



EXPLORATION LICENCE GUIDELINES

(effective April 11, 2011; revised July 2012)

The following guidelines regarding Exploration Licences are provided as an aid to industry. Please be advised that these guidelines do not replace *The Crown Minerals Act* (the Act) or *The Petroleum and Natural Gas Regulations, 1969* (the Regulations) and are solely intended as a general reference guide to be used in conjunction with existing legislation.

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The following excerpt that refers to Exploration Licences has been copied from the Regulations. Copies of the complete Act and Regulations in PDF format can be downloaded from the Queen's Printer at www.qp.gov.sk.ca at no cost.

PART III.1 of *The Petroleum and Natural Gas Regulations, 1969*

Exploration Licences

Issuance of exploration licence

36.1(1) The minister may issue an exploration licence to an applicant who:

- (a) complies with this Part;
- (b) submits a bonus amount acceptable to the minister along with the bid submitted pursuant to subsection 37(3);
- (c) submits an application fee of \$250; and
- (d) agrees to accept the exploration licence and to be bound by its terms and by the provisions of the Act and the regulations made pursuant to the Act.

(2) The maximum area that may be the subject of an exploration licence is 36 sections of Crown land and the minimum area is one section of Crown land.

Rights granted under licence

36.2 Subject to these regulations and unless otherwise specifically stated in the exploration licence, an exploration licence grants to the licensee the exclusive right to:

- (a) search, dig, bore and drill for oil and gas or oil sands, as the case may be, within the lands described in the exploration licence; and
- (b) win, get, recover, extract, procure, carry away, dispose of and sell the oil and gas or oil sands products found within the lands described in the exploration licence.

Exploration licence deemed to be Crown lease

36.21 An exploration licence is deemed to be a Crown lease within the meaning of the Act for the purpose of determining royalties payable on oil and gas or oil sands products produced from or allocated to the lands with respect to which the licence is issued.

Rent

36.3(1) During the term of an exploration licence, the licensee shall pay annually to the department a rent of \$1.75 per hectare of land described in the exploration licence.

- (2) Rents are due and payable to the department in advance of the anniversary of the exploration licence.
- (3) Rent is not refundable where lands are surrendered or the exploration licence is cancelled.
- (4) Where the term of an exploration licence is extended pursuant to section 36.4 for a period that is three months or longer, the holder of the exploration licence shall pay the full amount of the annual rent required pursuant to this section for the extended term even though the extended term is less than a full year.

Term of licence

36.4(1) Unless sooner surrendered or cancelled and subject to subsections (2) to (4), an exploration licence is valid for:

- (a) two years after the date of its issuance, if any of the lands with respect to which the licence is issued are located south of Township 55;
 - (b) three years after the date of its issuance, if:
 - (i) all of the lands with respect to which the licence is issued are located north of Township 54 but south of Township 66; or
 - (ii) some of the lands with respect to which the licence is issued are located north of Township 54 but south of Township 66 and the remainder of the lands are located north of Township 65;
 - (c) four years after the date of its issuance, if all of the lands with respect to which the licence is issued are located north of Township 65; or
 - (d) five years after the date of its issuance if the rights are for oil sands.
- (2) On the request of a licensee, the minister may extend the term of the licensee's exploration licence where:
- (a) the exploratory work required to be carried out pursuant to these regulations is delayed by an action of a government agency or a member of the Executive Council for environmental, regulatory, jurisdictional or consultation purposes with respect to the surface of the land; and
 - (b) the delay is greater than 60 days.
- (3) In accordance with subsection (2), the minister may extend the term of the exploration licence for a period equivalent to the length of the delay.

(4) Where the holder of an exploration licence is conducting drilling operations on a well within the land covered by the exploration licence when the period for which the licence is valid expires, the minister may extend the term of the exploration licence for a period not to exceed three months after the finished drilling date of the well.

(5) The minister may extend the term of an exploration licence for a period not to exceed three months where:

- (a) the holder of the exploration licence is in compliance with these regulations and the terms of the licence;
- (b) a well licence has been issued to the holder of the exploration licence but drilling operations have not begun due to events beyond the control of the holder of the licence; and
- (c) the well with respect to which the well licence was issued has a finished drilling date that falls within the extended term of the exploration licence.

(6) Where the term of an exploration licence is extended pursuant to subsection (2), no rent is required to be paid by the licensee for the period of the extended term.

Conversion to lease

36.5(1) In this section and in sections 36.8 and 36.9, “**lease**” means a lease issued pursuant to Part V.

(2) The holder of an exploration licence may apply to convert the exploration licence to a lease or leases, but only if the holder is in compliance with section 84 of *The Oil and Gas Conservation Regulations, 1985*.

(3) The holder of an exploration licence who wishes to apply to convert the exploration licence to a lease or leases shall apply on or before 60 days after the expiry of the exploration licence.

(4) The maximum area that may be covered by a lease resulting from a conversion pursuant to subsection (2) is equal to the sum of area factors for all wells made within the area covered by the exploration licence.

(5) The area factor mentioned in subsection (4) for a well is equal to the amount calculated in accordance with the following formula:

$$A = TD \times F$$

where:

A is:

- (a) equal to 1 in the case of a well made on exploration licences for oil sands but only if:
 - (i) the well is made sufficiently deep, in the minister’s opinion, to intersect the oil sands zone; and
 - (ii) any core recovered from the well is in compliance with *The Oil and Gas Conservation Regulations, 1985*; or
- (b) in the case of a well made on exploration licences for petroleum, natural gas, or petroleum and natural gas, the area factor in sections rounded to the nearest quarter section;

TD is the total measured depth, as expressed in metres, for the well;

F is 0.004 sections, if the well is drilled to 1,800 metres or less, and 0.006 sections, if the well is drilled to more than 1,800 metres.

(6) Notwithstanding subsection (4), the holder of an exploration licence may group the area factors of any or all wells made in one other area covered by another exploration licence if:

- (a) the other exploration licence is held by the same holder; and

(b) the other area covered by the other exploration licence is not more than 3.2 kilometres distant from the area that is the subject of the application.

(7) If the holder of an exploration licence groups the area factors of wells made in another area pursuant to subsection (6), the holder may not include the area factors that were grouped in any other application pursuant to this section.

Powers of minister

36.6(1) The minister may determine the form of an exploration licence issued pursuant to this Part.

(2) The minister may place any environmental, drilling or developmental restrictions on an exploration licence.

Surrender

36.7(1) The holder of an exploration licence may surrender the lands covered by the exploration licence at any time or may surrender part of those lands from time to time.

(2) No rent or fee paid by the holder of an exploration licence is refundable to the holder if the holder surrenders his or her exploration licence.

Exploration licence terminated when lease issued

36.8 If the holder of an exploration licence obtains a lease pursuant to Part V for lands covered by the exploration licence prior to the end of the term of the exploration licence, the exploration licence is deemed to be terminated at the time the lease is issued.

Effective date of leases

36.9 Where leases are issued pursuant to Part V respecting lands covered by an exploration licence, the effective date of those leases is the date on which the lease is issued.

Frequently Asked Questions

- 1. Our company has drilled a successful well on our exploration licence (EL). May we produce this well prior to converting to lease?**

Yes, you may produce under an EL. Production must be reported to the Ministry. However, you must include the drainage unit for the producing well as part of your lease selection if you wish to continue producing from that well. *Ref: 36.2(b) of the Regulations.*

- 2. A. Our company holds an EL which is soon to expire. Because we will have a valid well licence at the expiry date, may we assume the licenced well automatically provides a three month extension to our EL?**

No, the approval is not automatic. The minister **may** extend the EL for a term not to exceed three months. An application requesting approval for an extension must be sent to the Director of Petroleum Tenure. *Ref: 36.4(5)(b) of the Regulations.*

- B. Our EL was granted a three month extension. Do we pay rentals?**

Yes, you will be required to pay the full annual rental prior to the extension even though the period is for less than a year. *Ref: 36.3(4) of the Regulations.*

- C. Our company commenced drilling operations prior to the expiry of our EL but we have not yet finished drilling and the EL has expired. Will we receive an automatic three month extension?**

No. Your company must submit a request for an extension to the term of the EL to the Director of Petroleum Tenure. *Ref: 36.4(4) of the Regulations.*

- D. Our company licenced a well prior to expiry of our EL, but upon further review we now recognize the licenced location and type of well (vertical versus horizontal, for example) is not ideal. Are we able to change the location during the extension period?**

Before any change of location or well type is considered during the extension period you must first contact Petroleum Tenure with your revised drilling plans. If the ministry agrees that the replacement well is comparable or better than the original well, the switch will be approved. Note: it is necessary to have a valid licenced well at all times during the extension period.

E. Our company licenced a well prior to expiry and commenced drilling during the approved three month extension. We have not yet finished drilling prior to the expiry of the extension period. Can we apply for an additional extension?

No, the well must have a finished drilling date which falls within the three month extension period. If the well is not finished during this period that well will not qualify for lease selection purposes unless otherwise approved by the Minister. However, if the well has been spud and drilling operations are on-going, but the well cannot be completed for reasons beyond the control of the owner, an extension may be granted to allow for completion of the well. *Ref: 36.4(4) and (5)(c) of the Regulations.*

3. I have licenced and drilled an additional well during the approved three month extension period. Does that well qualify for lease selection?

No. While you are permitted to licence and drill additional wells in the 90 day extension period, only those licenced prior to the expiry of the exploration licence would qualify for lease selection.

4. Our company has decided to drill a stratigraphic test well. Our intent is to use the stratigraphic test to kick off a horizontal well, but we are approaching the expiry of our EL. Will we be able to apply for an extension based on the stratigraphic well? Will we be able to drill the horizontal leg during the extension period and would the horizontal portion qualify for lease selection purposes?

Yes, your company may apply for a three month extension based on the drilling of the stratigraphic well. Provided the horizontal well has the same surface location as the stratigraphic well, the horizontal well that is licenced and drilled during the extension period will qualify for lease selection. Note that if the horizontal leg is not drilled, the stratigraphic well would qualify for lease selection purposes.

When drilling a horizontal well from a stratigraphic test well, the credits for the entire wellbore from surface to the total measured depth of the horizontal section **are combined with** credits earned from the vertical portion of the original stratigraphic well below the kickoff point (KOP) when determining the lease selection credits for the well. For example: if you drill a stratigraphic well to a measured depth of 1900m with a horizontal leg that kicks off at 1750m measured depth and has a total measured depth of 2350m, earnings would be calculated for the horizontal well from surface to total measured depth as 2350m at a factor of 0.006 to earn 14 sections, and then by adding the 150m portion of the stratigraphic well below KOP at a factor of 0.006 to earn 1.0 section brings the total area factor earned to 15.0 sections.

Note: If the stratigraphic well was drilled to a depth of less than 1800m an area factor of 0.004 will be used to calculate the remaining portion of the stratigraphic well from kick off point to total depth.

5. A portion of our EL falls on a section of land that includes freehold minerals. We intend to drill a gas well on this section, where the drainage unit is the full section. How does this freehold portion impact lease selection?

a) If the well is drilled on the freehold portion, the area factor will be multiplied by the percentage of Crown minerals on the section. For example if the section is $\frac{3}{4}$ freehold and $\frac{1}{4}$

crown and you drill on the freehold portion, your area factor for lease selection purposes would be reduced by 75%.

b) If you drill on the crown portion, you will earn 100% of the area factor.

6. Our company has drilled a horizontal well on a lease adjacent to our EL, and a portion of the drainage unit for the horizontal well includes our EL. Will we earn any credits for the drainage unit?

No. The well, or a portion of the well, must be drilled within the boundaries of the EL in order to qualify for lease selection purposes (see FAQ #7).

7. The surface location for our horizontal well will be located on lands that are adjacent to our EL, and a portion of the well will be drilled on the EL. How will this impact the area factor for lease selection?

a) If you drill the vertical portion of a horizontal well within one legal subdivision (on freehold or on a Crown lease) of your EL you will earn 100% towards your lease selection.



b) If you are further than one legal subdivision from your EL you will earn only that portion of the well that is drilled within the boundaries of your EL.



c) If your well crosses the boundaries of two of your company's ELs you can allocate a prorated portion of the area factor to each EL.



8. **Our EL only includes the rights from the base of the Midale Beds to the top of the Precambrian. Since we have drilled a horizontal well into the Bakken Formation, will the portion of the well drilled from the surface to the base of the Midale Beds qualify for lease selection purposes?**

Given that you must drill through the shallower portion to gain access to the rights granted under your EL, the Ministry will grant credit for the full measured depth of the well from surface to total depth.

9. **A. We have two exploration licenses which we would like to group. What criteria must we meet in order to group those two ELs?**

The owners of the two ELs must be common and registered with the ministry (service ID does not constitute ownership), the two ELs must be no further than two miles (3.2 kilometers) apart, neither may have previously been selected for grouping, and both ELs must be in good standing with the Ministry.

To avoid potential termination of an EL the Ministry requires your intent to group prior to the expiry date.

- B. We are interested in acquiring an EL from another company. The EL has banked area factor earnings due to the EL being grouped with another EL which has now gone to lease. Will the area factor earnings be transferred along with the EL?**

No. The two ELs must be commonly held throughout the term of each EL in order to earn transferred area factors.

C. We meet the criteria for grouping, but the ELs have differing expiry dates. How will this impact lease selection?

Because grouping is for lease selection purposes only, it does not alter the original expiry date for either EL. You will have 60 days to make your lease selection on the first EL that expires, and any remaining credit will be banked until the second EL expires. You will then be granted 60 days to make your lease selection on the remaining EL.

To avoid potential termination of an EL the Ministry requires your intent to group prior to the expiry date of the earlier to expiry EL.

D. We have two exploration licenses that meet the criteria for grouping. We have a valid well licence on one of the ELs. Does that grant an additional 90 days to both ELs?

No. The 90 day extension will only be granted to the EL which has a valid well licence. Grouping will still be permitted, but the lease selection for the EL without a valid well licence must be made within 60 days of the first EL's expiry date. Any remaining credit will be banked for the remaining EL.

E. We have two exploration licenses that are nearing their expiry date. They have been approved for grouping, but we are unable to gain access to drill our prospective location on one of the ELs due to environmental restrictions. Is there any way we can extend the other EL?

You must submit to the Ministry documentation that supports your claim and illustrates that you have done your due diligence in attempting to gain access to the prospective location. Upon review of the documentation the Ministry may grant an extension equivalent to the length of the delay (must be greater than 60 days) to both ELs due to environmental reasons which are beyond the control of the Ministry and the EL holder. *Ref: 36.4(2) of the Regulations.*

10. Our EL has expired and we are now in the 60 day lease selection period. Are we permitted to drill additional wells?

While you are permitted to continue producing from any successful wells in the 60 day selection window, you will not be permitted to drill a new well since the EL has officially expired and a lease has not yet been issued.

11. We have drilled a well on our EL. Are we permitted to make lease selections prior to the expiry of our EL?

Yes. While you may opt to make your lease selection prior to the expiry of your EL, doing so will terminate your EL and you will be required to pay rentals on the lands you have now converted to lease. *Ref: 36.8 of the Regulations.*

12. There is an abandoned well on our EL and we are considering re-entering this location. Would we earn credit towards lease selection from this well?

In order to earn area factor credits towards lease selection on a re-entry well you must drill the well to a deeper depth. If you drill the well deeper you will earn the entire measured depth of the well.

13. There seems to be some confusion in our office between expiry date and termination date. Would you please explain the difference?

While the term of an EL may have expired, the EL is not necessarily terminated. If there are no qualifying wells drilled or grouping requests, the EL will both expire and terminate at the same time. However, if the EL enters the 60 day lease selection period, the EL expires but will not terminate until the lease selection process is complete. This provides assurance to the EL owner that any wells producing on the lands remain subject to a disposition at all times.

Lease selection example – Calculation of Area Factors

As per Section 36.5 of *The Petroleum and Natural Gas Regulations, 1969* the maximum area that may be covered by a lease is equal to the **sum of area factors** for all wells drilled within the area covered by the exploration licence (EL).

The area factor for a **well** is calculated using the formula: $A = TD \times F$ where

A is the area factor for the well in sections **rounded to the nearest quarter**.

TD is the **total measured depth**, as expressed in metres, for the well

F is **0.004** sections if the well's total measured depth is 1,800 metres or less, and **0.006** sections if the well's total measured depth is more than 1,800 metres.

NOTE: Re-entry wells do not qualify for lease earning unless drilled deeper than the original well.

If two ELs are within 3.2 kilometres (2 miles) of each other and under common ownership, the area factors for wells drilled may be **grouped**.

The following sample calculation incorporates wells with total measured depths less than 1,800 metres, greater than, 1,800 metres, and a grouped well:

1. Exploration Licence EL 789 includes 36 sections of Crown mineral rights.
2. Three wells were drilled during the two-year term of the EL.
3. One well was drilled in an adjacent exploration licence, EL 783 (12 sections), and will be grouped.
4. Area factor for each well calculated using formula $A = TD \times F$ (the decimal is rounded to the nearest quarter section - .00 to .12 earns **0** sections; .13 to .37 earns **.25** sections; .38 to .62 earns **.50** sections; .63 to .87 earns **.75** sections; and .88 to .99 earns **1.0** section .
5. The rounded area factors are then summed to determine total sections earned.

Well Locations	Total Measured Depth (TD) metres	Factor (F)	Decimal (TD x F)	Area (A) rounded to nearest quarter section	Drilled on:
01/11-12-13-14W3	1,775.45	0.004	7.10	7.00	EL 789
01/12-12-13-14W3	1,772.36	0.004	7.09	7.00	EL 789
01/13-12-13-14W3	1,801.03	0.006	10.81	10.75	EL 789
01/04-08-14-14W3	1,822.23	0.006	10.93	11.00	EL 783

TOTAL SECTIONS EARNED = 35.75
TOTAL SECTIONS IN GROUPED EXPLORATION LICENCES = 48.00
SECTIONS RETURNING TO THE CROWN = 12.25