

# **Ministry of Natural Gas Development**

## **Guide to the Petroleum and Natural Gas Drilling Licence Regulation**

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Upstream Development Division  
October 2015



# Guide to the Petroleum and Natural Gas Drilling Licence Regulation

## Contents

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Overview .....	3
How to Acquire a Drilling Licence .....	4
Terms.....	4
Transfers of Interest.....	5
Rent .....	5
General Requirements for Submitting Applications .....	6
Term Extensions.....	7
1. Standard extension upon Payment of Fee – section 3 (5) .....	7
2. Extension to Compensate for a Prescribed Delay – section 3 (5.1) .....	8
3. Extension for Coalbed Gas Development – section 3 (5.3) .....	9
4. Drilling Over Expiry – section 3 (7) .....	10
Earning Wells .....	11
Grouping.....	13
Deferred Earnings.....	13
Lease Selection.....	13
More Information .....	16
Appendix A Examples of Earning Wells .....	17
Appendix B Validation Table.....	20

The information in this guide is for your convenience and guidance and is not a replacement for the legislation or regulations. You can access the legislation and regulations online through [BC Laws](#).

## Summary of Revisions

Effective date	Section	Description
October 2015	Term Extensions: Drilling Over Expiry – section 3 (7)	Revised to clarify guidelines on drilling over expiry

## Overview

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A drilling licence is a type of tenure offered in BC that provides its holder an exclusive right to explore for natural gas and oil within the set of geological zones and locations defined in the tenure document. While drilling licences grant the exclusive right to explore for natural gas and oil, licensees must apply to the [BC Oil and Gas Commission](#) (OGC) for permits to drill wells and perform any activities.

Government issues drilling licences only to successful bidders at scheduled Crown dispositions for terms of three, four or five years, depending on the drilling licence location. When these initial terms end, licensees have options for extending the term.

Drilling licences differ from leases in many respects, but the most important difference is that leases grant the right to both explore for and produce natural gas and oil. At any time during the term of a drilling licence, licensees may request that all or part of the drilling licence be converted to a lease. Typically this is to allow production to take place as soon as possible. To convert a drilling licence to a lease, at least one qualified earning well must have been drilled. The size of the lease and the zones it includes are based on the geographic location of the tenure, the earning well's total wellbore length and the deepest zone evaluated by the well. Licensees may also group qualified licences together and convert all or some of these other licences to lease, depending on the circumstances.

Reference is made throughout this document to the Director of Petroleum Lands (Director). The Director is a statutory decision maker established under the *Petroleum and Natural Gas Act* and its Regulations. This authority is typically assigned to the Executive Director of the branch responsible for tenure issuance, administration and management.

## How to Acquire a Drilling Licence

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Any person may submit a request to the Ministry to have a drilling licence offered for disposition. [Find out more about submitting a posting request](#), including parcel size limits.

Once the Ministry receives a request for posting, the Director decides whether or not to offer the requested parcel for disposition. The Director may also decide to alter the requested parcel before offering it for disposition.

[Find out more about the bidding and disposition process](#), including how to submit a bid and payment.

## Terms

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The term of a drilling licence is determined by which of three prescribed areas the licence is located within:

- Area 1 – three years
- Area 2 – four years
- Area 3 – five years

The increase in term lengths from Area 1 to Area 3 accounts for the relative increase in difficulty of access associated with increasing distances from established transportation and pipeline infrastructure. If a drilling licence location lies within more than one area, the drilling licence will be issued with the longest applicable term (keep in mind that leases are treated differently – see [Lease Selection](#) below).

[View a map showing the area boundaries.](#) The areas are also described in Schedule 2 of the [Petroleum and Natural Gas Drilling Licence Regulation](#).

## **Termination**

If you wish to terminate a licence at the end of its term, please mark your licence for cancellation in [ePayments](#). This lets the Ministry know that you do not wish to apply for any extensions or make a lease selection.

To terminate a licence before it expires, make a written request to the Director of Petroleum Lands to terminate the licence, or a specific portion of the licence, effective immediately (contact information on page 5). If you are terminating a specific portion, provide the legal description of the lands you wish to terminate. The Ministry will return the rights held by the licence to Crown reserve, making them available for posting requests. You will not receive a refund of rent for the time remaining in the current rental year.

## **Transfers of Interest**

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You may assign all or a portion of your interest in a drilling licence as a whole, but you may not assign any of your interest on the basis of a location or zone (i.e., you may not split the licence into two or more licences). [Find out how to register a transfer.](#)

## **Rent**

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Pay all rents, fees, and late-payment penalties online through [ePayments](#). Generally you will pay annual rent from your ePayments Statement. However, when paying your annual rent in conjunction with a written application for extension or lease selection, use an ePayments Submission.

The annual rent for a drilling licence is \$3.50 per hectare and is due on or before the anniversary date of the drilling licence. The Ministry must assess a late-payment penalty of \$500 if rent is paid after the anniversary date and before 60 days have elapsed. The licence expires if you do not pay the annual rent within 60 days following the anniversary. There are limited options for reinstating a licence, which are described below.

## **Reinstatement**

The Director has limited discretion to reinstate a drilling licence that expired due to the non-payment of rent. Some minimum conditions must be met before the Director may exercise that discretion, though meeting them does not guarantee reinstatement.

1. The non-payment was inadvertent or due to non-financial circumstances beyond the control of the licensee;
2. No portion of the expired drilling licence has been sold at a Crown disposition subsequent to the expiry of the drilling licence; and
3. The licensee submits a written request to the Director for re-instatement accompanied by a re-instatement fee of \$500. (The reinstatement fee is charged in addition to the \$500 penalty for the late rental payment.)

## **General Requirements for Submitting Applications**

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This section explains general requirements for all applications related to drilling licences. It is important to read the sections [Term Extensions](#) and [Lease Selection](#) below for the specific requirements of each application.

- When an application requires an ePayments Submission and an application letter, the ePayments Submission must match the application letter.
  - Make sure the letter and Submission are for the same titles/request; use separate letters for separate Submissions.
  - Include the ePayments Submission number in the subject line of your letter.
- The Ministry recommends using a single Submission and letter for multiple titles if the titles and requests are related. For example:
  - use one Submission and application letter to request an extension under section 3(5.1) for three drilling licences where drilling has been delayed for the same reason;
  - use two separate Submissions and application letters to request an extension for one licence under section 3(5.1) and another licence under section 3(5.3), even if they are adjacent to one another.
- Application letters should be on company letterhead.
- Include the date on the letter.
- An ePayments Submission ensures that rent for the title is paid on time; it does not replace the need for a written application.
- Submit application letters by mail or courier:

By mail:

Director of Petroleum Lands  
Ministry of Natural Gas Development  
PO Box 9326 STN PROV GOVT  
Victoria BC V8W 9N3

By courier:

Director of Petroleum Lands  
Ministry of Natural Gas Development  
6<sup>th</sup> floor, 1810 Blanshard Street  
Victoria BC V8T 4J1

### ***Calculating the Size of a Tenure***

If your application includes a request to reduce the size of your licence or a request for a lease selection, you will need to calculate the size of the tenure in hectares so that you know how much rent to pay. The Ministry maintains two data sources for these calculations:

- an [annotated map of the spacing areas within the Peace River Block](#), and
- an [Excel workbook listing each unit within the NTS-based system](#) used to describe lands outside the Peace River Block.

As you will see in these sources, the smallest subdivision areas are expressed as decimal portions of a hectare. To arrive at the correct estimate for the purpose of rental calculation, sum the individual areas of the sub-divisions within your lease, and round to the nearest whole hectare only as the final step. Please send an email to [PNGTitles@gov.bc.ca](mailto:PNGTitles@gov.bc.ca) if you would like assistance in the use of these data sources.

## **Term Extensions**

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Four types of term extension are available for drilling licences. The one-time standard extension is available upon payment of the extension fee and rent. The other types of extension each address a different situation where licensees may require more time to explore their tenure.

### **1. Standard extension upon Payment of Fee – section 3 (5)**

***What may be extended:*** The entire drilling licence, though you may combine this with a request to surrender a portion of the licence.

***Eligibility criteria:*** This extension is available at the end of a drilling licence term. It may follow an extension to compensate for a prescribed delay (section 3 (5.1)).

#### ***Application requirements:***

- Extending the entire licence: pay the extension fee of \$500 and rent of \$7 per hectare from your ePayments Statement before the expiry date of the licence. Your payment is considered to be your application. A written application is not required.
- Extending only a portion of the licence:
  - calculate the size of the portion you wish to extend (see [Calculating the Size of a Tenure](#) above),
  - pay the extension fee of \$500 and rent of \$7 per hectare by Submission in ePayments before the expiry date of the licence, and
  - submit a written request to the Director of Petroleum Lands before the expiry date of the licence.
    - Provide the ePayments Submission number from your rent payment in the subject line.
    - Indicate that you are continuing a portion of the licence under section 3 (5) of the Drilling Licence Regulation.

- Provide the legal description of the portions you wish to terminate.
- See [General Requirements for Submitting Applications](#) above.

**Duration of extension:** One year.

**Number of extensions:** Once only.

**Note:** Use of the standard extension is a pre-requisite for some of the other extension options (see below).

## **2. Extension to Compensate for a Prescribed Delay – section 3 (5.1)**

**What may be extended:** The entire drilling licence, though you may combine it with a request to surrender a portion of the licence.

### ***Eligibility criteria:***

- You must have submitted an application to drill a well to the OGC at least 30 days before the end of the current term of the licence. The application must have been for a well that would be eligible for designation as an earning well.
- The drilling of a well that would be eligible for designation as an earning well must have been delayed by one of the following government-initiated or legislated processes:
  - an environmental or socioeconomic study,
  - a public hearing, or
  - a planning or consultation process.

The authority to grant an extension under this provision is discretionary. Please see the [Policy for Extension under section 3 \(5.1\) of the Drilling Licence Regulation](#) for the factors considered by the Director in determining whether to extend a drilling licence under this provision.

### ***Application requirements:***

- If you wish to extend only a portion of the licence, calculate the size of the portion you wish to extend (see [Calculating the Size of a Tenure](#) above).
- Pay the annual rent of \$3.50 per hectare by Submission in ePayments before the end of the current term of the licence.
- Submit a written application to the Director of Petroleum Lands before the end of the current term of the licence.
  - Provide the ePayments Submission number from your rent payment in the subject line.
  - Indicate that you are applying for an extension under section 3 (5.1) of the Drilling Licence Regulation.
  - Provide the legal description of any portions you wish to terminate.
  - Include a copy of the well authorization or permit application that was submitted to the OGC at least 30 days before the end of the current term of the licence.



- Provide documentation demonstrating how the drilling of a well that may be eligible for designation as an earning well has been delayed by one of the following government-initiated or legislated processes:
  - an environmental or socioeconomic study,
  - a public hearing, or
  - a planning or consultation process.
- Provide information relating to the factors for consideration listed in the [Policy for Extension under section 3 \(5.1\) of the Drilling Licence Regulation](#).
- See [General Requirements for Submitting Applications](#) above.

**Duration of extension:** One year or less.

**Number of extensions:** There is no limit on the number of times you may apply for this extension; however, approval is discretionary and you must submit an application for each successive extension.

**Note:** The extension under section 3 (5.1) is available after the expiry of the initial term or after an extension granted under this or another section. In determining whether to exercise discretion to extend a drilling licence under section 3 (5.1), the Director will consider whether a standard extension has already been granted under section 3 (5) and, if not, whether an extension under section 3(5) would be more suitable.

### **3. Extension for Coalbed Gas Development – section 3 (5.3)**

**What may be extended:** The area and zones of a drilling licence that are included in a special project approved by the OGC for coalbed gas recovery under section 75 of the *Oil and Gas Activities Act*.

**Eligibility Criteria:** The drilling licence must have been previously extended using the standard extension under section 3 (5).

**Application requirements:**

- Calculate the size of the eligible area that you wish to extend (see [Calculating the Size of a Tenure](#) above).
- Pay the standard annual rent of \$3.50 per hectare by Submission in ePayments before the current extension term expires.
- Submit a written application to the Director of Petroleum Lands before the current extension term expires.
  - Provide the ePayments Submission number in the subject line.
  - Indicate that you are applying under section 3 (5.3) of the Drilling Licence Regulation.
  - Provide the seven-digit approval number, e.g. 13-123-45, and name of the special project approved by the OGC.

- Indicate which of the lands and rights you wish to extend. If you wish to reduce the size of the licence at the anniversary date, provide the legal description of the portion you wish to terminate.
- See [General Requirements for Submitting Applications](#) above.

***Duration of extension:*** One year.

***Number of extensions:*** Up to five times for each drilling licence.

#### **4. Drilling Over Expiry – section 3 (7)**

***What may be extended:*** The drilling licence that, on the date of its expiry, contains an authorized target of one or more wells already started. Authorized targets are defined by reference to the well permit issued by the Oil and Gas Commission.

***Eligibility Criteria:***

- Drilling of each well authorized to target the subject licence has reached at least 150 metres depth at midnight on the date the drilling licence would otherwise expire.
- The drilling of the well or wells is being conducted diligently and safely.
- The drilling licence has previously been extended using the standard extension under section 3 (5).

***Replacement Wells:***

No other well authorized to target the drilling licence may be started during this extension unless the drilling of the initial well or wells is discontinued for mechanical or safety reasons.

***Extension over expiry by grouping – section 3 (10):***

Any licence or licences that are otherwise eligible under section 4.1 to be grouped with a licence extended under section 3 (7) are also extended to the rig release date of the well drilling over expiry on that licence, provided the following criteria are met:

- the licence(s) would otherwise expire on or after the original expiry date of the licence extended under section 3 (7),
- the licence(s) would otherwise expire before drilling of the well is complete,
- the licence(s) were previously extended using the standard extension under section 3 (5), and
- no well is spudded or drilled on the licences for the duration of this extension.

For information on grouping under section 4.1, please see [Grouping](#) below.

***Application requirements:***

- On or before the original expiry date of the targeted licence, provide written notice to the Director of Petroleum Lands of the well permit (WA) number of all wells authorized to target the subject drilling licence that will be drilled past the expiry of that licence. At the same time, include the drilling licence tenure numbers of any additional licences you wish to have extended by grouping with the licence on which you are drilling over expiry.

- Create a Conversion Submission in ePayments and pay all issuance fees and estimated rentals of the leases you anticipate selecting. The lease issuance fee is \$500 per lease and the annual lease rent is \$7.50 a hectare.
  - Calculate the total rent by estimating the size of the lease(s) you will be selecting from each drilling licence. If you incorrectly estimate the size, the Ministry will collect or refund any difference. See [Calculating the Size of a Tenure](#) above.
  - Pay the estimated rentals and lease issuance fees even if you are not sure whether you will be selecting a lease. Making a payment ensures that the system will not automatically cancel the licence 60 days after expiry. The Ministry will issue a refund if you decide not to make a lease selection.

**Duration of extension:** The term of the licence is extended to the date the drilling of the well or wells is finished, i.e., the date the rig is released from drilling operations. The term is extended to the latest of the rig release dates if two or more wells are each drilling past expiry of the subject drilling licence.

**Number of extensions:** Once only.

## **Earning Wells**

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In order to select a lease from a drilling licence, thereby allowing production of natural gas and oil, licensees must have at least one well designated as an earning well by the Director. The earning well must be designated for the licence being converted to lease, or the licence being converted to lease must be grouped with another licence containing a designated earning well. The idea behind earning wells is to reward exploratory efforts with lease area entitlements – the longer the earning well, the greater the lease area.

The [Validation Table](#) shows the number of gas spacing areas earned based on the licence location and the qualifying length of the earning well. The actual lease area is also subject to the rules for [lease selection](#), which are explained below.

### **Earning Well Criteria**

A well must meet the criteria below to the satisfaction of the Director in order to be deemed an earning well.

#### ***1. Location of the Well***

The well must be drilled in a spacing area all or part of which is in a location described in a drilling licence.

- A well drilled on a former tenure that is no longer in effect may be re-entered and qualify as an earning well if it provides significant new geological information.
- In some areas, drilling licences may be issued with split gas spacing areas due to older, off-spacing leases that are still active when the licence is issued. A well drilled into one of the split spacing areas shared with the licence may qualify as an earning well if it meets the other requirements set out below.

## 2. *Well Reports and Well Data*

The well must have generated well reports and well data that, **in the opinion of the Director**, sufficiently evaluate at least one of the zones held under the drilling licence.

- Please read the [Guide to Geological Evaluation of Zones in Earning Wells](#) for guidelines on what is considered sufficient evaluation. If you have questions about geological evaluation, please [contact](#) the Ministry.
- Refer to section 14 of the [Oil and Gas Activities Act General Regulation](#) for the definition of well reports and well data.

## 3. *One Earning Well per Gas Spacing Area*

There may be only one earning well designated for each gas spacing area. Once a well has been designated for a gas spacing area, no other well may be designated for that same gas spacing area during the life of the drilling licence.

- Each zone under the location of a spacing area is considered to be a separate sub-surface spacing area; therefore, it is possible to have more than one earning well under one surface spacing area if each evaluates a different subsurface zone.
- **If a well crosses more than one gas spacing area, you must choose which gas spacing area you wish to have the well designated for by identifying the spacing area and zone in your lease selection application.** If a well penetrates two or more drilling licences, the spacing area you choose will determine which licence is deemed to be the “drilled licence”. Upon designation of the earning well, lease area entitlements and grouping rights will be associated with the “drilled licence”.

See examples of earning wells at the end of this guide in [Appendix A](#).

## **Validation Table**

[The Validation Table in Appendix B](#) shows the number of gas spacing areas that are awarded based on the wellbore length and the drilling licence location.

- You receive gas spacing areas based on the entire length of an earning well, except for any portions drilled into leases that are not necessary for the purpose of evaluating the drilling licence (i.e. lengths drilled through a lease to access the drilling licence count; lengths drilled out of the licence and into a lease do not count).
  - For re-drilled wells, the wellbore length is measured from the surface to the base of the new bottom-hole location or from the surface to the base of the deepest new completion interval, whichever is applicable.
- When a drilling licence spans two or more term areas, the number of gas spacing areas earned is based on the term area with the greatest entitlements.

## **Application Requirements**

Apply to the Director of Petroleum Lands as part of your lease selection application. See [Lease Selection](#) below for information about the application process.

## **Grouping**

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Grouping drilling licences can make more efficient use of lease conversion credits. Grouping allows licensees to use the credits from an earning well on one drilling licence to convert multiple drilling licences in the area to leases.

### **Eligibility Criteria**

- An earning well must have been drilled on one of the drilling licences being grouped.
- The earning well must not have been previously used for grouping or lease selection.
- The other drilling licences being grouped must be located within four kilometres of the drilling licence containing the earning well (distance measured at their closest point). If the earning well crosses through more than one drilling licence, the licences must be located within four kilometres of the licence deemed to contain the designated spacing area for the earning well. Verify the distance using [DataBC](#) or [contact](#) the Ministry for written confirmation.
- There is no limit on the number of drilling licences that may be grouped within four kilometres.
- Common ownership of grouped drilling licences is not required.

### **Application requirements**

Apply to the Director of Petroleum Lands to group drilling licences as part of your lease selection application **on or before the earliest expiry date** of the drilling licences to be grouped. See [Lease Selection](#) below for information about the application process.

## **Deferred Earnings**

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When you convert part of a drilling licence to lease, you may use any leftover entitlements for later lease selections from that **same drilling licence**. You may only use deferred earnings for lease selections from the drilling licence they were earned on.

## **Lease Selection**

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Selecting a lease from a drilling licence allows licensees to begin producing natural gas and oil. The portion of the location of a licence or grouping of licences that may be converted to lease is the **lesser of**:

- the number of gas spacing areas in the licence or grouped licences, and
- the number of gas spacing areas received for drilling the qualified earning wells included in the application.

Leases selected from a drilling licence include all stratigraphic zones down to and including the deepest zone evaluated by each earning well named in the application.

## **Options for Leases Selected from Drilling Licences**

- You may convert all or a portion of a drilling licence to a single lease or multiple leases.
- If you convert a portion of a licence, you may either surrender the remainder of the licence or continue it (subject to its term length and extension options).
- You may combine the earnings from two or more earning wells for leases selected simultaneously from a single licence or grouped licences.
- If two or more earning wells are included in the same application, you may request the earnings be joined to minimize the number of leases issued and provide flexibility in configuration. If the wells used to select a single lease evaluate different zones, the lease will be issued with different tracts containing different rights.

## **Restrictions on Leases Selected from Drilling Licences**

- The area of a lease must be located entirely within the area of one drilling licence (i.e. you may not select a single lease that incorporates parts of two or more licences).
- You may select more than one lease from a single licence, but those leases must be located entirely within the area of that one licence.
- If a lease location lies within more than one term area, the lease will be issued with the **shortest** applicable term.
- Lease selection must not result in new splits to gas spacing areas, except where an oil well is located.

## **Lease Selection Application Deadline**

If your lease selection application does not include a request for grouping, create a Submission in ePayments to pay the rent of the lease you will be selecting and submit an application letter to the Director of Petroleum Lands **no more than 60 days** after the expiry date of the licence you wish to convert.

If your lease selection application includes a request to for grouping, create a Submission in ePayments and submit an application letter to the Director of Petroleum Lands **before** the earliest expiry date of the licences to be grouped.

## **Lease Selection Application: Step-by-Step**

Specific instructions on submitting a lease selection application are below. Please also read the [General Requirements for Submitting Applications](#).

### ***ePayments Submission***

- Create a conversion Submission.
- If you are applying to group drilling licences, add each drilling licence to be grouped to the Submission.
- For each drilling licence, create a row for each new lease to be issued from that drilling licence, with its expected area in hectares – see [Calculating the Size of a Tenure](#) above.

- Submit the lease issuance fee of \$500 for each lease to be issued.
- Pay the rent of \$7.50 a hectare based on the expected area.

### ***Application Letter***

- Include the ePayments Submission number in the subject line.
- Indicate which sections of the Drilling Licence Regulation you are applying under:
  - Lease selection – section 4
  - Grouping – section 4.1
- Provide the written authorization of one titleholder for each drilling licence included in the application where the applicant is neither the payor nor the titleholder.
- Include a table with rows for **each earning well** containing:
  - the well authorization number,
  - the rig-release date (from drilling operations),
  - the estimated combined length of all wellbore segments that are eligible for earning well designation, i.e., do not include any portions drilled into leases that are not necessary for the purpose of evaluating the drilling licence,
  - the expected number of gas spacing areas earned (see the [Validation Table in Appendix B](#)),
  - the name of the stratigraphically deepest formation you believe is evaluated by the well,
  - the location and geological zone of the gas spacing area you wish to have the well designated for, and
  - your desired configuration of leases.
    - Use legal descriptions that match the formats used in the drilling licence.
    - Indicate your desired configuration for different tracts within a particular lease if you are selecting the lease using wells that evaluate different zones.
- Indicate whether you would like to continue or forfeit any rights you are not selecting for lease.
- Indicate whether or not you are using any gas spacing area entitlements deferred from previous applications.
- Indicate whether or not you will be deferring any earnings from this application to later applications.

### **Ministry Review and Approval**

The Ministry tenure administration staff reviews lease selection applications for completeness. Ministry geologists carry out the technical review of earning wells identified in lease selection applications.

Verify that your application has been received and forwarded to the geology section for review by checking the milestones tab in ePayments. Ministry staff will also use that tab to record the date the geological review is completed.

Ministry staff will contact you if there are any questions or issues regarding your application.

## Contact Information

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Ministry of Natural Gas Development  
Upstream Development Division  
Tenure and Geoscience Branch

Telephone: 250-952-0333

Facsimile: 250-952-0331

Email: [PNGTitles@gov.bc.ca](mailto:PNGTitles@gov.bc.ca)

**Mailing Address:**

PO Box 9326, Stn Prov Gov't  
Victoria, BC V8W 9N3

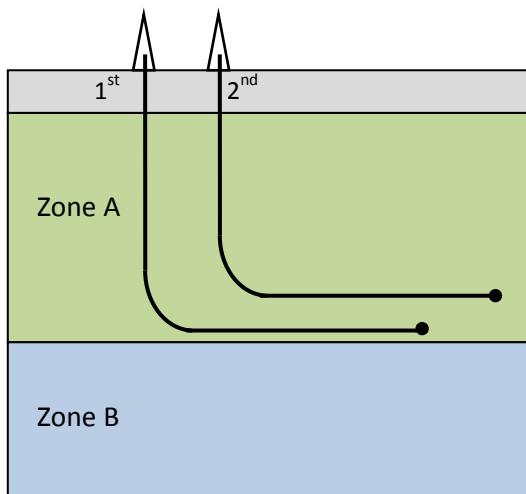
**Location:**

6<sup>th</sup> Floor, 1810 Blanshard Street  
Victoria BC V8T 4J1



## Appendix A Examples of Earning Wells

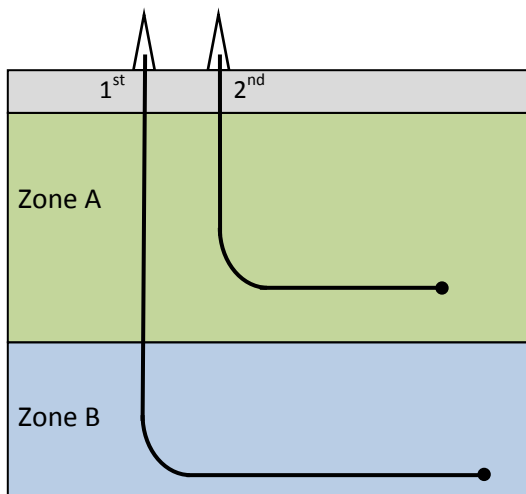
### Earning Well Scenario 1



GSA 1

- Drilling order does not matter.
- Only one well may qualify as an earning well because both wells evaluate the same zone within the same gas spacing area.
- Lease selection application to the Director must indicate which well the applicant wishes to use as the earning well for the gas spacing area.

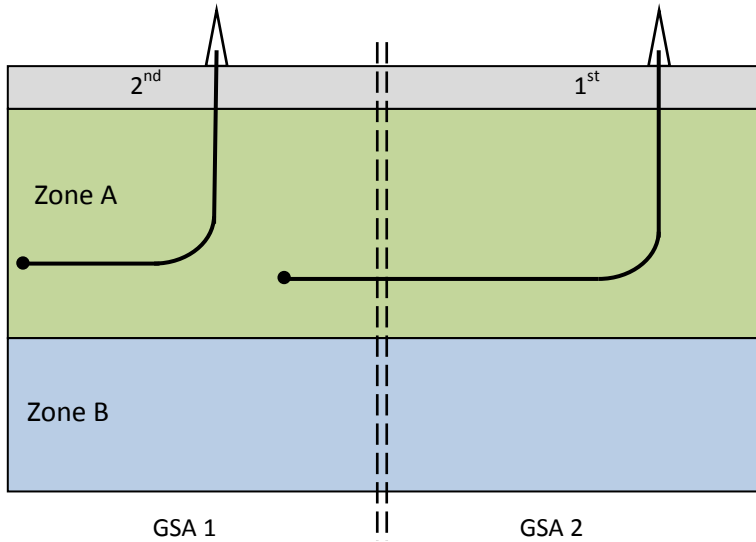
### Earning Well Scenario 2



GSA 1

- Drilling order does not matter.
- Both wells may qualify as earning wells.
- Well #1 evaluates GSA 1/Zone B.
- Well #2 evaluates GSA 1/Zone A.
- Lease selection application to the Director must indicate which well evaluates which zone/gas spacing area.

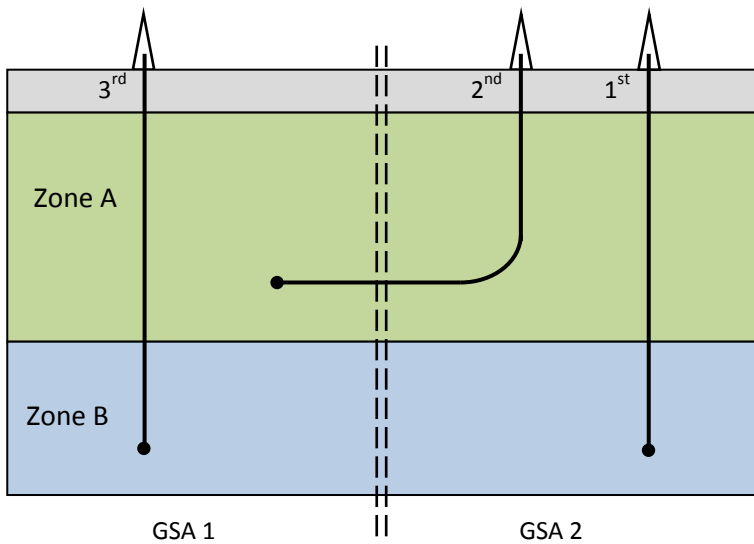
### Earning Well Scenario 3



- Drilling order does not matter.
- Both wells may qualify as earning wells.
- Well #1 evaluates GSA 2/Zone A.
- Well #2 evaluates GSA 1/Zone A.
- Lease selection application to the Director must indicate which well evaluates which zone/spacing area.

- Note that even when an earning well crosses two or more spacing areas, the validation table is applied to the entire length of the well (except for portions drilled into leases that are not necessary for the purpose of evaluating the drilling licence).

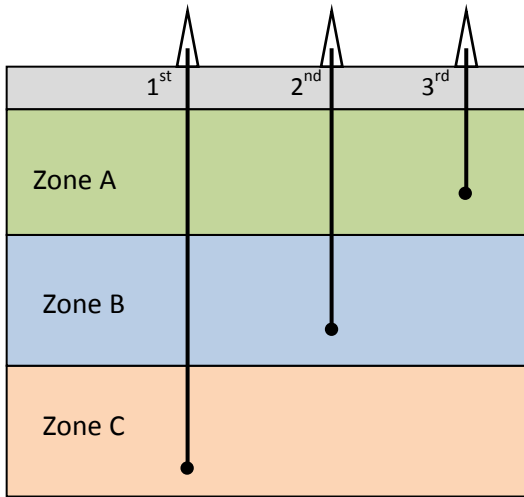
### Earning Well Scenario 4



- Drilling order does not matter.
- All three wells may qualify as earning wells.
- Well #1 evaluates GSA 2/Zone B.
- Well #2 may evaluate either GSA 1/Zone A or GSA 2/Zone A.
- Well #3 evaluates GSA 1 Zone B.

- Lease selection application to the Director must indicate which well evaluates which zone/spacing area.
- Note that even when an earning well crosses two or more spacing areas, the validation table is applied to the entire length of the well (except for portions drilled into leases that are not necessary for the purpose of evaluating the drilling licence).

### Earning Well Scenario 5

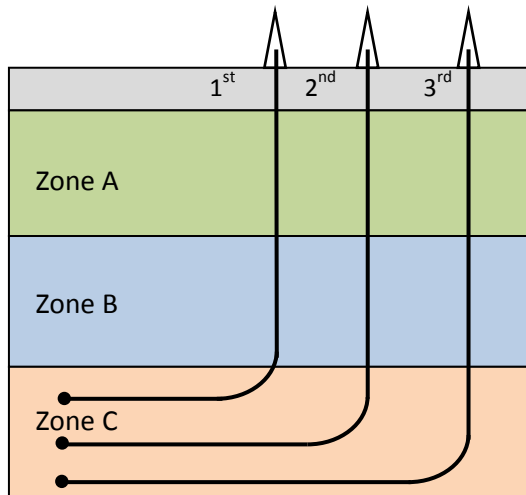


GSA 1

- Drilling order does not matter.
- All three wells may qualify as earning wells.
- Each well targets a different zone.
- Well #1 evaluates GSA 1/Zone C.
- Well #2 evaluates GSA 1/Zone B.
- Well #3 evaluates GSA 1/Zone A.
- Lease selection application to the Director must indicate which well evaluates which zone/spacing area.

### Earning Well Scenario 6

- Drilling order does not matter; however, as all three wells target the same zone within the same gas spacing area, it is unlikely that more than one of these wells would meet the criteria to qualify as an earning well.



GSA 1

- There could be rare situations where more than one of these wells would qualify.
- For example, the applicant chooses to apply for Well #1 to be designated as the earning well for Zone C. If well #2 provides substantial new information about Zone A or B that was not obtained by Well #1, then Well #2 may qualify for designation as the earning well for either Zone A or B (whichever zone was evaluated). All three wells could potentially qualify as earning wells if each one provides substantially different information about a different zone.

- Lease selection application to the Director must indicate which well evaluates which zone/spacing area.

**Appendix B  
Validation Table**

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<b>Length of Well Bore Metres</b>	<b>Area 1 – Earn Gas Spacing Areas</b>	<b>Area 2 – Earn Gas Spacing Areas</b>	<b>Area 3 – Earn Gas Spacing Areas</b>
<b>Less than 1,001</b>	2	2	2
<b>1,001 to 1,300</b>	3	3	4
<b>1,301 to 1,500</b>	4	5	6
<b>1,501 to 1,800</b>	5	6	8
<b>1,801 to 2,100</b>	6	7	9
<b>2,101 to 2,400</b>	7	8	10
<b>2,401 to 2,600</b>	8	9	11
<b>2,601 to 2,800</b>	9	10	12
<b>2,801 to 3,000</b>	10	12	14
<b>3,001 to 3,200</b>	11	13	16
<b>3,201 to 3,400</b>	12	14	18
<b>3,401 to 3,600</b>	13	15	20
<b>3,601 to 3,800</b>	14	16	22
<b>3,801 to 4,000</b>	15	18	24
<b>4,001 to 4,200</b>	16	20	26
<b>4,201 to 4,400</b>	17	22	28
<b>4,401 to 4,800</b>	18	24	30
<b>4,801 to 5,200</b>	18	25	31
<b>Over 5,200</b>	18	25	32