

Initial Term Licence

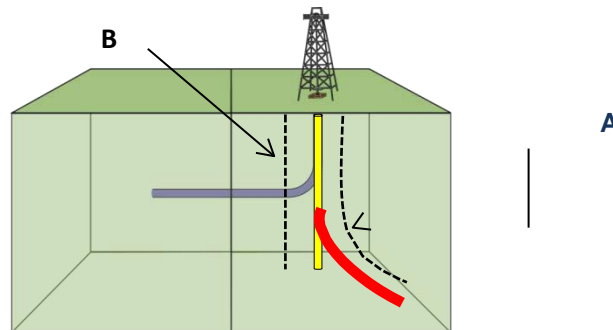
Quick Reference Guide

Validation

Multi-legged Wells:

An applicant may choose only one leg to calculate sections earned. Measurement is calculated using, at the applicant's choice:

- A. The vertical portion of the well bore to the kick off point and the length of that leg (following the horizontal well rules if the well bore goes off-location). Or,
- B. The vertical well bore, from surface, to the same vertical bottom hole.



If the shallowest leg is chosen, because it's the longest, the licence could still be severed below the base of the deepest zone evaluated, if applied for.

Horizontal Wells:

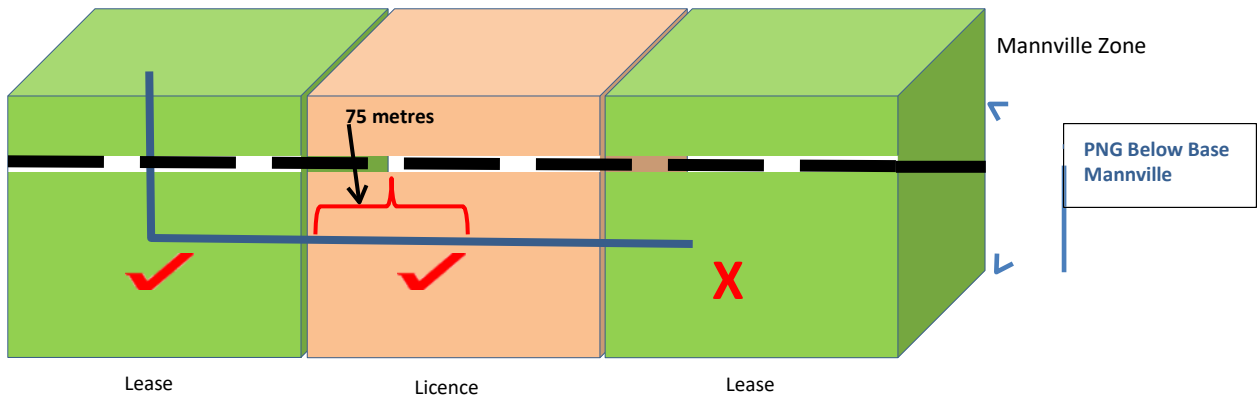
Minimum horizontal drilling length into a licence is 75 metres regardless of which area of the province the licence is located in. This applies to all initial term licences whether they contain rights from the surface, or contain rights from below the base of a deeper zone. See Examples A and B below. If the licence is tracted, for example, where one section of the licence grants rights below surface and another section within the same licence grants right below the base of a deeper zone, minimum meterage is also required in each section as shown in Example C below.

If minimum meterage is not drilled, to be consistent with vertical wells, proof of productivity in the form of production or a good oil or gas test must be provided. (Please refer to the Technical Guidelines for further information on oil or gas tests.)

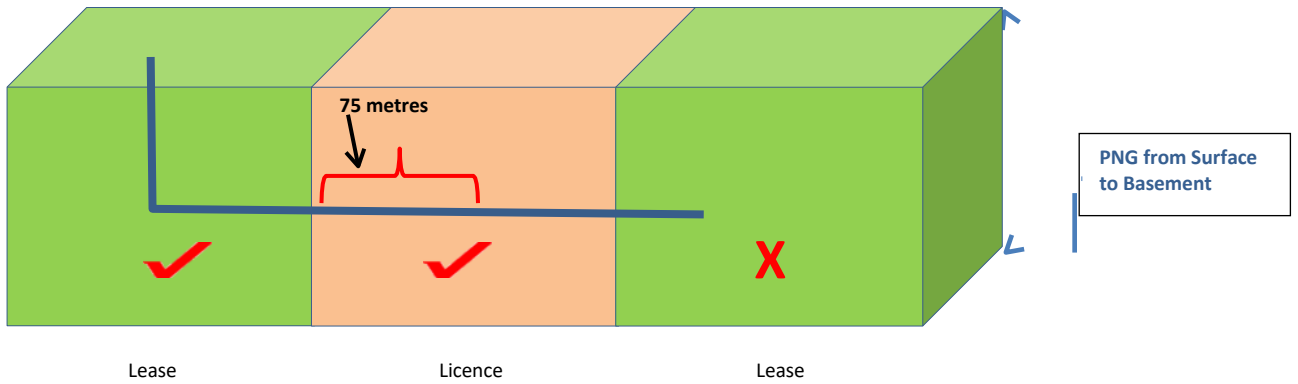
Validation earnings from Schedule 2 are the same for measured vertical depth and measured horizontal meterage. Schedule 2 was adjusted to allow for both vertical and horizontal wells.

If a well bore goes from lease, through a licence and ends in a lease, the meterage of the well bore from the surface of the lease and all within the licence is used to calculate sections earned at validation. (red check marks) No part of the well bore in the second lease will be used (red X). This makes the rules consistent with the lease to licence scenario. The minimum horizontal meterage of 75 meters within the licence must be met in order to eliminate clipping a corner of the licence. (See A and B below)

This rule also applies if a horizontal well bore goes through other initial term licences. (See D and E below) Licence containing deeper rights must be drilled at least 75 metres.



A. Licence containing rights from the surface must be drilled at least 75 metres



B. Tracted Licences, i.e., One licence where section 1 contains deeper rights only and section 2 contains rights from the surface. A total of 75 metres must be drilled within the licensed rights that correspond to a tract if the licensee wishes to retain the tract rights. See explanation to diagram on the following page.

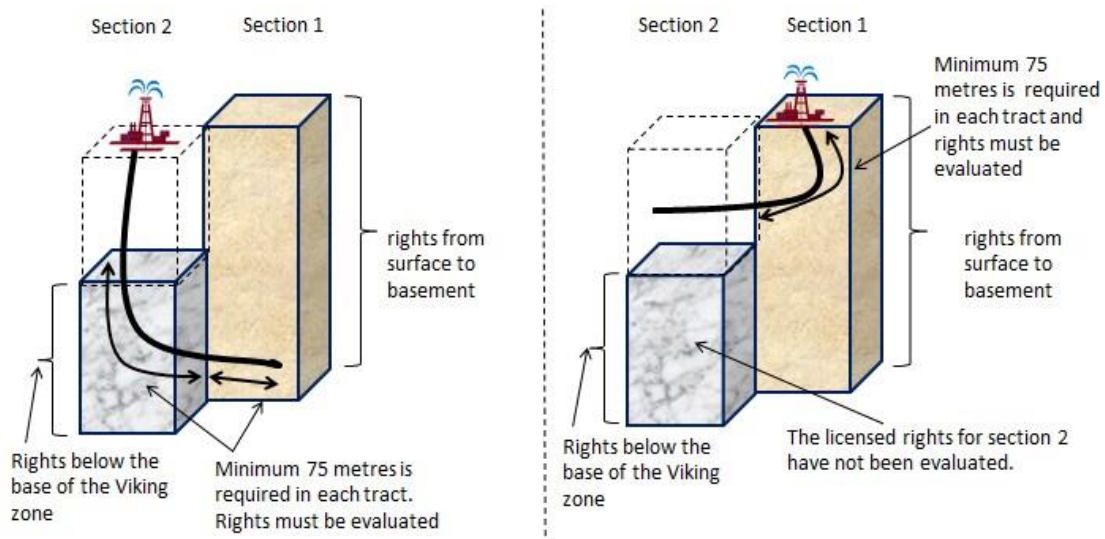
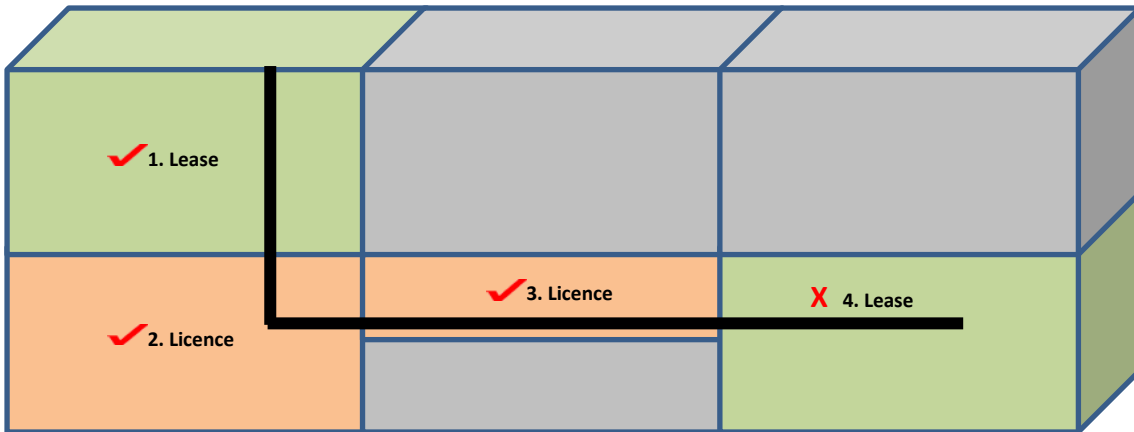


Diagram on the left. We have one licence with section 1 containing all rights and section 2 the deeper rights, below the base of the Viking zone. A well has a surface location on section 2. The well bore has drilled a total of 75 metres in the licensed deeper tract before leaving that section and entering section 1. The well bore in section 1 has also drilled a minimum of 75 metres into the licensed rights. Both tracts in this licence have been evaluated.

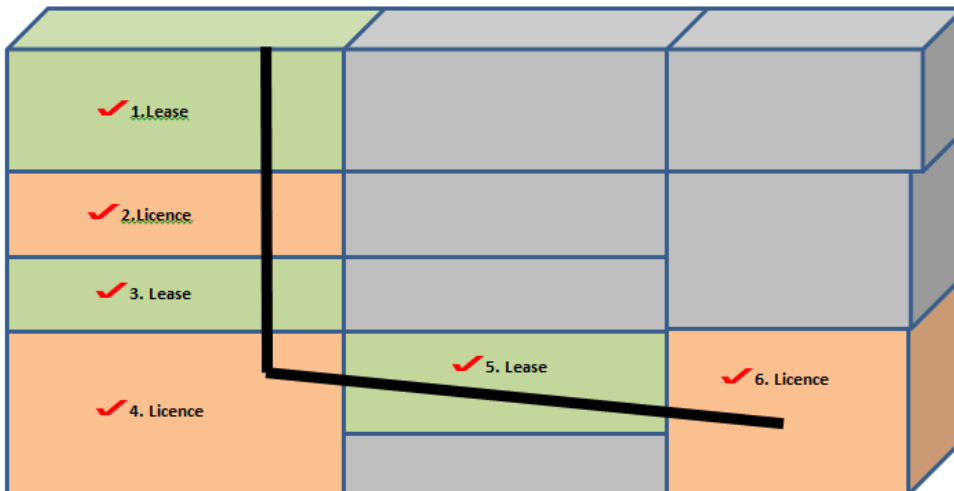
The diagram on the right has the same licensed rights. The surface of the well is on section 1. Minimum meterage of 75 metres has been drilled in section 1 before leaving the section and entering section 2. However the well did not drill deep enough before entering section 2, so it has not evaluated the rights in section 2. Section 2 will be deleted from the agreement.

- C. Licence 3 applied for validation. The earning portion of the wellbore is measured from surface to the end of licence 3. (red check marks) Licence 2 may be validated using the sections earned from the validation of licence 3. (see Earnings section)



- D. Licence 6 applied for validation. The earning portion of the wellbore is measured from surface to the end of the wellbore on licence 6. (red check marks) When Licences 2 and 4 expire, they may validate with unused earned sections. Minimum meterage into Licence 6 must be drilled. (see the “Earnings” section)

If Licence 4 used this well to validate their licence, the earning portion of the wellbore will still be measured from surface to the end of the wellbore in licence 6, because the well bottom holes on another initial term licence. Licence 6 may validate with the unused earned sections.

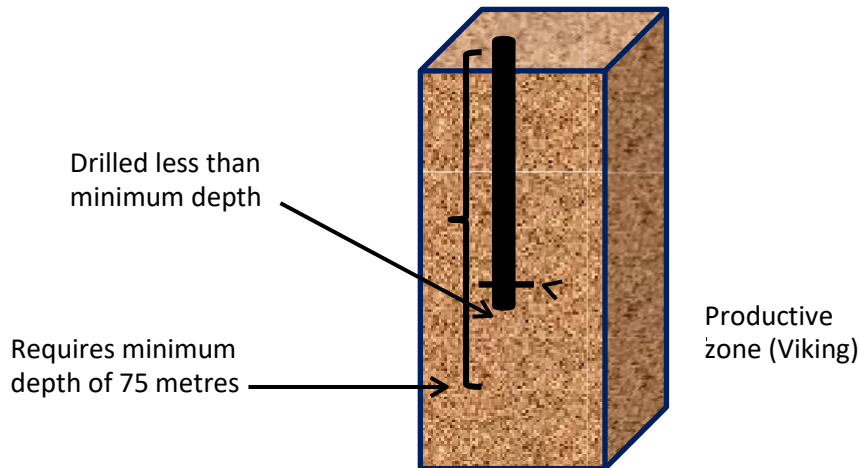


Vertical Wells:

New Vertical Wells

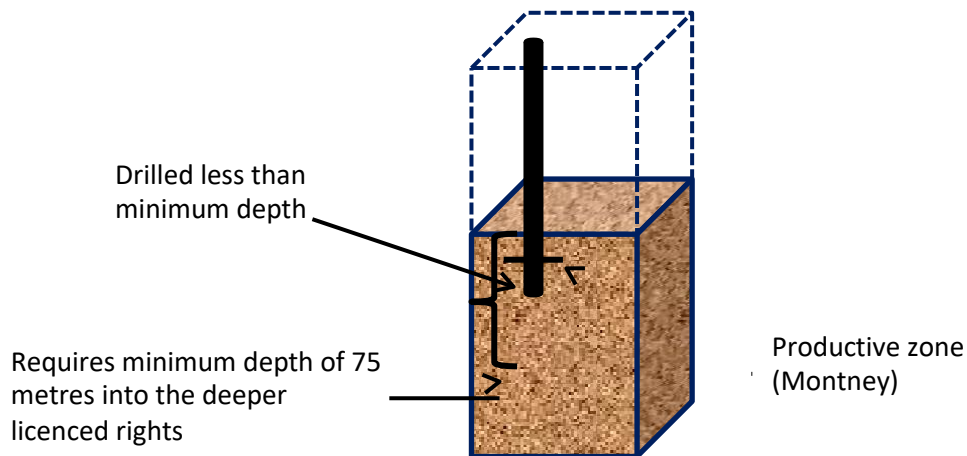
- A. To be a validating well, new wells drilled less than minimum depth must be proven productive with either production or a good oil or gas test. The well bore from surface to the base of the producing zone would be used to calculate sections earned from Schedule 2.

a. Licence with rights from the surface to the basement



The length of the well bore from the surface to the base of the Viking zone would be used to calculate the number of sections earned for validation and severance would be below the base of the Viking zone. The rights below the base of the Viking zone revert to the Crown.

b. Licence with rights below the base of a zone – requires minimum depth into the deeper licenced rights



The length of the well bore from the surface to the base of the Montney zone would be used to calculate the number of sections earned for validation and severance would be below the base of the Montney zone. The rights below the base of the Montney zone revert to the Crown.

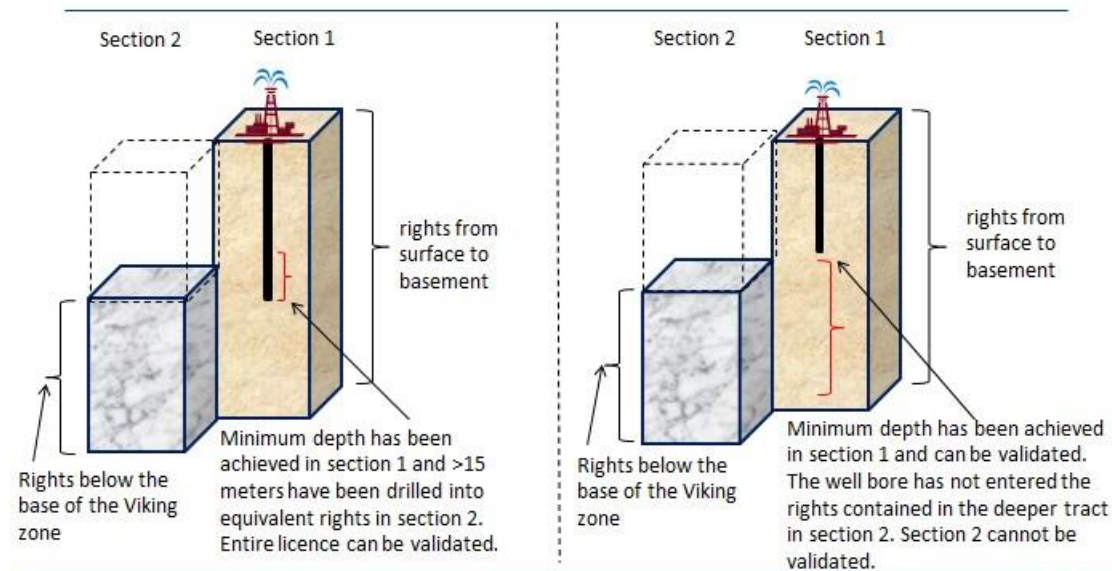
Tracted Licence

A tracted licence, for example, is a licence where one section of the licence grants rights from the surface and another section of the same licence grants rights below the base of a deeper zone. In order to validate the deeper rights contained in an agreement like this, if the well is a validating well on the tract that grants rights from the surface, the rights in the deeper tract only need to be evaluated by drilling >15 metres.

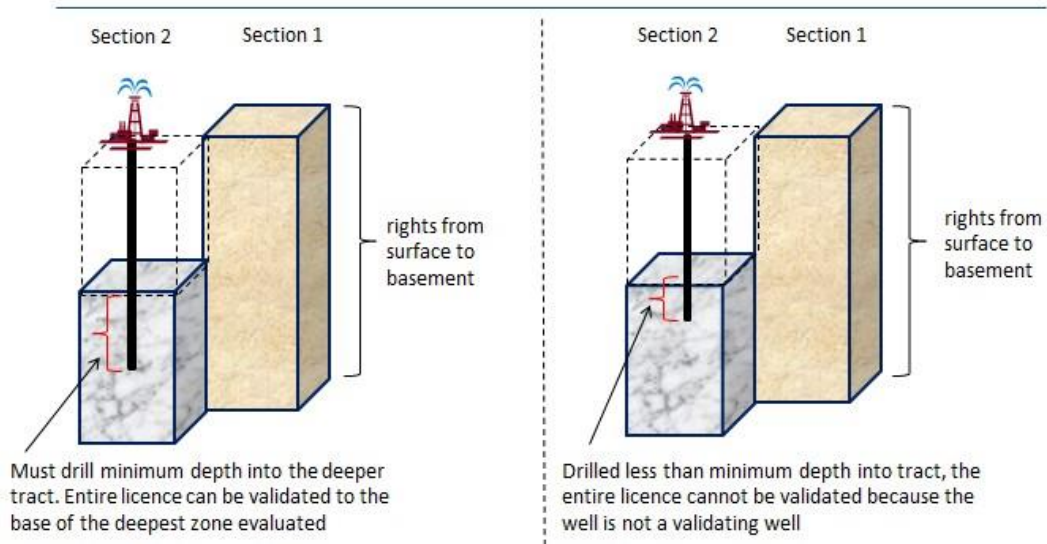
For example:

The diagram on the left shows the deeper tract in section 2 has been evaluated by drilling greater than 15 metres into equivalent rights in section 1. The entire licence can be validated. The full length of the wellbore would be used to calculate sections earned for validation.

In the diagram on the right, the deeper rights in Section 2 would not be validated and that tract would be deleted from the licence.



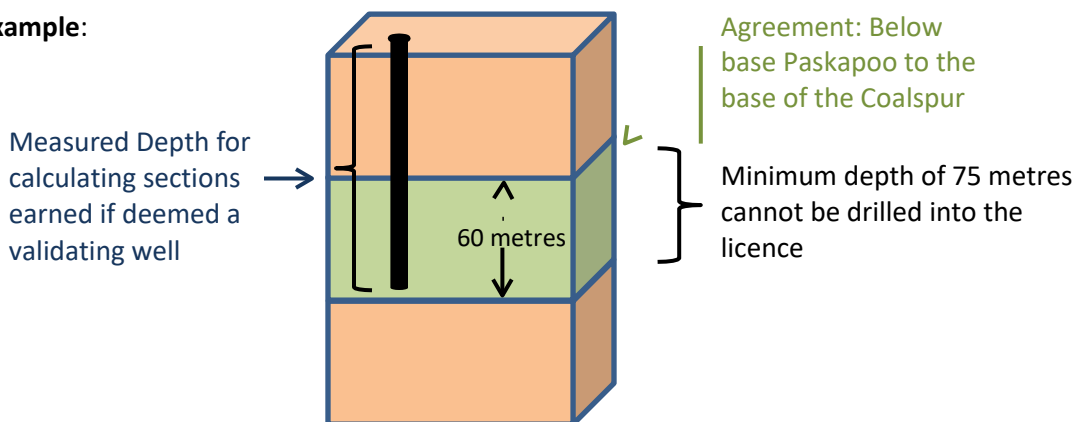
If the well is drilled on the tract containing the deeper rights only, the well would have to drill minimum depth of 75 metres into the deeper tract in order to validate the entire licence.



Geological Discretion

- If a formation is less than minimum depth or if the formation is smaller and the well may not be a validating well due to minimum depth not being drilled and proof of productivity could not be gathered, then geological discretion would be applied by the Crown for validation purposes. Another example would be if drilling minimum depth would cause damage to a zone and productivity could not be established. i.e., the company could not provide significant new evidence. If deemed a validating well, the full length of well bore would be used to calculate sections earned at validation. (Currently in the Regulation under Definitions, section 1(m.1))

Example:



Drilling Over Expiry:

- When a well is drilling over expiry, the term of the drilled licence and any other expiring licences for which those earnings will be used is still extended to one month from rig release.
- The application for validation must be in the department prior to the original expiry date.
- Additional wells can be spud and drilled during the extended term, but not to validate. (same as now)
- The geological data can be submitted one month from rig release of the well, when it should be available.
- If the actual drilling results change the original application information, changes to the application can be made up until the one month from rig release.

Earning Sections at Validation:

- Upon application for validation, at the expiry of an agreement, a company will select the sections earned by the validating well to enter the intermediate term. Any remaining sections will be “banked” for use when other agreements expire and are ready to be validated.
- Companies will be responsible for applying their earnings to eligible agreements and there will be no “no app offers” from Alberta Energy, when companies fail to apply for validation themselves.
- Validation will consist of “applying to use banked sections”. An agreement is eligible to use the banked sections if it is within the current criteria for distance, the well evaluates the rights and is drilled during the term of the agreement.





Criteria:

- Only one application is required; the validation application.
- The well must be a validating well, be spud during the term of any of the agreements using the sections earned and must evaluate at least some of the rights in each agreement
- If minimum meterage is not reached, proof of productivity in the form of production or good oil or gas tests must be provided.
- The current distance criteria (i.e., licence boundaries not more than one intervening section from the licence boundary containing the validating well) would allow certain lands to be eligible to be validated using the earnings from a validating well.
- Schedule 2 will be used to calculate sections earned.
- Both vertical and horizontal wells will earn the same number of sections for meterage drilled.
- If drilling a horizontal well through two or more separate initial term licences, each of those licences will use the distance criteria to determine other initial term licences that may be eligible to use the sections earned at validation.





Refer to the following examples:

DIAGRAMS OF ELIGIBLE AREA FOR EARNINGS

31	32	33	34	✓	✓	
✓	✓	✓		✓	✓	
✓	✓	✓				24
18			* ✓			13
7			✓	✓		12
6			✓	✓		1
31	✗	✗	✗			36
30	✗	✗	✗			25
19	✗	✗	✗			24

-  Validating well drilled on section 15
-  Separate initial term PNG Licences
-  Licences **eligible** to be selected for validation, assuming the other criteria are satisfied. In this case other initial term licences that are no more than one intervening section away from the licence boundary the validating well is drilled on
-  Licences not eligible for validation; too far from the licence boundary containing the validating well

31	32	33	34	✗	✗	
✓	✓	✓		✗	✗	
✓	✓	✓				24
18			✓			13
7			✓	✓		12
6			✓*	✓		1
31	✓	✓	✓			36
30	✓	✓	✓			25
19	20 ✓	21 ✓	22 ✓	23	24	

-  Validating well drilled on section 3
-  Separate initial term PNG Licences
-  Licences **eligible** to be selected for validation, assuming the other criteria are satisfied. In this case other initial term licences that are no more than one intervening section away from the licence boundary the validating well is drilled on
-  Licences not eligible for validation; too far from the licence boundary containing the validating well

31	32	33	34	✓	✓
✓	✓	✓		✓	✓
✓	✓	✓			24
18			✓		13
7			✓	✓	12
6			✓	✓	1
31	✓	✓	✓		36
30	✓	✓	✓		25
19	20 ✓	21 ✓	22 ✓	23	24



Horizontal validating well; surface on section 15; bottom hole on section 10. Each section the well bore goes through would be considered as having its own well drilled as long as the minimum meterage of 75 metres is drilled. In this case the horizontal well goes through two initial term licences, therefore each agreement's boundary would be used to determine which licences are no more than one intervening section away from the licence boundaries containing the validating well.



Separate initial term PNG Licences



Licences **eligible** to be selected for validation, assuming the other criteria are satisfied. In this case other initial term licences that are no more than one intervening section away from the licence boundary the validating well is drilled on

Please note, the determination of the eligible area is not a new process. These diagrams are intended as a reminder of the process.