

Frequently Asked Questions: Changes to the New Royalty Framework Natural Gas

Q. What is the sliding scale for the royalty credit under the Natural Gas Deep Drilling Program?

A. In order to encourage deeper natural gas exploration and development, the Natural Gas Deep Drilling Program will have an escalating royalty credit in line with gradually deeper wells, with additional benefits for the deepest wells. The minimum credit is \$625 per metre and the maximum credit is \$3,750 per metre. The additional benefits for the deepest wells is \$1,625,000 and is for wells greater than 4,000 metres in depth.

Vertical Depth	Development Wells			Exploratory Wells		
	Cumulative value (\$000)	Additional credit value (\$000)	Incremental Value (\$/metre)	Cumulative value (\$000)	Additional credit value (\$000)	Incremental Value (\$/metre)
2500	0		625	0		625
3000	312.5		625	312.5		625
3500	625		1000	625		1000
4000	1125	1,625	2500	1125	1,625	3125
4500	4000		2500	4312.5		3125
5000	5250		3000	5875		3750
5000+			3000			3750

Q. Why does the cumulative value jump between 3500 metres and 4000 metres?

A. Additional benefits are applied to wells drilled deeper than 4000 metres to recognize the additional costs of drilling these wells and to encourage the drilling of these ultra deep wells. This is recognized by a lump sum benefit of \$1,625,000 to wells that are drilled deeper than 4000 metres vertically and through an increase in the incremental value per metre to 2500 per metre for a development well and \$3125 per metre for an exploratory well.

Q. Does this program include the length of all lateral wells in the case of wells with more than one leg?

A. Only the length of the longest leg will be consider eligible for determining the value of the benefits under the new Natural Gas Deep Drilling Program. This is similar to the existing Royalty Adjustment Program for Deep Marginal Gas Wells.



Q. Does the new natural gas deep drilling program impact the depth factor adjustment in the new royalty formulas?

A. No. The depth factor is part of the royalty formulas that apply to all wells. The depth factor is based on the measured depth to the producing intervals for all legs of a well.

Q. When does the new natural gas deep drilling program come into effect?

A. Wells that begin drilling on or after April 10, 2008 will be eligible for benefits in this program if they meet the other qualifying criteria. The benefits under this program can not be claimed until January 1, 2009 when the new royalty formulas become effective. Until then, wells can continue to qualify for benefits under the existing Deep Gas Royalty Holiday Program and the Royalty Adjustment Program for Deep Marginal Gas Wells. Any royalty adjustments received and used to reduce royalties under one of these programs between now and January 2009 will be deducted from the eligible benefits calculated for the Natural Gas Deep Drilling Program.

Wells that were drilled prior to April 10, 2008 are not eligible for this program.

Q. What happens to benefits remaining under the Deep Gas Royalty Holiday Program and the Royalty Adjustment Program for Deep Marginal Gas Wells programs?

A. Wells will continue to be eligible to receive royalty adjustments under the Deep Gas Royalty Holiday Program and the Royalty Adjustment Program for Deep Marginal Gas Wells programs until the end of 2008. Starting January 1, 2009 these wells will be subject to the new royalty formulas. Unused benefits will not be carried forward into the new royalty framework.

Q. Are the benefits in the schedule grossed up similar to the Deep Gas Royalty Holiday Program and the Royalty Adjustment Program for Deep Marginal Gas Wells programs?

A. No. To simplify and make the calculations more transparent the eligible benefits are determined by using the well depths and the values in the table. No additional calculations are required.

Q. Is there a time limit for how long a well can receive royalty adjustments under the Natural Gas Deep Drilling Program?

A. Yes. Benefits earned under the new Natural Gas Deep Drilling Program will have to be used within 5 years. This is a change from the Deep Gas Royalty Holiday Program and the Royalty Adjustment Program for Deep Marginal Gas Wells programs which allowed 10 years. Most wells typically use their benefits up within 1 or 2 years.



Q. Could a well that earned a benefit under the Natural Gas Deep Drilling Program end up paying no royalty?

A. No. Similar to the Royalty Adjustment Program for Deep Marginal Gas Wells, wells will still be required to pay a minimum of 5% royalty under the new Natural Gas Deep Drilling Program.

If you have questions or need further information please contact:

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