Compliance and Assurance
PNCB+EOPS Audit Life Cycle

Oil Sands Royalty Business Training
Alberta Energy
June 13, 2019
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• Types of Audits
• PNCB Audit Lifecycle
• EOPS Audit Lifecycle
Audit Mission Statement

• Facilitate the achievement of the Department’s goals by providing professional audit services to the Government of Alberta and its citizens to ensure that Crown resource revenues are complete and accurately reported.

• Provide professional advice regarding Crown Royalties to ensure that the Department’s policies are clearly defined and properly interpreted by our industry clients.

• Foster a workplace culture that attracts and retains the best talent.
Types of Audits

• Prior Net Cumulative Balance (PNCB) Audits
  • New Oil Sands Project Applications
  • Amendments to existing approved Oil Sands Projects

• End of Period Statement (EOPS) Audits
  • OSR Projects
  • Conducted based on the audit planning and selection

• Non-Project Royalty (NPR) Audits
  • Monthly royalty reporting for non-Project well events
  • Often part of PNCB audit

• Other Audits pertaining to Oil Sands
  • Cost Allocation Order (CAO)
  • Review of Cost Allocation Methodology Report (CAMR)
  • Mineral Rights Compensation Regulation (MRCR) claims
PNCB Audit Lifecycle

- Audit Timelines
- PNCB Pre-Screen Process
- Project Review
- Audit Queries
- Draft Notice of Determination
- Types of Audit Adjustments
- Final Notice of Determination
PNCB Audits (Overview)

- Completed based on submitted Project applications and Project amendments
- All PNCB forms are audited
- 9 month timeframe to ensure completion prior to issuance of Ministerial Order (MO) (OSRR09 Section13(b))
- Once the audit is completed, the PNCB amount is not subject to future amendment (OSRR09 Section 16)
Audit Timelines - PNCB

• Pre-screen
  • Screening of the data completed to identify data deficiencies

• Notification
  • Notification by Oil Sands Project Engineering & Approvals team within 10 business days of Project application submission

• Commencement letter
  • PNCB audit commencement letter sent to the operator

• Project review
  • Audit timeframe dictated by OSRR09 Section 13(b) – effective date of Project or Project amendment, 9 months after the date of the Project application submission

• Reporting and finalization
  • Draft Notice of Determination (Draft Audit Report) issued in 8th month of audit
  • Final Notice of Determination (Final Audit Report) issued in 9th month of audit
PNCB Pre-Screen

• Purpose
  • Ensure that the transaction details reconciles to the PNCB submission
  • Ensure that the supporting documentation is sufficient for C&A to conduct audit

• Required supporting documentation:
  • Electronic detailed transaction listing of costs claimed
    • Invoice Number, Date & Amount
    • Account Number & Description
    • Vendor Name
    • Cost Centre (e.g. wells identified)
    • AFE Number & Description
    • Document Type (e.g. JE, A/P, etc.)
    • Payment Date
  • Copy of Authorization for Expenditures (AFE) for all costs claimed
  • Seismic maps
  • Methodology of cost allocations – CAMR, salaries, seismic, etc.
PNCB Pre-Screen - Things to check

• Detailed transactions
  Summarized journal entries are not adequate – full underlying details must be provided

• 10 business days
  Submission deficiencies are reported to the operator to be rectified within 10 business days. Failure to provide supporting documentation may lead to Project application rejection

• Multiple files
  If all data cannot be included in a single file, additional files with a common format are acceptable
Project Review

• Gather additional operator information through review of the following:
  • PNCB application
  • Prior PNCB and EOP audits
  • Oil Sands Engineering/Economic reports
  • Operator Annual Reports & News Releases

• Complete initial Project interview with operator

• Complete analytical review of the cost claimed and revenues reported

• Stratified random and judgmental sample
PNCB Audit Queries

- Capital and Operating Cost Sampling
- Other Net Proceeds Reporting
- Non-Arm’s Length Transactions
- Salary Cost Sampling
- PNCB Revenue & Royalty Amounts Claimed
- Sales Revenue - Netback Unit Price Calculations
- Cost of Service Calculations
- Duplicate Transactions
- Journal Entries (Underlying details)

Response time is normally 2 weeks for each query.
Audit Query
Statistical sample testing

DEPARTMENT OF ENERGY - AUDIT CO-ORDINATION
INFORMATION REQUEST

FROM AUDITOR: ___________ DATE: _________________ REQUEST NO. _____
AUDIT CONTACT: ________________
OPERATOR: ________________
PROJECT: R-_____________________
FLAC/CENTRE/AFE: ________ ACCOUNT: _______________ SUB ______

INFORMATION REQUESTED: (Ensure necessary supporting documentation is attached)

Sample Transactions

We have attached an Excel spreadsheet (R ___ Q_ Audit Sample.xlsx) that includes a sample of transactions from the transaction detail file provided.

Please provide the associated supporting documentation for each of the transactions listed including a copy of the:

- G/L coding slip.
- Vendor invoice.
- Purchase order.
- Cheque stub, electronic funds transfer documentation or other proof of payment,
- Relevant contract (where the information noted above refers to an agreement or contract).

Please ensure that a description of each transaction is included with the supporting documentation provided. If the transaction was settled electronically and no document to indicate payment was generated, please provide details extracted from your records that show method of payment and the date payment was made.

If you have any questions or if you cannot provide this information by _____,____ please contact me directly at (780)____-______.

REASON REQUIRED:

Audit examination of this information is required in order to substantiate that the amounts claimed are eligible for inclusion in the PNCB for the amendment/application applied for.
Audit Queries - Salary Costs

1. First query requests for
   Payroll process and organizational charts

2. Second query requests for
   PNCB transaction details should provide breakdown of the salary costs with the following information:
   - Employee name
   - Actual salary paid to the employee
   - Description of the amount (Salary, bonus, benefit etc)
   - Position title of the employee
   - Duties performed by the employee
   - Location of the employee
   - Pay period, date worked, date paid
   - Timesheets
   - Hourly rate for employee
   - Detailed description of allocation methodology if costs are allocated

3. Third query requests for
   Supporting documentation for the sample transactions selected

(OSRR09 Section15(3)(iv) and OSACR Schedule 1.1 items 4 and 58, IB 2013-14)
### Draft Notice of Determination

**Summary of Proposed Audit Adjustments**  
**R XXXA Operator Project Name**  
**January 1, 2014 to December 31, 2018**

<table>
<thead>
<tr>
<th></th>
<th>Operating Costs</th>
<th>Capital Costs</th>
<th>Revenue (-)</th>
<th>PNCB</th>
</tr>
</thead>
<tbody>
<tr>
<td>As originally claimed</td>
<td>$400,000</td>
<td>$7,000,000</td>
<td>($42,000)</td>
<td>$7,358,000</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Costs outside the</td>
<td>$0</td>
<td>$900,000</td>
<td>$0</td>
<td>$900,000</td>
</tr>
<tr>
<td>PNCB period</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Ineligible AFE</td>
<td>$0</td>
<td>$2,500,000</td>
<td>$0</td>
<td>$2,500,000</td>
</tr>
<tr>
<td>3 Unsubstantiated</td>
<td>$0</td>
<td>$260,000</td>
<td>$0</td>
<td>$260,000</td>
</tr>
<tr>
<td>costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total adjustments:</strong></td>
<td>$0</td>
<td>$3,660,000</td>
<td>$0</td>
<td>$3,660,000</td>
</tr>
<tr>
<td><strong>Amended PNCB</strong></td>
<td><strong>$400,000</strong></td>
<td><strong>$3,340,000</strong></td>
<td>($42,000)</td>
<td><strong>$3,698,000</strong></td>
</tr>
</tbody>
</table>

#### ISS.1 - Costs outside the PNCB period

**Revenue:**
- **Allowed Costs:** $(900,000)

The PNCB period for R XXXA Operator Project is from January 1, 2014 to December 31, 2018. We identified that the PNCB submission included $900,000 from outside the PNCB period.

As a result, an audit adjustment of $900,000 is required.

*Oil Sands Royalty Regulations 2009 (OSRR 09) 15(2)(a)*

#### ISS.2 - Ineligible AFE

**Revenue:**
- **Allowed Costs:** $(2,500,000)

We identified that AFE 123456 and AFE 654321 do not form part of the Project description.

Consequently, an audit adjustment is required to remove the costs associated with AFE 123456 and AFE 654321.

The operator agreed with the removal of AFEs on April 22, 2019.

*Oil Sands Allowed Costs Regulation (OSACR) 3(1)*
Types of Audit Adjustments

- **Cost Adjustments**
  - Costs outside Project lands or Project description
  - Costs incurred outside allowable PNCB period (5 years preceding the effective date – OSRR09 Section 15(2)(a))
  - Cost duplication between PNCB & End of Period Statement (EOPS) reporting
  - Ineligible costs claimed (Overhead, membership, shared services etc) - OSACR Schedule 1.1
  - Ineligible salary costs
  - Cost of Service calculations
  - Cost Accruals

- **Revenue Adjustments**
  - Volumetric
  - Valuation – Netback sale prices
  - Handling Charges
  - Other net proceeds not reported
Common Cost Adjustment
Costs outside Project lands or Project description

- Eligible PNCB & EOPS costs are incurred on OSR Project area
  - AER approval includes AER development area and AER Project area
  whereas the Oil Sands Project approved lands are only the Ministerial
  Order Project lands and may also include specifically includable assets
  off Project lands

- Eligible PNCB & EOPS costs are incurred for Project activities only and are outlined in the Project description
  - The Ministerial Order will specifically exclude assets or activities (e.g.
    camps, roads, airstrips, electricity portion of co-generation, etc.)

- The Ministerial Order describes the “ring fence” of the Project that determines the eligibility of costs.
Common Cost Adjustment
Costs outside Project lands or Project description

![Map of Project Lands and other areas]
Common Cost Adjustment

Cost Duplication

PNCB transaction details are reviewed to determine if there is a potential for duplication of allowed costs between:

- New Project application and an amendment to an existing Project.

- Project application and Oil Sands EOPS reporting (Note that amendment Project application PNCB amounts should not be reported in the EOPS until the audit of the PNCB has been finalized and the Ministerial Order issued to the operator)

- Project A and Projects B owned by the same operator
Common Cost Adjustment

Accrued costs

Accrued costs are deemed to be ineligible since they do not represent actual cost paid.

- A cost is deemed to be incurred in the month in which the cost becomes payable.

- OSRR09 Section 18 defines when allowed costs are incurred and enter into royalty calculation.

- Information Bulletin (IB) 2013-11 clarifies when costs are considered “payable” and “incurred” under OSRR09.
Revenue Adjustments

Sales revenues reported in the PNCB are a deduction from the allowable costs claimed.

Reconciliation completed between PNCB reporting and NPR submissions for the following:

- Sales volumes are equal to the conventional oil well’s production for the month.
- Sales value is calculated using the netback price received for the product in that month.
- Royalties paid on production from conventional oil wells are an allowable PNCB costs.
PNCB Sales Revenue

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>Sales Volume** (m3)</th>
<th>Sales Revenue ($)</th>
<th>Less: Handling Charges ($)</th>
<th>Other Oil Sands Product Sales ($)</th>
<th>Other Net Proceeds ($)</th>
<th>Project Revenue ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>YYYY</td>
<td>January</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td></td>
<td>February</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>March</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>April</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>May</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>June</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>July</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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</tr>
<tr>
<td></td>
<td>August</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td></td>
<td>September</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>October</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>November</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>December</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Sub-total</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>Grand Total</td>
<td>0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

**Report sales revenue, sales value and Handling Charge for the primary oil sand product and report net revenue for Other Oil Sands Products.

- Sales volumes are equal to the conventional oil well’s production for the month.
- Sales value is calculated using the netback price received for the product in that month.
Final Notice of Determination

• After 30 days if the PNCB audit is concluded the final PNCB amount is provided to Oil Sands Engineering for inclusion in the Ministerial Order.

• Oil Sands Engineering will issue the Ministerial Order to the operator.

• C&A completes a final reconciliation of Ministerial Order to the Final Notice of Determination and then issues the Final Notice of Determination to the operator.

• In some instances the Ministerial Order will be prepared with a reviewed PNCB amount while the audit continues resulting in the PNCB amount being subject to further adjustment.
After the Final Notice of Determination

- If this Project application is for a new Project, the PNCB amount becomes the opening cumulative cost balance of the OSR Project.

- The approved PNCB amount is reported in the monthly Oil Sands royalty reporting forms (MRC/GFE) in the month the Project application/amendment became effective.
  - E.g. If the effective date of the Project application is March 1, 2018 for a new OSR Project, the operator would report the PNCB amount in the March 2018 MRC royalty form (presuming the Project is in pre-payout status).

- Allowed costs included in the PNCB data for a Project amendment application should never be included in the Oil Sands Royalty reporting until the Project application is approved.
Links to Oil Sands Legislation & Information Bulletin/Letters

Link to Act and Regulations

Link to Oil Sands Royalty Guidelines

Link to Information Bulletins and Letters

IB 2013-11 : Arm’s Length Costs Incurred and Cost Accruals

IB 2013-08 Change of Operatorship or Ownership: Clarification of Responsibilities and Entitlements
https://open.alberta.ca/dataset/bb1e16fa-db5c-460a-b7ff-37293610f3ae/resource/5ca1c903-d71e-494e-b4cb-5cc6dac29dd4/download/ib-2013-08.pdf

IB 2013-14 : Determination and Treatment of “Solely Dedicated” Employee Costs
https://open.alberta.ca/dataset/bb1e16fa-db5c-460a-b7ff-37293610f3ae/resource/03f3ae4b-5280-4cbf-ae8d-d8c65ddf64f1/download/ib-2013-14.pdf

Access to records – OSRR09 Section 42 & Mines and Minerals Act Section 47
The objective of Compliance and Assurance is to ensure that Crown Royalties are complete, accurate and fairly valued.
Selecting Projects for Audit

• We perform a risk assessment of the EOPS population to determine which Projects will be selected for audit.

• Our risk assessment takes the following into consideration:
  – Prior reporting history
  – Project payout timeline
  – Significant change in costs and revenues reported from prior years
  – Operator requested
    • New reporter compliance
    • New asset inclusion (cost of service)
  – Internal requested
    • PNCB Auditor review
    • Oil Sands Operations (Ministerial amendment, royalty reporting deficiencies, revocation orders, etc.)
EOPS Audit Lifecycle

- Commencement Letter
- Project Review
- Data Analysis
- Queries and Standard of Evidence
- Notice of Pending Audit closure
- Audit Report
EOPS Audit Lifecycle

Commencement Letter

• Used to notify Project owners that their Project is under audit
• Will request data that supports and reconciles to all costs and revenue claimed on the EOPS
  – Electronic Format
  – Vendor Name
  – Invoice Number, Date and Paid Date
  – Description of Transaction
  – AFE Number and description
  – Location
  – Account Number and Description
  – Document type

• See Section 50 of the MMA regarding confidentiality of records
Auditor will review the following documents:

- Prior EOPS audits and PNCB audits
- Ministerial Orders
- Engineering/Economic reports
- Project Briefings
- Cost Allocation Methodology Reports (CAMR)
EOPS Audit Lifecycle

Data Analysis

• Auditor Assignment
  • Audit Commencement meeting may be required

• Initial Data Analysis
  • Data Summaries
  • Trend Analysis
  • Area price comparisons
  • Fair market value tests
  • Duplicate testing
  • Project boundary reviews
**EOPS Audit Lifecycle**

**Queries**

- What is included in a Query:
  - Background of issue in discussion
  - What information is being requested (invoice, contracts, etc.)
  - Reason for information request
  - Regulatory authority (OSRR-09, OSACR, BVM Ministerial Order, IL, IB, etc.)
  - Timeline to provide information
Standard of Evidence

- All costs/revenues submitted for royalty calculation purposes must be auditable, properly documented and supported by evidence. Evidence must be valid, relevant and impartial to be considered appropriate – IB 2013-14
The next three slides will examine the standard of evidence for employees performing corporate overhead type functions as per Item 58 of schedule 1.1 of OSACR 2009, that is effective January 1, 2017.

Salaries for employees performing corporate overhead type functions are claimed on an employee level.

SAP GL details are mostly likely not compliant to the Regulations.
### Standard of Evidence

**Item 58 of schedule 1.1 of OSACR 2009**

<table>
<thead>
<tr>
<th>Specifically Included</th>
<th>Specifically Excluded</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salaries, wages, benefits, training, travel and accommodations</strong> <strong>for employees solely dedicated</strong> to carrying out Project operations</td>
<td><strong>Salaries, wages, benefits, training, travel and accommodations</strong> <strong>for executive or management employees not solely dedicated</strong> to carrying out Project operations</td>
</tr>
<tr>
<td><strong>Salaries, wages, benefits, training, travel and accommodations</strong> <strong>for employees or personnel</strong> performing the following functions and <strong>solely dedicated to operations of one or more Projects</strong> operated by the same operator:</td>
<td><strong>Salaries, wages, benefits, training, travel and accommodations</strong> <strong>for employees or personnel</strong> performing the following functions and <strong>not solely dedicated to the operations of one or more Projects</strong> operated by the same operator:</td>
</tr>
<tr>
<td>- information technology</td>
<td>- information technology</td>
</tr>
<tr>
<td>- accounts payable</td>
<td>- accounts payable</td>
</tr>
<tr>
<td>- office administration and support</td>
<td>- office administration and support</td>
</tr>
<tr>
<td>- capital and operating accounting</td>
<td>- capital and operating accounting</td>
</tr>
</tbody>
</table>

*Column continued on next slide*
Specifically Included

<table>
<thead>
<tr>
<th>Salaries, wages, benefits, training, travel and accommodations, for employees to the extent those employees carry out Project operations in the following circumstances:</th>
</tr>
</thead>
<tbody>
<tr>
<td>- <strong>legal counsel</strong> for matters integral to furthering Project operations</td>
</tr>
<tr>
<td>- providing <strong>production accounting</strong> and <strong>royalty accounting</strong> for oil sands products</td>
</tr>
<tr>
<td>- <strong>purchasing or disposing</strong> of assets, materials or supplies used in Project operations</td>
</tr>
<tr>
<td>- conducting employee classification or <strong>employee relations activities</strong> for employees carrying out Project operations</td>
</tr>
<tr>
<td>- <strong>engineers, geologists, geo-scientists or biologists</strong> carrying out engineering, geological, geo-physical or environmental activities for Project operations</td>
</tr>
<tr>
<td>- carrying out <strong>marketing activities</strong> for oil sands products</td>
</tr>
</tbody>
</table>
# Standard of Evidence

**Employees Performing Corporate Overhead Type Functions**

## Capital and Operating Accounting

<table>
<thead>
<tr>
<th>Employee</th>
<th>Position</th>
<th>Salary</th>
<th>Benefits</th>
<th>Training</th>
<th>Travel</th>
<th>Total</th>
<th>SWB</th>
<th>Project Time Allocation</th>
<th>OSR 200 Allocation</th>
<th>OSR 300 Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smith, J</td>
<td>AFE Analyst</td>
<td>$150,000</td>
<td>$60,000</td>
<td>$20,000</td>
<td>$15,000</td>
<td>$245,000</td>
<td>70%</td>
<td>OSR 200</td>
<td>$171,500</td>
<td>$73,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>30% OSR 300</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Allowed:</strong> Solely dedicated to operations of one or more Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Singh, V</td>
<td>AFE Analyst</td>
<td>$120,000</td>
<td>$10,000</td>
<td>$20,000</td>
<td>$15,000</td>
<td>$165,000</td>
<td>50%</td>
<td>OSR 200</td>
<td>$100,000</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50% Natural Gas Assets</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Not Allowed:</strong> Not solely dedicated to operations of one or more Projects</td>
<td></td>
<td></td>
</tr>
<tr>
<td>White, D</td>
<td>Engineer</td>
<td>$75,000</td>
<td>$30,000</td>
<td>$20,000</td>
<td>$ -</td>
<td>$125,000</td>
<td>80%</td>
<td>OSR 200</td>
<td>$225,000</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20% NPR Wells</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td><strong>Allowed to the extent those employees carry out Project operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pitt, B</td>
<td>Business Analyst Team Lead</td>
<td>$175,000</td>
<td>$30,000</td>
<td>$20,000</td>
<td>$ -</td>
<td>$225,000</td>
<td>100%</td>
<td>OSR 200</td>
<td>$225,000</td>
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</tr>
<tr>
<td></td>
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<td></td>
<td><strong>Allowed:</strong> Management employee solely dedicated to carrying out Project operations</td>
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<tr>
<td>Wong, K</td>
<td>Accounting Manager</td>
<td>$150,000</td>
<td>$60,000</td>
<td>$20,000</td>
<td>$25,000</td>
<td>$255,000</td>
<td>50%</td>
<td>OSR 200</td>
<td>$127,500</td>
<td>$127,500</td>
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<td>50% OSR 300</td>
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</tr>
</tbody>
</table>

(1) Salary must be actual amount incurred and paid

Day rates, estimates, or industry averages should be replaced with actual salaries paid to employees

(2) The allocated rate must be supported with verifiable evidence illustrating the relationship of the service the Project receives
Audit Lifecycle

Notice of Pending Audit Closure

- Draft Audit Adjustment with description, dollar amount and regulatory authority
- Usually a 30 day deadline for a response
- Request for any additional information for any audit adjustments in dispute by operator
- Mines and Minerals Dispute Resolution Regulation Section 4(2): no additional information will be considered during the appeal process
Audit Lifecycle

Audit Report

• What is included in the Audit Report:
  – Signed letter with final Audit adjustments
  – Instruction on the Appeal Process
  – Obligation to correct systemic errors – OSRR 2009 44(5-6)
  – Summary of Adjustment
  – Adjusted EOPS/PN CB schedules
EOPS Timelines

• Operators file their original EOPS within 3 months after the end of each period
  – OSRR, 2009 Section 39(1)

• Amended MMA Section 38
  – Operators may file amended EOPS within 3 years after the end of the calendar year.
  – Audits must be completed no later than 5 years after the end of the calendar year
Questions?