

June 3, 2003

Ministry of Energy and Mines

**OIL AND GAS DEVELOPMENT STRATEGY FOR THE HEARTLANDS
MARGINAL ROYALTY PROGRAM**

Qualification Criteria:

A well event is a marginal well event in any producing month if:

- (a) the well event produces only non-conservation gas.
- (b) the average daily natural gas production volume for the well event, over the first 12 calendar months following the calendar month in which marketable gas is first produced from the well event or is first produced from the reactivated well event since its reactivation, is, when divided by the well depth of the well event over that period, less than 23 m³ for every metre of well depth.
- (c) in the producing month, the average daily natural gas production volume for the well event is less than 25 000 m³.
- (d) the 12 calendar month period referred to in paragraph (c) ends after June 30, 2004 and before July 1, 2009.

Where the following terms are defined:

"conservation gas" means natural gas produced from an oil well event where the marketable gas is conserved but does not include gas produced from an oil event granted concurrent production status under section 97 of the Petroleum and Natural Gas Act.

"non-conservation gas" means natural gas other than conservation gas.

"reactivated well event" means any well event that:

- (a) was suspended or abandoned on or before June 30, 2003.
- (b) was, after that date, put back into production.

"well event" means all completions in a zone for a well with a primary product of natural gas

"well depth" means:

- (a) for a vertical well, the distance between the wellbore's intersection with the top of the deepest productive zone of the well to the point on the surface that is equal to the elevation of the kelly bushing of that well directly above that intersection point.
- (b) for a horizontal well, the sum of the lengths of all of the wellbores that constitute the well event in the deepest productive zone of the well.

"horizontal well" means a well that meets the following criteria:

- (a) a wellbore in the well is drilled at an angle of at least 80 degrees from vertical, and, for the purposes of this paragraph, the wellbore is deemed to be a line connecting the wellbore's initial point of penetration into a productive zone to the wellbore's end point in that productive zone.
- (b) the length of the wellbore referred to in paragraph (a) is at least 100 metres, measured from the wellbore's initial point of penetration into the productive zone referred to in paragraph (a) to the wellbore's end point in that productive zone.

"vertical well" means any well that is not a horizontal well.

Royalty Calculation:
$$\frac{9 \times SP + 40 (RP - SP)}{RP}$$

Royalty Percentage =

where

RP = REFERENCE PRICE

SP = 70

Each marginal well also gets a low productivity reduction factor against the royalty percentage in accordance with the following formula:

$$P \times \left(\frac{25000 - S}{25000} \right)^2$$

where

P is equal to the volume of natural gas produced in the producing month from the marginal well divided by the sum of the volumes of natural gas produced in the producing month from all of the reporting entity's wells that are marginal wells, and

S is equal to the average daily natural gas production volume for the marginal well in the producing month.

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