

FACTSHEET

OIL AND GAS DEVELOPMENT STRATEGY FOR THE HEARTLANDS

DEEP REENTRY ROYALTY PROGRAM

Qualification Criteria:

For a deep reentered well, a deep re-entry deduction amount may be deducted from a reporting entity's royalty payable if the well has a reentry date after November 30, 2003.

Where the following terms are defined:

“Alteration Application” means an Application to Alter a Well, referred to in section 42 of the Drilling and Production Regulation, that has been approved as required by that regulation.

“Deep Reentry Well Event” means a gas well event that

(a) is in a well that has been altered in accordance with an Alteration Application, and,

(b) has a Pay the top of which has a True Vertical Depth deeper than 2300 metres.

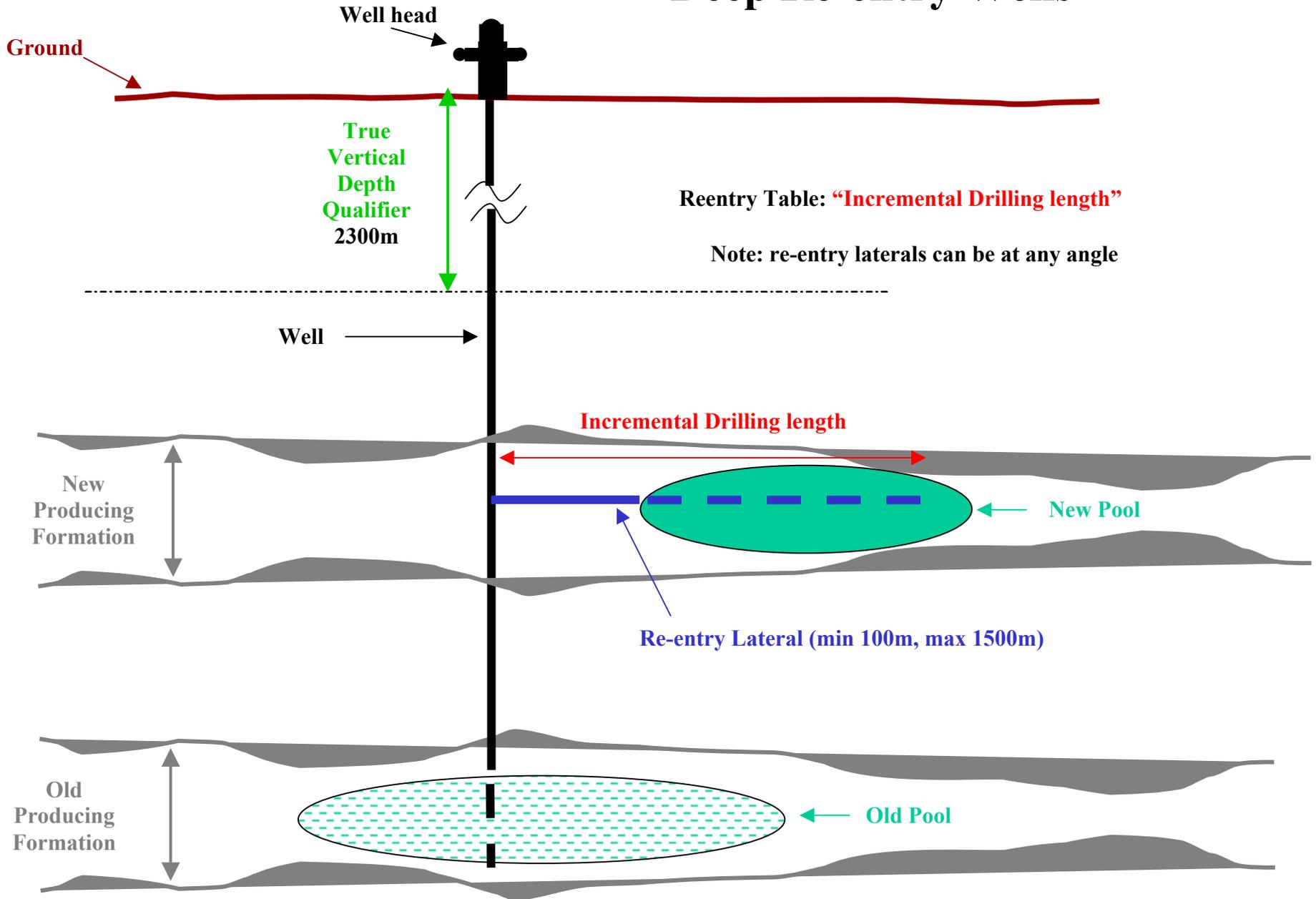
“Pay”, in respect of a pool, means the portion of the pool that is determined by the Oil and Gas Commission to be the Pay.

“Re-entry Date”, in relation to a well, means the date selected as the re-entry date for the well by the Oil and Gas Commission in an approval given to an Alteration Application.

“Total Measured Depth”, in relation to a well event, means the sum of the lengths of all of the vertically oriented and horizontally oriented wellbores that constitute the well event.

“True Vertical Depth” means, for any point on the wellbore of a well, the distance between the wellbore point and the point, directly above the wellbore point, that is the same elevation as the kelly bushing used in drilling the well.

Deep Re-entry Wells



Royalty Calculation:

The deep re-entry deduction amount is determined by the following formula, for each reporting entity that includes an interest in a deep re-entry well event :

$$(CV + AD) \times PS$$

Where “CV” means the Cumulative Value shown opposite the table distance of the deep re-entry well event,

“AD” means the incremental value that is shown opposite the table distance of the deep re-entry well event multiplied by the positive difference between the incremental drilled distance applicable to that deep re-entry well event and the table distance of that well event,

“PS” means the reporting entity’s proportionate interest in the deep re-entry well event,

“Table distance” means the incremental drilled distance applicable to the deep re-entry well event rounded down to the next lowest table distance value,

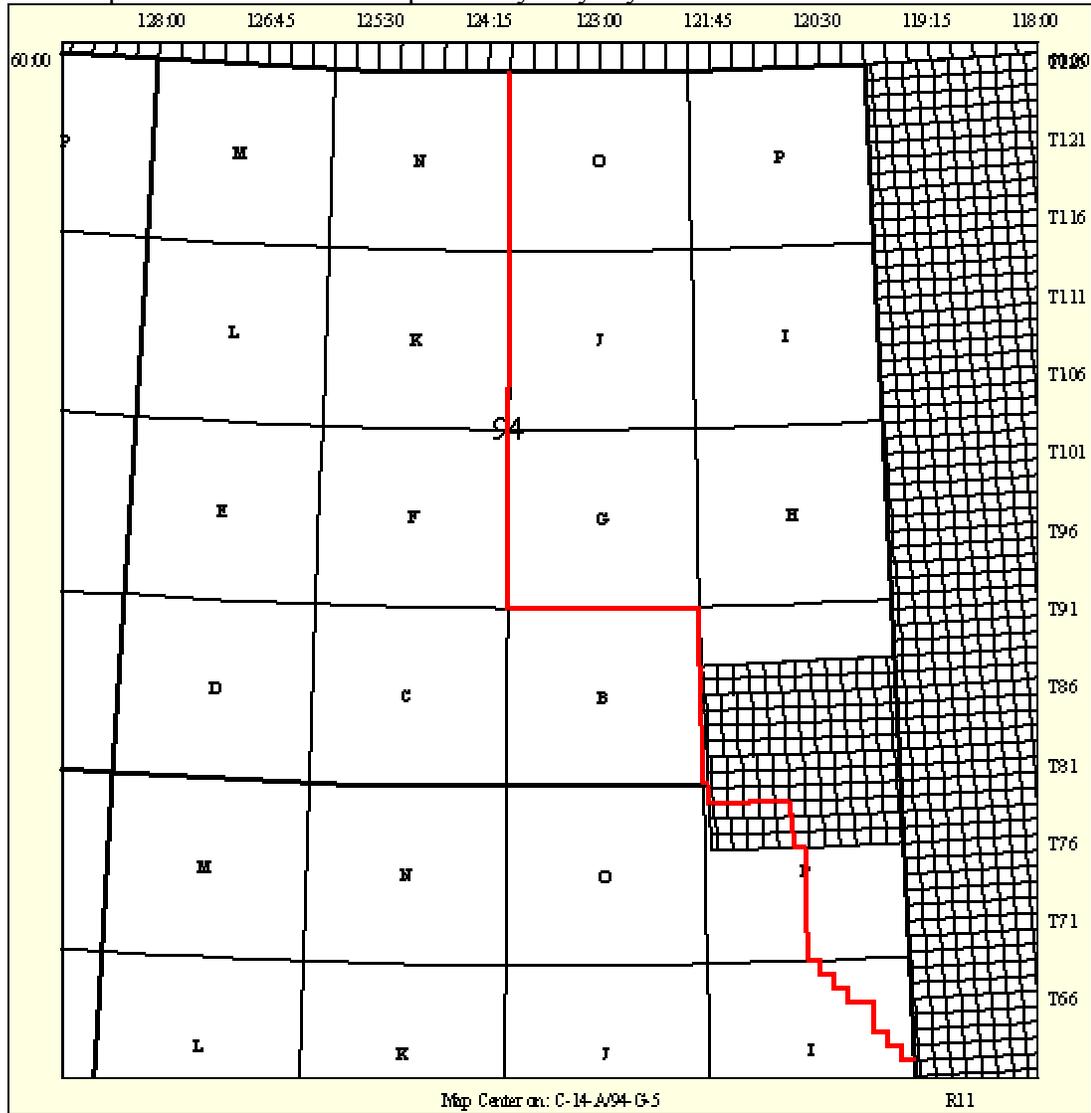
“Incremental drilled distance” means the positive difference between the total measured depth of all deep well events in the well after the well has been altered in accordance with the alteration application and the total measured depth of all deep well events in the well before that alteration.

West				East		
Table Distance (metres)	Cumulative Value \$000	Incremental Value \$/Metre		Table Distance (metres)	Cumulative Value \$000	Incremental Value \$/Metre
100	0	750		100	0	450
300	150	500		300	90	300
1500	750	-		1500	450	-

Example: Company A has a 75% interest in a deep reentered well with an incremental drilled distance of 1000 metres drilled in the East area.

$$\text{Royalty Credit} = (90000 + 700 \times 300) \times 0.75 = \$225,000$$

Figure 1: Map of East and West Deep Reentry Royalty



Ministry of Energy and Mines

Map of Province of
Alberta
Ministry of Energy and Mines
Scale: 1:100,000

Map No.: 100-10-01
Date: May 15, 2001
File: 100-10-01-01-0001
Scale: 1:100,000

Scale 1:100,000



Areas

For the purposes of determining which portion of the table applies to a well:

- (a) the portions of the table applicable to “East” apply to a well that is located in any of the following areas, which areas are, in the case of areas referred to in subparagraphs (i) to (xvi), described in accordance with the petroleum and natural gas grid established under the Petroleum and Natural Gas Grid Regulation, B.C. Reg. 321/93, and, in the case of the areas referred to in subparagraphs (xvi) to (xxi), described in accordance with the Dominion Land Survey System:
 - (i) that portion of Group 095-A-01 to Group 095-A-04 (inclusive) that is located within British Columbia.
 - (ii) that portion of Group 095-B-01 to Group 095-B-04 (inclusive) that is located within British Columbia.
 - (iii) Group 094-O-01 to Group 094-O-16 (inclusive).
 - (iv) Group 094-P-01 to Group 094-P-16 (inclusive).
 - (v) Group 094-I-01 to Group 094-I-16 (inclusive).
 - (vi) Group 094-J-01 to Group 094-J-16 (inclusive).
 - (vii) Group 094-G-01 to Group 094-G-16 (inclusive).
 - (viii) Group 094-H-01 to Group 094-H-16 (inclusive).
 - (ix) that portion of Group 094-A-01 to Group 094-A-16 (inclusive) that is located outside the Peace River Block.
 - (x) that portion of Group 093-P-09 that is located outside the Peace River Block.
 - (xi) that portion of Group 093-P-10 that is located outside the Peace River Block.
 - (xii) Groups 093-P-01, 093-P-02, 093-P-07 and 093-P-08.
 - (xiii) Group 093-I-16.
 - (xiv) Blocks A and G to K of Group 093-I-15.
 - (xv) Blocks A, B and F to K of Group 093-I-09.
 - (xvi) Block I of Group 093-I-08.
 - (xvii) the portion of the Peace River Block within Township 076 east of Range 20 W6M that is within British Columbia.

(xviii) the portion of the Peace River Block within Township 077 east of Range 20 W6M that is within British Columbia.

(xix) the portion of the Peace River Block within Township 078 east of Range 20 W6M that is within British Columbia.

(xx) the portion of the Peace River Block within Township 079 east of Range 20 W6M that is within British Columbia.

(xxi) the portion of the Peace River Block within Township 080 to Township 088 and Range 13 to Range 26 W6M that is within British Columbia.

(b) the portions of the table applicable to “West” apply to a well in British Columbia to which paragraph (a) does not apply.