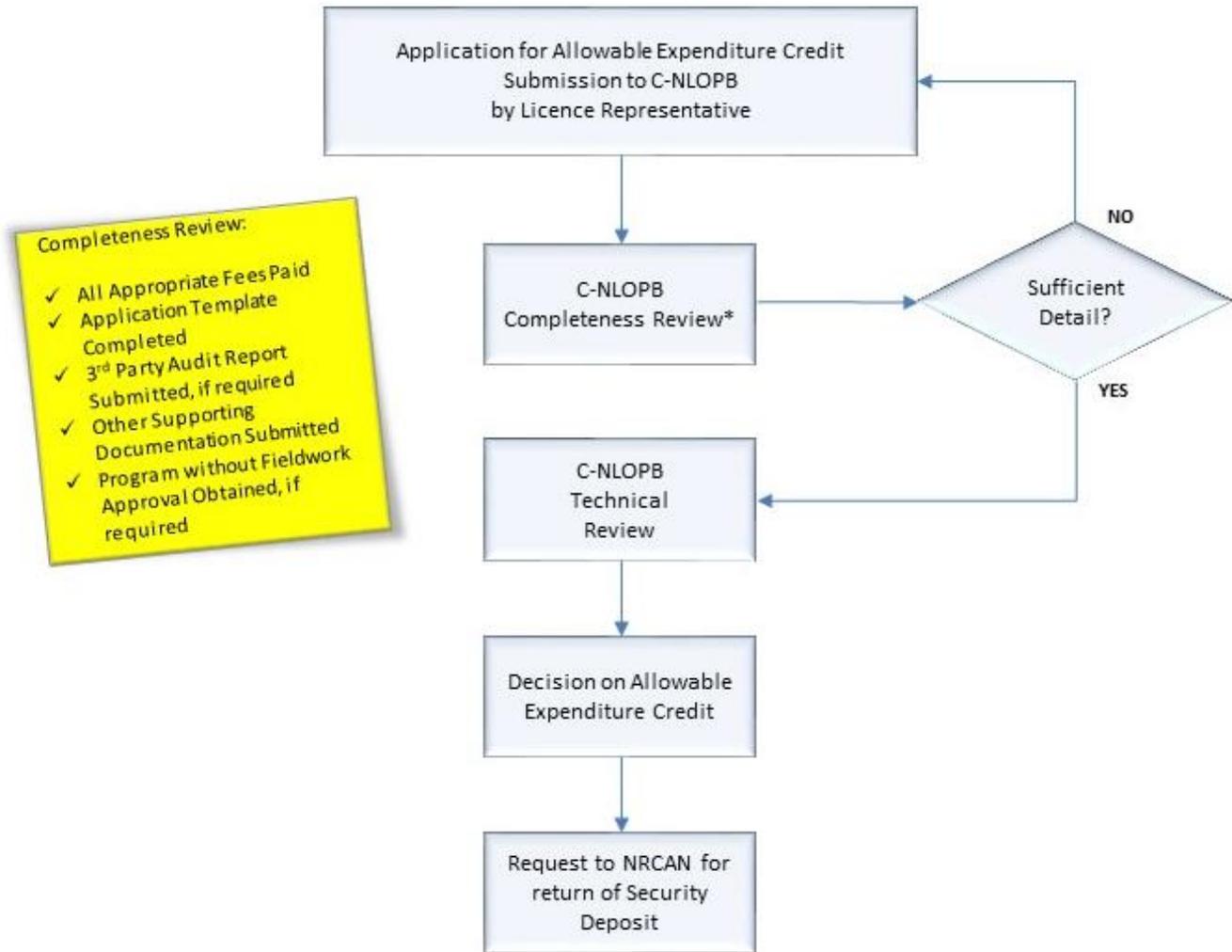


Figure 4.1: High level workflow of the Application for Allowable Expenditure Credit.

## **APPENDIX A**

### **Sample Application for Allowable Expenditure Credit (Completed Template)**

## 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 <sup>1</sup>	EL 1234
Licence Representative <sup>2</sup>	New Found Oil 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: \_\_\_\_\_

<sup>1</sup> 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.

<sup>2</sup> per Schedule III of the Licence

## 1.0 GENERAL LICENCE INFORMATION

**Table 1.0: Licence Information**

Interest Holders <sup>3</sup>	New Found Oil Company (100%)
Licence Effective Date	January 15, 2018
Period I Expiry Date	January 15, 2024

## 2.0 COVER LETTER

New Found Oil 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 Jones
Title	CEO
Email	ajones@newfoundoil.com
Phone	(709)123-4567

## 4.0 ACCOMPANYING FEES

✓	Approved Program without Fieldwork has been obtained	C-NLOPB Program No. <sup>4</sup>	12345-020-003
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	Approved Program without Fieldwork will be obtained concurrent with this Application
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<sup>3</sup> List all interest holders with percentage ownership

<sup>4</sup> If applicable to this Application, state the approved program number as assigned by the C-NLOPB

### 5.0 ALLOWABLE EXPENDITURE CLASSIFICATION

#### 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 <sup>5</sup>
<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) <b>Result, if applicable, to be included in Line 1 of Table 6.1</b>					\$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**

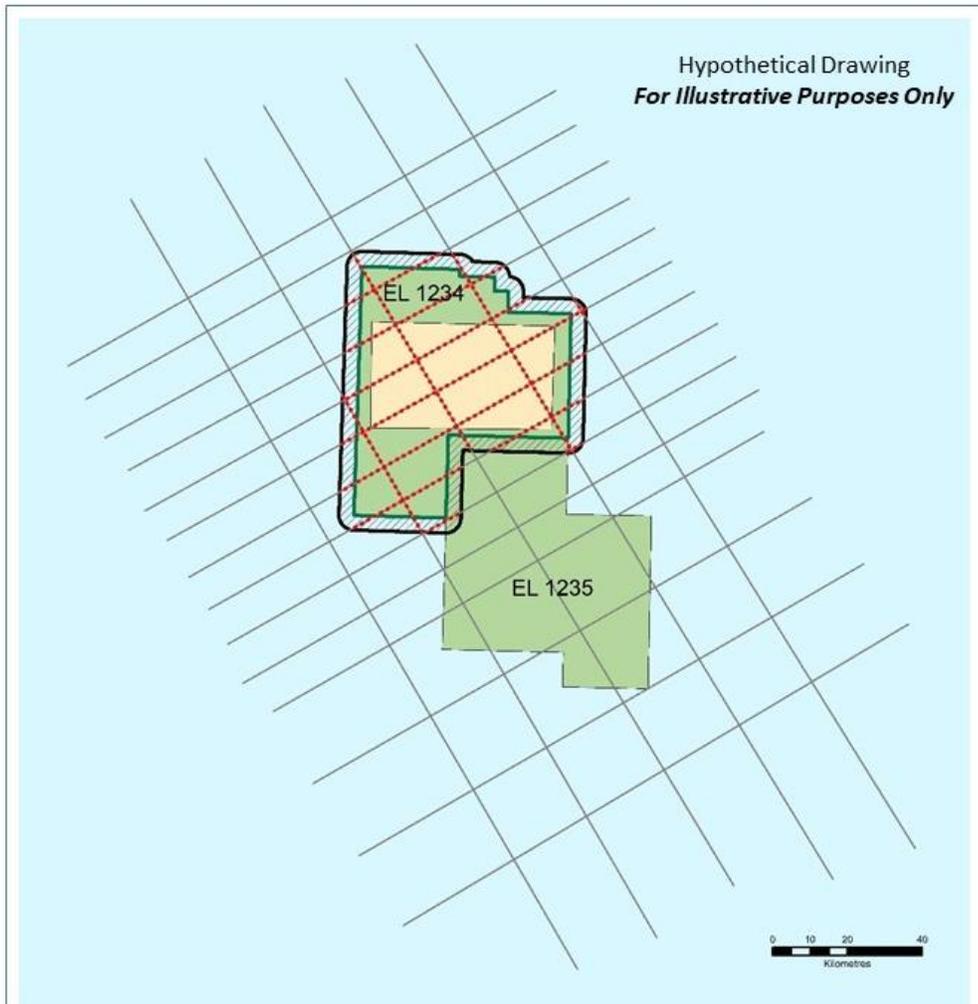
Program Number <sup>6</sup>	A Summarized Direct Cost of of Work	B Percentage Applicability to Licence	C Applicable Direct Cost of Work (AxB)	D Overhead (10% of C)	E Total Cost of Work (C+D)	Supporting Documentation Included with Application <sup>7</sup>
<b>12345-020-001</b> 2D Seismic	\$5 M	16% <i>(see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

<sup>5</sup> List all applicable files accompanying the Application associated with this well

<sup>6</sup> State the approved program number as assigned by the C-NLOPB

<sup>7</sup> List all applicable files accompanying the Application associated with this program

**5.2.3 Percentage Applicability to Licence (B)**



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%

## APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT TEMPLATE

### 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 <sup>8</sup>	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 <sup>9</sup>
<b>12345-020-003</b> 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)					\$1.1 M	
<b>Result, if applicable, to be included in Line 3 of Table 6.1</b>						

#### 5.3.3 Percentage Applicability to Licence (B)

Prior to undertaking this biostratigraphic program without fieldwork, New Found Oil 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.

<sup>8</sup> State the approved program number as assigned by the C-NLOPB

<sup>9</sup> List all applicable files accompanying the Application associated with this program

## APPLICATION FOR ALLOWABLE EXPENDITURE CREDIT TEMPLATE

### 6.0 TOTAL COSTS OF WORK SUMMARIZED BY ALLOWABLE EXPENDITURE CLASSIFICATION

**Table 6.1: Total Costs of Work from All Allowable Expenditure Types and Uplift Entitlements**

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 Cost of Work from All Allowable Expenditure Classes <b>TOTAL</b> (Add Lines 1 through 4)	\$287,980,000
6	Appropriate percentage of Security Deposit Write-Down	40%* *Multi-Well Model applied
<b>Total Security Deposit Write-Down (Line 5 X Line 6)</b>		\$115,192,000

### 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.

<b>Specified Auditing Procedures</b>	<b>Findings</b>
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 engagements 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