

Shallow Rights Reversion Information Session November 6, 7, 2008

Objective of Session

- To inform you of the proposed approach to shallow rights reversion
- To walk you through the processes of shallow rights reversion application process
- To talk about next steps

Background

Shallow rights reversion was announced in the New Royalty Framework document last fall and work on shallow rights reversion began June 2008

The new royalty regime takes effect on January 1, 2009

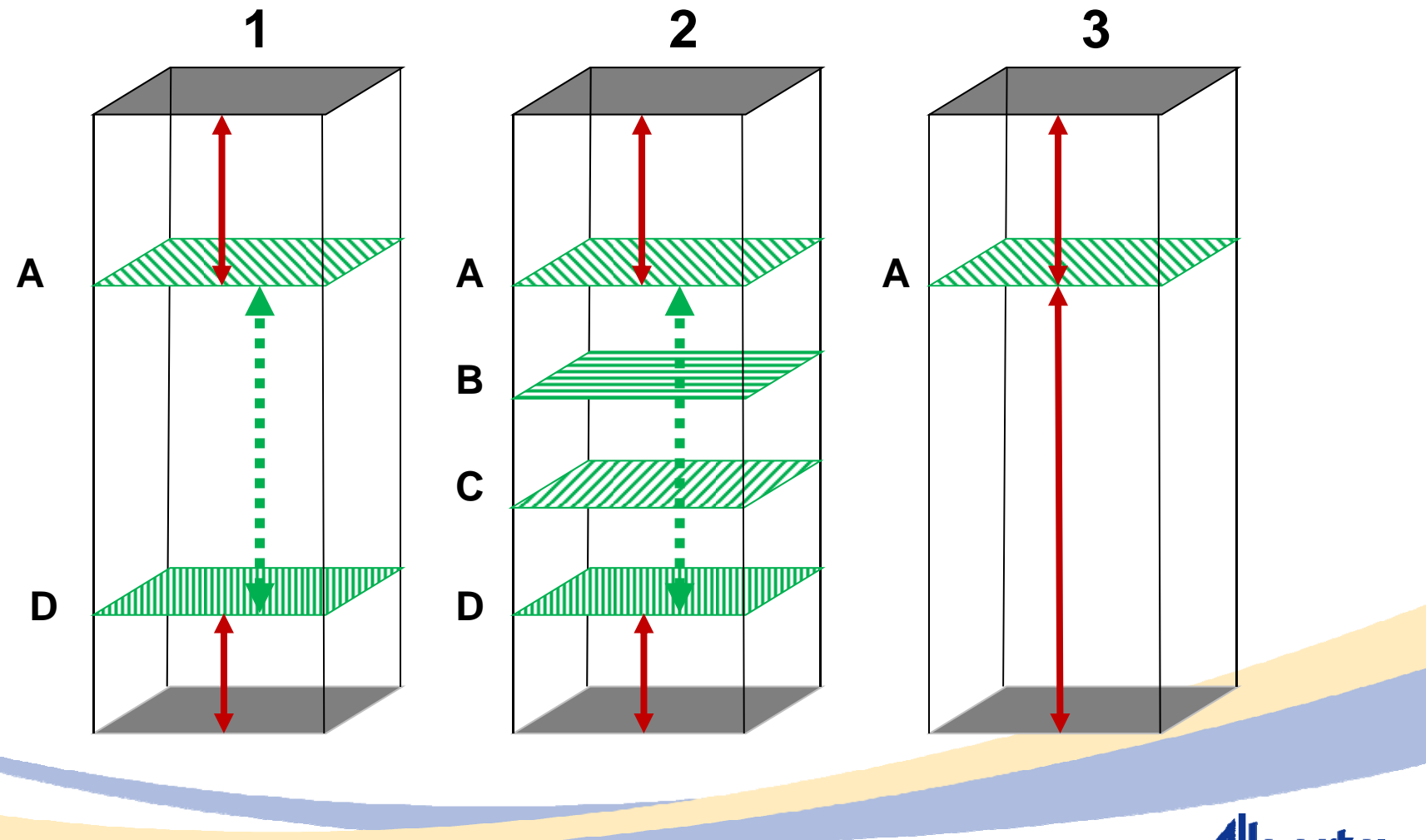
All new petroleum and natural gas leases issued after January 1, 2009 **as well as** all existing agreements will be subject to shallow rights reversion

As the legal support for shallow rights reversion has not gone through the legislative process as yet, what we are presenting can only be considered the proposed implementation process.

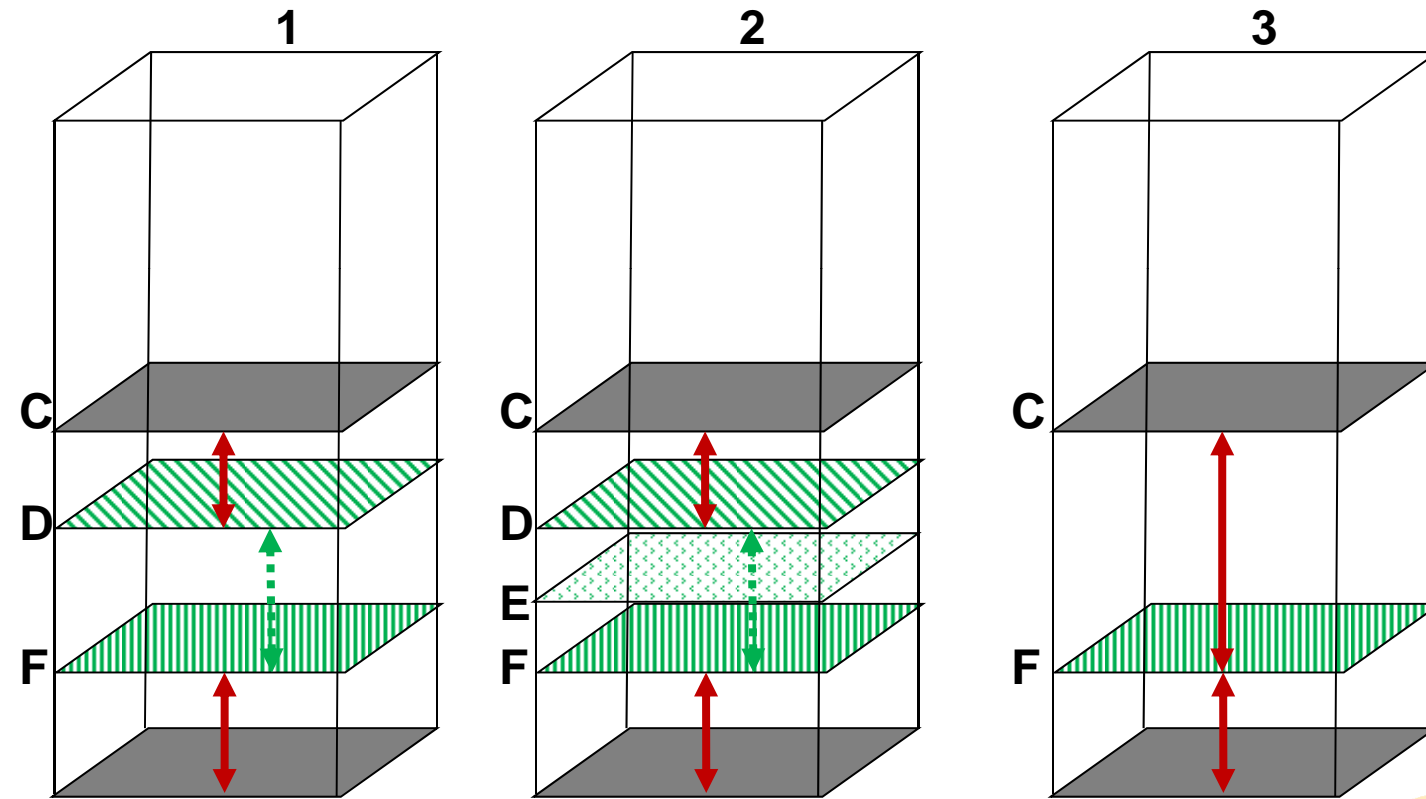
What is Shallow Rights Reversion?

- SRR will sever above the top of the shallowest productive zone from your agreement
 - This will result in your agreement being continued from the top of the shallowest productive zone to the base of the deepest productive zone
 - In some cases this may result in zone specific continuation

Examples of Shallow Rights Reversion



Examples of Shallow Rights Reversion



Process to Date

- The department first met with the Tenure Industry Advisory Committee
- A Shallow Rights Reversion Working Group was created and met every two weeks
- A Communications Team created to handle informing industry
- Open House held September 4th attended by over 1,100
- Speeches given at both CAPLA Management Night and CAPL October monthly meeting

Legislation

- Shallow rights reversion will be in *the Mines and Minerals Act (Section 82)*
- The bill to amend the Mines and Minerals Act will be going to the legislature in this fall sitting
- To become law the bill requires three readings in the legislature, receive final approval from the legislature and receive royal assent
- Required changes to the P&NG Tenure Regulation will take place next year, well before any severance occurs

Legislation versus Policy

Legislation (L)

allows for shallow
tolerance

servicing of SRR notices

three-year notice period

notice to include shallowest
e

allows for extension of the
notice period.

Policy (P)

- When notices will begin to be served
- Whether we start with a small number of notices and ramp up over a period of years
- The maximum number notices served per year
- Using vintage

Shallow Rights Reversion Notices

- The notice will list the shallowest productive zone as determined by the department from the public records (L)
- Shallow rights reversion will occur three years after the date the notice is served (L)
- Notices will be served by vintage, oldest first (P)
- The department will start serving a small number of notices in January 2011 ramping up over several years to a maximum number served (P)

Example

- Lease A has a term date of February 11, 1959, which by vintage will be served in the first year of notices (2011)
- For 2011, we may serve 1000 notices which is about 85 notices per month.
- Of the 1,000 leases to be served in 2011, Lease A came up to be served in August
- SRR Notice was sent August 22, 2011
- SRR Notice expires August 22, 2014

APPLICATION PROCESS



Comparison of Post 2008 Agreement Process to SRR Notice Process

<i>Agreement Served with SRR Notice (Under the MMA)</i>	<i>Agreement Purchased After January 1, 2009 (Under the P&NG Tenure Regulation)</i>
Application must be received by expiry date if shallower zone in notice	Application must be received by expiry date to continue deepest and shallowest zones
Qualifying well – apply for an extension of the notice	Qualifying well – apply for Section 16
Potential Productivity – no extension	Potential Productivity – apply for a section 17

Overview

- Agreements acquired after January 1, 2009 will be applied for using current processes
 - Section 14, 15, 16 and 17 of the P&NG Tenure Regulation
- Agreements served with a shallow rights reversion notice will be applied for through the *Mines and Minerals Act*
 - An application for an extension will be required for any qualifying wells

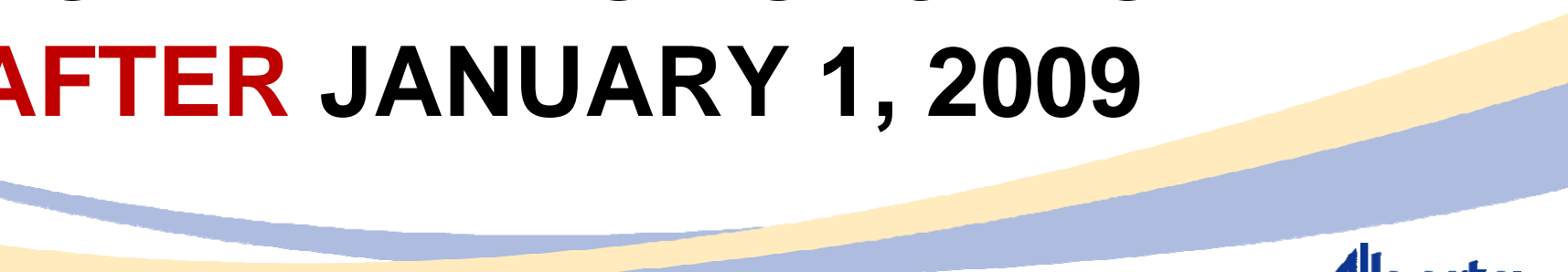
General Approach

- The department will issue an Information Letter at the beginning of each year, advising which age of agreements will be served notices in the next two years (P)
- Notices will be served throughout the year (P)
- Agreement specific notices will be served to the designated representative of the agreement following the schedule (L)

How Rights Will Be Described

- The current method of describing rights is through Zone Designations or Deeper Rights Reversion Zone Designations
- Information Letter 98-14 explains the differences
- Shallow rights reversion will be described using these two description types, predominantly DRRZDs.

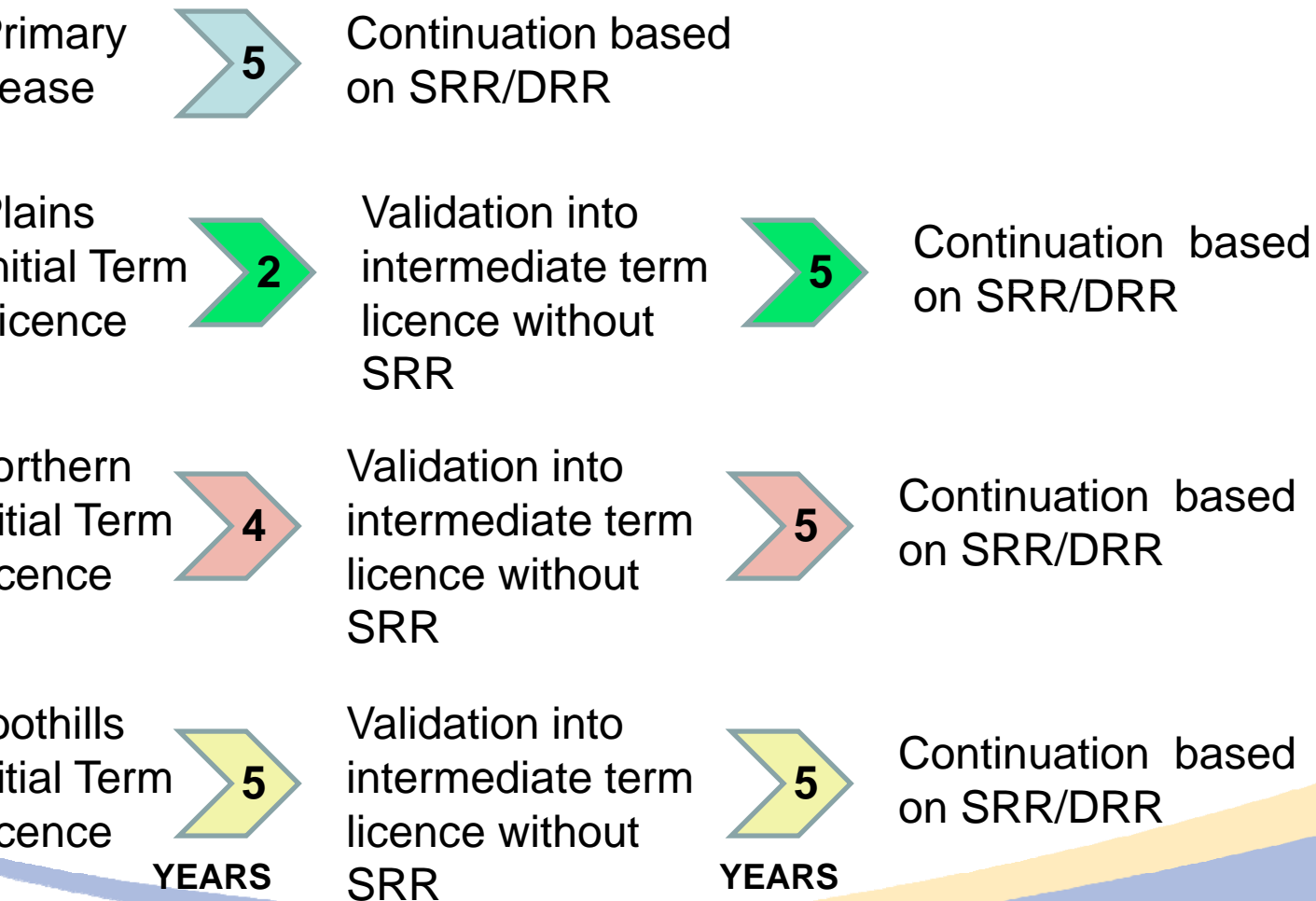
AGREEMENTS PURCHASED
AFTER JANUARY 1, 2009



Agreements Purchased After January 1, 2009

- At expiry of a primary term lease or intermediate term licence, an agreement holder will need to prove both the shallowest **and** deepest rights to gain continuation
 - Sections 15, 16 or 17 of the P&NG Tenure Regulation will apply
- At expiry of an initial term licence, validation will **not** include shallow rights reversion
 - Once validated, shallow rights reversion will apply at continuation of the intermediate term licence

When SRR will Affect an Agreement Purchased After January 1, 2009



Application Process For Agreements Purchased **After** January 1, 2009

- Follows Sections 14-17 of the P&NG Tenure Regulation
- At expiry, an application must be received for both the deepest and shallowest zone
- An application can be received anytime during the last year of the term
- Today's processes (advanced ruling, late application, ability to request a review of our decision) all apply

AGREEMENTS CONTINUED
BEFORE JANUARY 1, 2009

Agreements Continued Before January 1, 2009

- A shallow rights reversion notice must be served to the designated representative before an agreement continuing indefinitely (under Section 15 of the regulation) can be severed (L)
- Some areas will be avoided, where notices won't be served (P)
- Areas to be avoided may change over time as new information becomes available (P)

Current Avoidance Areas (P)

Areas to be avoided at this time include:

- Zone 1 of the Eastern Slopes
- Areas of no surface access
- Reserved or withdrawn from disposition areas
- Parks and protected areas, *and*
- Military bases

When SRR will Affect an Agreement Continued Under Section 15 Prior to January 1, 2009

Continued Lease
Continued
Lease



SRR Notice
served
based on
vintage



Continuation
based on SRR

= SRR notice will be served based on
vintage, oldest first, according to a schedule
published once a year (P)

Application Process after a SRR Notice

- At expiry, an application must be received on or before the expiry date if there is a shallower productive zone than that listed in the notice or an extension of the notice period is required
- An application can be received anytime during the three year period of the notice
- **NOTE: There is no late application process for a shallow rights reversion notice.**

Application Process after a SRR Notice (cont'd)

- **Section 16** (qualifying well) of the P&NG Tenure Regulation will not apply after a SRR notice expires
- **Section 17** (potential) of the P&NG Tenure Regulation will not apply after a SRR notice expires
- If you drill over expiry, or have a well that rig released in the last three months prior to expiry of the shallow rights reversion notice, you will need to apply for an extension under **Section 82.1 (6)** of the Act

Extensions Under the Act

- At times there will be circumstances that **will require** you to apply for an extension to the notice period
- For example, reasons for an extension include:
 - Drilling over expiry
 - Unexpected stakeholder issues
- **As the notice period is for three years, and you will have had up to two years warning in the schedule, work must be performed diligently throughout the notice time period**
 - Late starts or farm-ins will receive a negative response

Application Process after a SRR Notice

- If the department disagrees with your application you will be given the opportunity to request a review of our decision
- The department's decision will be final after the review
- **NOTE: you can simplify this process if all the relevant data is provided to the ERCB prior to the notice being served (less applications/less requests for review)**

ling to Apply after a SRR Notice

- If you do not make application on time for a shallower zone, the agreement will be reviewed and severed as indicated in the notice
- If you miss applying for a shallower productive zone you may be able to apply for a reinstatement of those rights under Section 8(1)(e) of the Mines and Minerals Act
 - Requires payment of the reinstatement penalty (\$5,000) plus GST
 - Must be received within 60 days

EXISTING AGREEMENTS
CONTINUED AFTER
JANUARY 1, 2009

Existing Agreements Continued After January 1, 09

- Agreements that exist prior to January 1, 2009 but have not been continued yet will first only be severed based on deeper rights reversion (P)
- Shallow rights severance will then apply to these agreements only after a shallow rights reversion notice has been served (L)
- Notices will be served on these agreements based on vintage (P)

When SRR will Affect an Agreement Purchased Before and Not Continued Until After January 1, 2009

by Lease
Intermediate
Licence
continued after
2009



Plains, Northern or Foothills Licences

Initial Term
Licence



Continuation into
Intermediate term
Licence without



Continuation
based on DRR



SRR Notice
served



Continuation
based on SRR

Application Process For Existing Agreements Continued after January 1, 2009

- Follows Sections 14-17 of the P&NG Tenure Regulation
- At expiry, an application must be received for the deepest zone (L)
- An application can be received anytime during the last year
- Today's processes (advanced ruling, late application, ability to request a review of our decision) all apply (L)
- Once continued, a SRR notice will be served (based on vintage) (L)

Outstanding Decisions to be Made

- Rules on commingling
- Application of shallow rights within units
- Extension criteria
- Identifying schedule, for example
 - Year 1 – 1000 agreements – 1950-09 to 1958-10
 - Year 2 – 2000 agreements - 1958-10 to 1965-04
 - Year 3 – 4000 agreements - 1965-04 to 1971-09

Consolidation

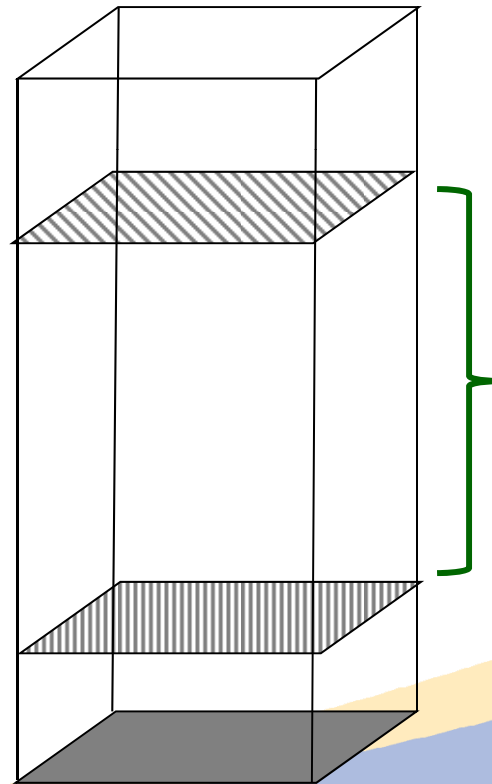
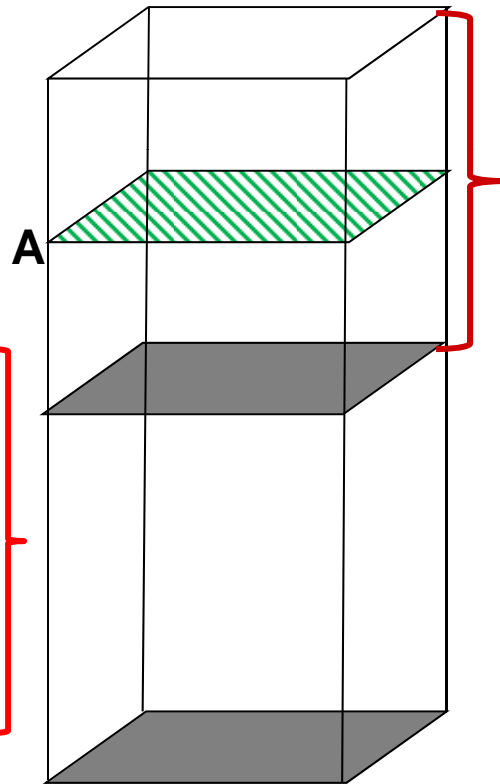
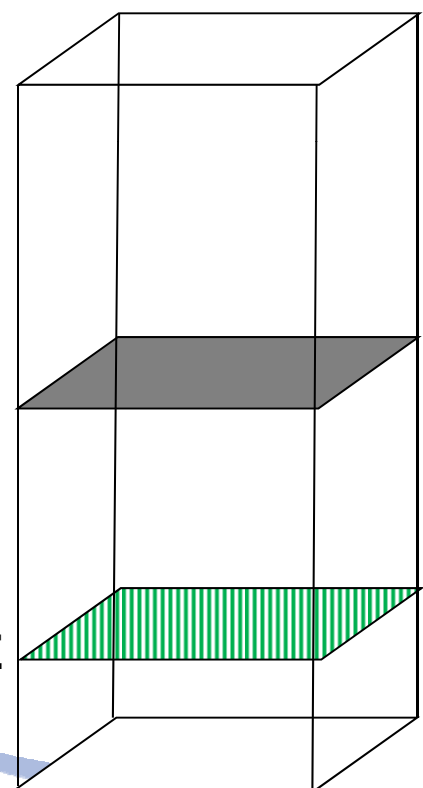
- Lessees may choose to consolidate their agreements to retain more rights at shallow rights severance
- Consolidation must be done ahead of shallow rights reversion
- In order to consolidate two agreements they must have the same:
 - Term length(continued or primary)
 - Substances
 - Designated representative, *and*
 - Interest holders
- Initial term licences can't be consolidated

Example of Consolidating Agreements

Deeper agreement

Shallow agreement

Consolidated agreement



one Specific SRR

Zone Specific SRR

Multiple Zones SRR



Next Steps

- Over the next year the P&NG Tenure Regulation will be amended to include shallow rights reversion.
- The department will publish an information letter prior to beginning serving agreement specific notices
- Documents will be re-written to include shallow rights reversion
- Industry should start to change their practices and processes to include shallow rights reversion

Conclusion

- On a go-forward basis, agreements acquired after January 1, 2009 will be applied for using current processes
 - Section 14, 15, 16 and 17 of the P&NG Tenure Regulation
- Agreements served with a shallow rights reversion notice will be applied for through the *Mines and Minerals Act*
 - An application for an extension will be required for any qualifying wells

REMEMBER

- Don't hit the panic button – severance occurs at continuation which is a few years down the road
- We will be continuing to provide information closer to the events occurring

Thank You

