### SECTION 1.0 – THE PROJECT

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1.0 THE PROJECT

1.1 Purpose of the Document

Devon NEC Corporation (Devon) proposes to construct and operate an insitu, steam assisted gravity drainage (SAGD) project in Lac La Biche County, Alberta (Figure 1.1-1). Devon and BP Canada Energy Group ULC (BP) each hold a 50% working interest in the lands for the project, which is located about 25 km southeast of Conklin, Alberta, and operated by Devon.

The first project proposed on the Pike lands, the Pike 1 Project (the Project), is planned to produce up to 17 330 m³/d (109 000 barrels per day [bbl/d]) of bitumen. It is expected that nominal production will be about 16 694 m³/d (105 000 bbl/d).

The facilities to be developed include typical SAGD elements such as steam generation, water treatment and recycle, sulphur removal and oil treatment facilities located within a single central processing facility (CPF). As well, associated roads, pipelines, well pads and utility facilities required to support the proposed operation will be developed. Pike 1 will be constructed in phases over a three-year to four-year period, with initial production expected to begin in 2016.

This application is an integrated application to Alberta Environment and Water (AEW) and the Energy Resources Conservation Board (ERCB). An environmental impact assessment (EIA) was completed for the Project application. Figure 1.1-2 shows the Project footprint, Project Area, Initial Development Area and terrestrial local study area (TLSA).

1.2 Proponent

Devon NEC Corporation is a subsidiary of Devon Canada Corporation, which is the Canadian operating subsidiary of Devon Energy Corporation of Oklahoma City, Oklahoma. Devon Canada Corporation’s portfolio of natural gas and oil properties provides stable, environmentally responsible production and a strong platform for future growth. Devon Canada Corporation’s current gross production mix is about 50% natural gas and 50% oil and natural gas liquids. The company produces about 200 000 bbl/d equivalent before royalties, and represents about 30% of Devon Energy’s total production, reserves and employees.

Devon Canada Corporation’s well balanced portfolio and extensive land holdings of more than 5 million net undeveloped acres positions it well for near-term, medium-term and long-term growth. The company’s potential opportunity base includes exploration and development opportunities in Canada’s most important energy producing areas, including Alberta’s oil sands. Devon is also active in central and northern Alberta, the foothills, the deep basin, Peace River Arch and northeast British Columbia.

Devon employs about 1,900 people in Canada and 3,300 in the United States. The Canadian head office is located in Calgary with district offices in Coleman, Red Deer, LloyDMINSTER, Bonnyville, Jackfish, Swan Hills, Fairview and Grande Prairie, Alberta, and Fort St. John, British Columbia.
Devon has a broad understanding of in situ oil sands developed since entering the Athabasca oil sands area in 1997 by acquiring the Alberta Oil Sands Technology Research Association Underground Test Facility, known as Dover. Devon has since constructed and is successfully operating the Jackfish 1 and Jackfish 2 in situ SAGD facilities located north of the Project Area. Construction of the recently approved Jackfish 3 facility started in 2012 with production expected to start in 2015. Through the sequential development and operation of these in situ, oil sands projects and a willingness to research new technologies, Devon is well positioned to use the knowledge gained and lessons learned to successfully construct and operate the Project.

Communication related to the application should be addressed to:

Devon NEC Corporation
Attn: Amberly Dooley, P.Eng., EP
2000, 400 – 3rd Avenue SW
Calgary, Alberta T2P 4H2
Email: thermal.projects@dvn.com
Phone: Thermal projects information line 1-877-255-7595
Web: www.devonenergy.com

1.3 Project Need, Benefits and Alternatives

1.3.1 Project Need

Devon is applying for regulatory approval of the Project based on a thorough investigation of the Project’s technical feasibility and economic analyses of the Project’s productivity and profitability.

The need for the Project is validated on the basis that Devon and BP:

- own the bitumen leases in the Project Area;
- retain the right to explore the potential for resource development;
- have confirmed bitumen resources worthy of development; and
- will replace declining conventional oil resources with the proposed bitumen production.

1.3.2 Project Benefits

From its initial construction to its productivity maintenance (ongoing development during the life of the Project) and operations, the Project’s positive contribution to the Alberta economy is evident in its expenditures, employment and taxes. Through direct and multiplier effects based on current project planning, taxation and royalty structures, and economic forecasts, the Project is expected to have the following impacts on the Alberta economy:

- there will be 25 to 30 years of sustained onsite activity in the Conklin area specifically related to the Project;
- the total gross output throughout the life of the Project is estimated to be greater than $30 billion;
• the economic benefits will accrue locally, regionally, provincially and nationally;
• more than $11.1 billion is estimated to be expended over the Project’s life for ongoing operating costs, including fuel and other consumables, local taxation, labour and direct services;
• labour income generated throughout the life of the Project will amount to about $4.6 billion: $2.3 billion labour income will be generated during initial construction, and $2.3 billion labour income will be generated during operations;
• the Government of Canada will receive about $2.07 billion and the Government of Alberta will receive about $1.38 billion in direct tax revenue over the life of the Project;
• the Government of Alberta will receive about $6.9 billion in royalty revenues over the life of the Project;
• Lac La Biche County will receive over $14.4 million in yearly property taxes; and
• Devon will spend about $4.1 billion in initial capital expenditure.

These economics assume regulatory approvals for the Project will be received by late 2013, with first oil production anticipated in 2016.

1.3.3 Project Alternatives

Devon chose SAGD technology as the primary recovery method for the Project because the company understands the technology well, and has successfully applied the technology on adjacent oil sands leases, in particular at its Jackfish operations. Devon evaluated several enhanced recovery methods, including the study and analysis of the following:

• the use of solvents for insitu bitumen extraction is being evaluated at a pilot level at Devon’s Jackfish 1 operations. The plan is to apply this technology, if successful, to the Project following initial startup. The appropriate application for approval would be made before initiating use of solvents at the Project; and

• the Project will use lift gas, with the gas ultimately being used to generate steam. Primary production of bitumen using downhole production pumps was examined and determined to be uneconomic for the Project at this stage. Downhole pumps capable of SAGD production rates are in the early stage of commercialization, and may be implemented in the future.

Devon continues to explore emerging technologies, and remains committed to enhancing the thermal and solvent processes in the Athabasca Oil Sands. Several SAGD projects in Alberta in both the pilot and commercial phases are using various recovery strategies, which will add to the industry’s understanding and improvement of SAGD technology. Devon intends to incorporate any successes from other heavy oil projects in developing the Project, as practicable.
Devon is also actively seeking opportunities to apply new and developing technologies to the Project to increase its energy efficiency, decrease environmental impacts and improve operability.

1.4 Development Plan and Schedule

The Project is being submitted for approval to produce up to 17,330 m³/d (109,000 bbl/d) of crude bitumen for a period of 25 to 30 years. The nominal stream-day production rate is expected to be 16,694 m³/d (105,000 bbl/d) of crude bitumen. Project will consist of three CPF phases in a centralized location, along with the well pads required to support startup and ongoing production for each of the CPF phases. The associated infrastructure that facilitates crude bitumen recovery on the site and exportation off the site by pipeline will be common to the entire project. Devon plans to drill 450 wellpairs to recover the 630 million bbl of recoverable bitumen in place (RBIP). Each pad is expected to have between 7 to 10 wellpairs.

Devon has developed plans to drill 610 wellpairs, which includes the 450 wellpairs already mentioned, in anticipation of identifying potential additional RBIP. Drilling 610 wellpairs is the most conservative estimate in terms of the Project footprint and, therefore, the 610 wells have been included in the assessment for this regulatory application. Devon’s reservoir team will implement adequate reservoir management plans to effectively recover the resource in place. The life of a single wellpair will be about six to seven years, with its longevity being determined by the quality of the target resource.

Project development incorporated environmental constraints planning to guide the placement of all surface disturbances within the Project Area. The purpose of constraints planning is to reduce or minimize environmental impacts. As well, the constraints planning identifies areas of higher sensitivity that should be avoided or have mitigation implemented during these areas’ planned development. The Project constraints map provides the basis for discussion and feedback with the local community during consultations. Constraints planning, including environment, social and economic factors, will continue to be used to locate facilities so that potential for impacts to the environment are reduced.

Construction of initial pads for each phase will be completed in conjunction with the construction of the three phases of the CPF. Construction of additional pads will take place as wellpairs become depleted and corresponding wellpairs are drilled to maintain production. Operations activities will migrate to new pads and unused pads will be reclaimed according to an approved Conservation and Reclamation Plan. Wherever possible, unreclaimed well pad facilities will be used and additional pads will be developed along existing utility corridors, thereby contributing to reducing surface disturbance in the Project Area. Where possible, Project facilities were located on or adjacent to areas of existing disturbance to minimize new land disturbance and habitat fragmentation.
The CPF for this Project is located on an area of slightly elevated, ridge-like land with a defined drainage pattern. Local conditions support borrow pit construction adjacent or close to the CPF. Construction staff accommodation will be at the Pike district camp, which will also house operations staff.

Plant offsite facilities and infrastructure that link the well pads with the CPF will be linear in form. A series of aboveground pipelines (production, steam, fuel gas, and water), powerlines and parallel access roads dominates these linear features. Various assemblages of roads and pipelines will create corridor widths ranging from 10 to 45 m. Observation wells will also be distributed throughout the Project Area.

Linear linkages will be between the Project Area and supporting infrastructure. These include the transportation and utility connectors and the Access Pipeline leading southwards from the Pike area. Transportation links will be principally via Highway 881, Sunday Creek Road and Kirby Road. Dry natural gas and electrical power will be imported to the Project Area from established suppliers in the region. Lac La Biche and Fort McMurray will be important service nodes for the Project.

The schedule for the Project is presented in Figure 1.4-1 and shows SAGD wellpair drilling and facility construction taking place from 2014 through to 2018 pending corporate and regulatory approvals. First production of oil is targeted to take place in 2016, with full production reached in 2020. With the currently defined resources of the Project, Devon expects final production to take place after 25 to 30 years of operation. However, additional resource delineation or technology improvements that result in improved recovery of the resource may extend the operational life of the facility. After cessation of operations, Devon will undertake facility decommissioning and final reclamation.

1.5 Project Approvals

This document is a joint application by Devon to the ERCB and to AEW, requesting the following:

- approval from the ERCB for the Project as defined in this application; and
- approval from AEW for the construction, operation and reclamation of the Project as defined in this application.
### Pike 1 Project Timeline

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**Provided by:** Devon Canada

**Final Mapping by:** Devon Canada

**Figure 1.4-1**
1.5.1 Legislation Pertinent to Application

Approval is requested pursuant to statutes of the Province of Alberta that directly apply to the Project. Because it is a joint application, the document has been developed to combine all information required under Alberta’s Oil Sands Conservation Act (OSCA) and Environmental Protection and Enhancement Act (EPEA). In specific terms, Devon applies to:

- **ERCB** for:
  - approval to construct and operate the Pike 1 SAGD Project pursuant to Section 13 of the OSCA and Part 2; and
  - approval to construct and operate the Pike 1 SAGD Project pursuant to Part 4 of the Oil Sands Conservation Regulations.

- **AEW** for:
  - approval of the EIA report submitted pursuant to Section 50 of the EPEA and for a decision, in due course, by the director that the EIA is complete pursuant to Section 53 of EPEA;
  - approval, pursuant to Part 2, Division 2, Section 68 of the EPEA, to construct and operate the Pike 1 in situ oil sands Project as proposed in the application contained herein and defined in the EPEA Activities Designation Regulation; and
  - approval of a Conservation and Reclamation Plan pursuant to Part 2, Division 2 of the EPEA, to reclaim the Pike 1 Project as proposed in the application contained herein.

This application is being made under the regulatory regime as of the date of application. Should this regime be altered before approval of the Project, Devon would follow the directions of the appropriate regulatory bodies to address amended requirements as they apply.

1.5.2 Concordance

This application contains information that follows key guideline documents. These documents are provided by the ERCB and AEW to assist companies in selecting and organizing material to be submitted to these regulatory authorities. Concordance is provided with this application to assist reviewers in identifying the sections of the application that correspond to these guidance documents:

- **AEW**: Final Terms of Reference, Environmental Impact Assessment Report for Devon NEC Corporation, Pike 1 Project;
- **AEW**: Guide to Content of Industrial Approval Applications and Sections of the Applications for Sour Gas Processing Plants and Heavy Oil Processing Plants – Guide to Content not covered by the former; and
1.5.3 Legislation Pertinent to Associated Project Applications

Other related applications under provincial statutes may be pertinent to the Project. Any supplemental applications required for developing the Project will be submitted separately to the agencies having jurisdiction. Pertinent approvals under provincial statutes may include the following:

- **Water Act**, for groundwater and surface water diversion and use;
- **Public Lands Act**, for surface rights;
- **Historical Resources Act**, for clearance to construct surface facilities;
- ERCB Directive 056: *Energy Development Applications and Schedules*;
- ERCB Directive 065: *Resources Applications for Conventional Oil and Gas Reservoirs*;
- **Pipeline Act** and EPEA for facility and pipelines construction permits; and
- **Municipal Government Act**, Part 17, for a development permit from Lac La Biche County for construction and operation of the Project and related infrastructure.

The Project, as proposed, is not expected to require federal approvals.

1.5.4 Application Components

The application is presented in the following three volumes:

- **Volume 1 – Project Description** is presented in seven sections. An introduction to the project is followed by more specific discussion of the Project’s geology, processes, facilities, environmental management, consultation, conservation and reclamation, and traffic. A summary of the EIA findings is also provided;

- **Volume 2 – Environmental Impact Assessment** is presented in 17 sections. A project description summary is followed by discussion of the scope of the EIA. Thereafter, individual components such as air quality, noise, aquatic resources, terrestrial resources, human environment, and socio-economics provide baseline descriptions of the Pike 1 study area, and impact and mitigation statements for local and regional study area; and

- **Volume 3 – EIA Appendices** presents appendix materials that support the work of individual components of the EIA discussed in Volume 2.

1.6 Markets

Project blended bitumen production will be pipelined to Edmonton, Alberta, via the Access Pipeline where it will be sold to Devon and BP’s customers. The United States and Canada are the primary markets for blended Canadian heavy crude and bitumen production, with a secondary market being Asia. Export markets in the United States are reached via pipeline connections to refineries distributed throughout that country’s northern tier, upper and lower mid-west and the Rocky Mountains.
Recently, shippers have contracted for additional pipeline capacity to the US Gulf Coast, the largest refining centre in the world. In Canada, the domestic market includes refineries at Edmonton, Alberta, as well as a number of refineries running heavy crude to produce asphalt. Heavy blend volumes can also be delivered to existing and proposed regional upgraders. Similar to the US Gulf Coast initiative, pipeline expansions to the Canadian West Coast have been proposed by industry. This arrangement would allow volumes to access the Asian markets via ocean transport.

Bitumen production must be blended with diluent for pipeline transport. Based on the study of market conditions, Devon is confident that the required supply of diluent will be available for bitumen production at the Project. Project diluent will be pipelined from the Edmonton region to plant gate via the Access Pipeline.

1.7 Land and Mineral Rights

Devon holds a 50% working interest (WI) in the oil sands leases in the Project Area (63 sections), and BP owns the remaining 50% WI. Devon and BP also each own a 50% WI in the petroleum and natural gas leases in the Project Area.

Devon and BP each own a 50% WI in 122 additional sections of oil sands leases in the area known as the Pike lands, which includes the Project Area. Potential development of these leases will be under separate application at a future date.

Devon and BP currently hold mineral surface leases, miscellaneous land leases and other rights of access with the Crown for the Pike 1 surface lands as required to conduct existing operations in the area. In addition, oil sands exploration permits are in place to facilitate exploration programs for the Project Area.

Figure 1.7-1 shows oil sands leases owned by Devon and by other companies on lands contiguous to the Project. There are also existing petroleum and natural gas (P&NG) rights holders within and adjacent to the proposed Project Area. Figure 1.7-2 shows P&NG leases owned by Devon and by other companies on lands contiguous to the Project.

Canadian heavy crude prices are set in the marketplace based on competing sources of supply and crude quality. In regard to exports to the United States, the price of heavy oil and bitumen production is set in the competitive markets of that country. Project bitumen pricing assumptions are for blended heavy crude adjusted for transportation and quality at Edmonton, Alberta.

1.8 Commercial Viability

Commercial oil sands projects of the magnitude and duration of the Project are subject to a range of factors that have the potential to affect the projects’ overall economics. These factors include, but are not limited to, product pricing, fuel gas costs, provincial royalty schemes, federal taxation policies, capital and operating costs, and project performance.
Oilsands Leases Contiguous to Pike 1 Project

Legend
- Pike 1 Project Area
- BP Canada Energy Group ULC, Devon Canada Corporation
- Devon NEC Corporation
- CNRL
- Koch Oil Sands Operating ULC, CNRL, Suncor Energy Inc.
- Paramount Resources Ltd.
- Road
- Open Water

Kilometres 1:145000

Pike 1 Project
Oilsands Leases Contiguous to Pike 1 Project

PROVIDED BY: FINAL MAPPING BY:
DEVON CANADA

Figure 1.7-1

April 18, 2012
Devon has determined that the Project is a viable project based on an assessment of market conditions, risk and capital availability. The company continues to evaluate and monitor opportunities to enhance the value of the Project, taking into account the various factors outlined above.

The Project demonstrates a predicted positive net present value for the corporation, an acceptable return on investment, and a strong economic benefit to the local region, the province and the nation.

1.9  Project Costs

Project costs are broken down into capital and operating expenses.

For capital costs, the total costs are divided into two major components:

- well pads and pipelines; and
- CPF facilities.

The capital cost of the well pads and pipelines is about $4.67 billion, and the capital cost of the CPF facilities is about $2.96 billion.

The total operating cost for the Project over its 25- to 30-year life is anticipated to be about $11.1 billion.