

# Frog Lake Energy Resource Corp. Report Con't – Management Discussion and Analysis Con't

## Revenues

For the fiscal year ended March 31, 2011, FLERC recorded \$40,638,677 in heavy oil and natural gas sales, an 85 % increase over the year ended March 31, 2010, when FLERC recorded \$21,975,465 in sales.

Revenues for the fiscal year were split as follows:

Working Interest Revenue	98.8%
Royalty Revenue	1.2%
Heavy Oil Revenue	99.1%
Natural Gas Revenue	0.9%

## Royalty Expense

Royalties paid in the year ended March 31, 2011 were \$9,111,045 or 22.7% of working interest revenue as compared to \$5,253,317 or 24.8% of working interest revenue for the preceding fiscal year.

The split between royalties paid to Indian Oil and Gas Canada and the Alberta Crown was as follows:

<u>Royalty Recipient</u>	<u>Royalty Paid</u>	<u>Percent of Total</u>
Indian Oil and Gas Canada	\$9,007,057	98.9%
Alberta Crown	\$103,988	1.1%
Total	\$9,111,045	100.0%

FLERC pays Crown royalties on certain wells near the boundaries of FLFN where provincial well spacing regulations require an equitable royalty split based on well drainage. FLFN may also receive royalties from similar wells drilled outside of FLFN boundaries where similar drainage situations exist.

In March, 2010, the Alberta provincial government implemented a change to provincial royalty regulations. New wells on Crown lands now pay a 5% royalty on the first 50,000 bbls of production or for one year from date of first production, whichever occurs first.

The Alberta Crown Royalty regulations also apply to FLERC's Frog Lake leases in accordance with the royalty definitions contained in the leases. FLERC's leases, however, contain wording that specifically excludes "incentives" and Indian Oil and Gas Canada has taken the position that the Crown New Well Royalty regulation is an "incentive" and therefore not applicable to new wells drilled on FLFN lands.

FLERC initially paid the 5% royalty on new wells and the financial statements and analysis provided in this report reflect that rate. Subsequent to the preparation of the financial statements, FLERC met with IOGC for clarification, and until further notice will pay royalties at the full rate on all new wells. Accordingly, FLERC has now paid an additional \$825,348 for the period from May, 2010 to March, 2011. Therefore, for fiscal year 2011, FLERC has paid \$9,832,405 in royalties to Indian Oil and Gas Canada. This amount, plus the Crown royalties, represents an average royalty rate of 24.8% of working interest revenue, which is identical to the rate experienced in fiscal 2010.

## Operating Expenses

Operating expenses were \$9,969,820 or \$13.84 per boe in the year ended March 31, 2011, compared to \$5,558,470 or \$14.56 per boe in the prior fiscal year.

The reduction in operating costs reflects our operating partner's continued success in reducing water disposal and oil treating costs, by doing more of the work at jointly owned facilities rather than third party facilities. Continued use of natural gas for lease fuel and production tank heating has offset the purchase of propane resulting in significantly lower fuel costs.

## Operating Netbacks

Operating net backs (revenues less royalties less direct operating costs) were \$29.99 per boe in the year ended March 31, 2011, compared to \$29.24 per boe in the prior fiscal year.

## General and Administrative Expenses

General and Administrative expenses were \$2,520,608 or \$3.51 per boe in the year ended March 31, 2011, compared to \$1,844,734 or \$2.67 per boe in the prior fiscal year.

The increase in G&A per boe is attributable to higher management, technical and office/administrative costs resulting from FLERC's decision to become an "operating" oil company.

## Capital Expenditures

The Company recorded \$18,616,156 of property and equipment additions during the fiscal year ended March 31, 2011, compared to \$9,082,371 in fiscal 2010.

The following table details the capital expenditures in fiscal 2011:

<u>Category</u>	<u>Expenditure</u>
Land	\$ 374,575
Geological / Geophysical	\$ 871,207
Drilling & Completions	\$ 11,095,936
Equipment & Facilities	\$ 6,229,944
Property Acquisitions	\$ -
Other Fixed Assets (Office Equipment)	\$ 44,494
<b>Total</b>	<b>\$ 18,616,156</b>

- Land expenditures were for mineral lease payments to Indian Oil and Gas Canada. These leases were selected as per the terms of FLERC's new exploration permit and resulted from the drilling of three wells on these lands prior to fiscal yearend. Other expenditures were for Crown lands under Frog Lake where the additional acreage was required to complete drilling spacing units.
- Seismic expenditures were for FLERC's share of a joint 3D program shot by Twin Butte Energy.
- Drilling, completion and equipping costs represent FLERC's share of the 87 wells drilled during the fiscal year.
- Additional office furniture and computer equipment were purchased to accommodate the staff necessary to process an expanding joint operating business and to manage an ongoing exploration and drilling program.

## INCOME SUPPORT PROGRAM

Intakes for the month of November are from the 14<sup>th</sup> to the 29<sup>th</sup>, 2011. Social Assistance cheques will be released on November 30, 2011.

Employee for the month of November is Norma Jackson.

Staff Christmas break is from December 22, 2011 to January 3, 2012.

Any questions regarding the Income Support Program, you can call Lorraine Quinney, Director at 780-943-3780.



## ATTENTION

**The Chief and Council and the PCD Committee of  
Frog Lake First Nations**

**do regret to inform the General Band Membership  
that there will no longer be a BANK available  
during the distributions of PCDs. PCDs will be distributed**

**December 7, 2011  
at the Frog Lake Band Hall**

**December 8, 2011  
at Chateau Louis Conference Centre, Edmonton, AB  
Chief and Council and the PCD Committee  
do apologize for the inconvenience.**