

Shallow Rights Reversion and Consolidation

**PNG Tenure
March 17, 2011**

Presentation Outline

- Shallow Rights Reversion (SRR)
 - Review
 - Serving of Notices
- Consolidations
 - Overview



Freedom To Create. Spirit To Achieve.

Shallow Rights Reversion

Government
of Alberta ■

Shallow Rights Reversion

- Shallow Rights Reversion (SRR) became effective January 1, 2009, for new agreements
- The Mines and Minerals Act has been amended to include SRR under Section 82
- Agreements that existed prior to January 1, 2009, will be impacted when a SRR notice has been served

Shallow Rights Reversion

Categories of agreements subject to shallow rights reversion

1. PNG agreements issued after January 1, 2009
2. Existing agreements that have already been indefinitely continued
3. Existing agreements that were issued prior to January 1, 2009, and have not yet expired

Refer to Information Letter 2008-30

Shallow Rights Reversion Notices

- Shallow rights reversion notices are being served on agreements continuing indefinitely under Section 15 of the Petroleum and Natural Gas Tenure Regulation
- The serving of shallow rights reversion notices will begin in April 2011
- PNG Agreements with the following general term dates will be served notices first:
 - In 2011 – 500 agreements with the term dates of 1953 to 1958
 - In 2012 – 1000 agreements with the term dates of 1958 to 1962
- The notice will expire 3 years from the date it was issued

Shallow Rights Reversion Notices

- Notices will generally not be served on agreements in the following areas:
 - Areas with no surface access
 - Areas reserved or withdrawn from disposition
 - Parks and protected areas
 - Military bases
 - Various special condition areas as determined by the department
- PNG Licences are not subject to SRR in their initial term
- PNG agreements subject to a unit agreements will be reviewed at a later date

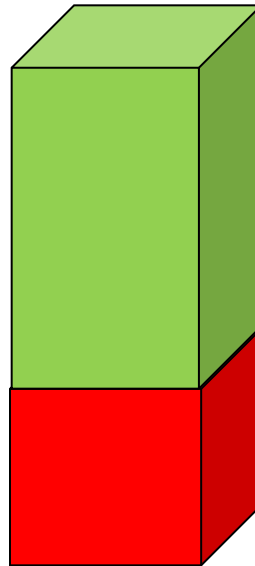
Shallow Rights Reversion Notices

- PNG agreements will be reviewed for the shallowest and deepest productive zones based on public records
- The notice will indicate the shallowest non-productive rights as well as the deepest non-productive rights if found in the agreement unless the entire agreement is deemed non-productive
- In some cases, the notice will be zone-specific
- In the case where an agreement has a single zone and is productive, you may receive notification that the evidence is still considered adequate to satisfy the continuation requirements

Shallow Rights Reversion Notices

- Deeper rights severance only
 - Continuation is down to the base of the deepest productive zone

deepest productive zone



Legend



Rights continued

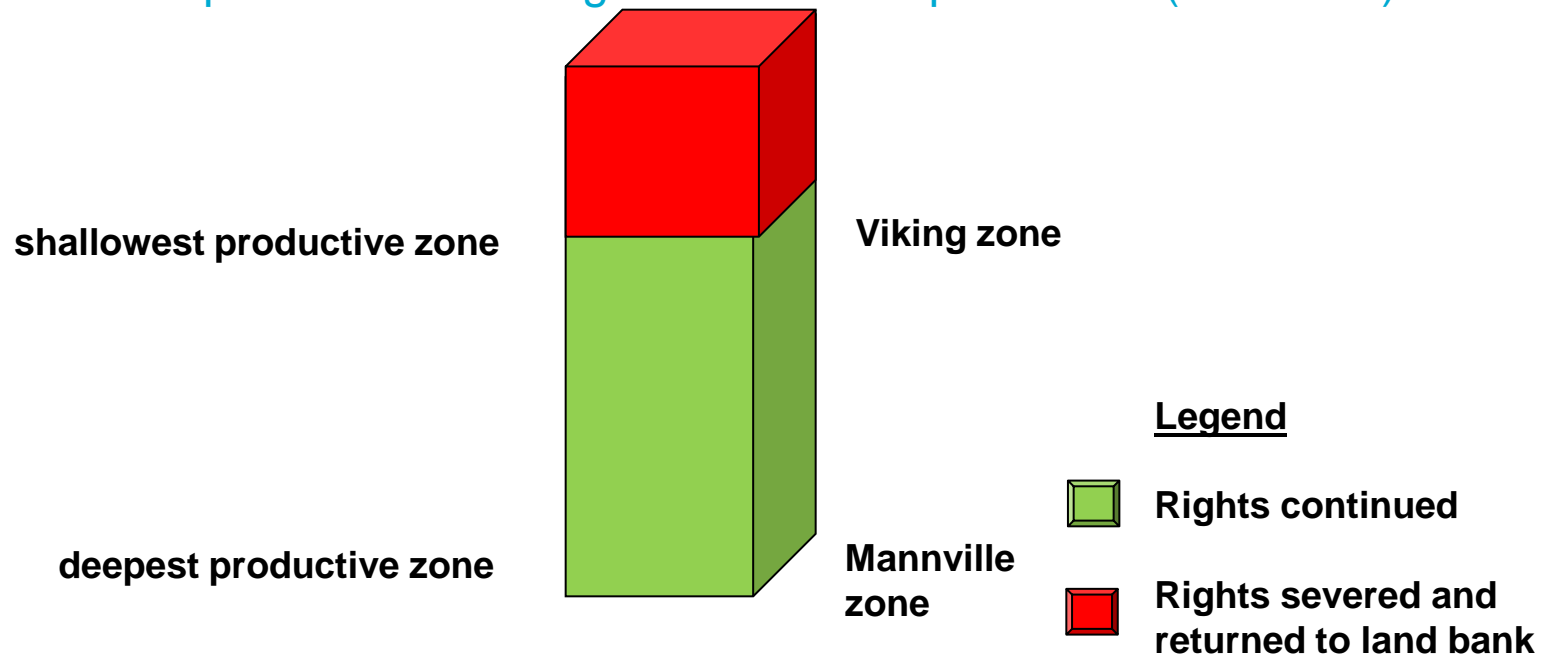


Rights severed and
returned to land bank

Shallow Rights Reversion Notices

No change to Deeper Rights and a Shallow Zone is Discovered

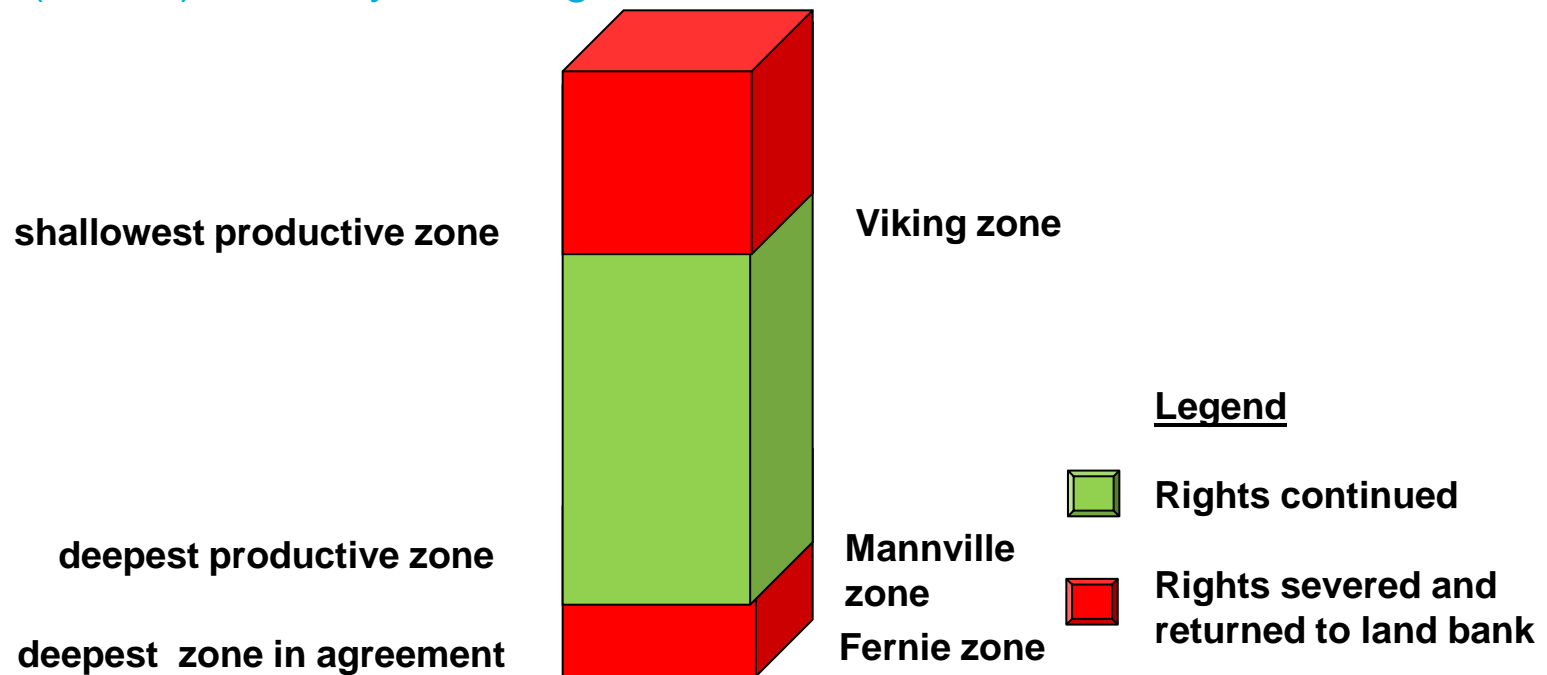
- This agreement has been determined to be non-productive from surface to the top of the shallowest productive zone (Viking)
- The deepest zone in the agreement is still productive (Mannville)



Shallow Rights Reversion Notices

Shallow and deep rights severance

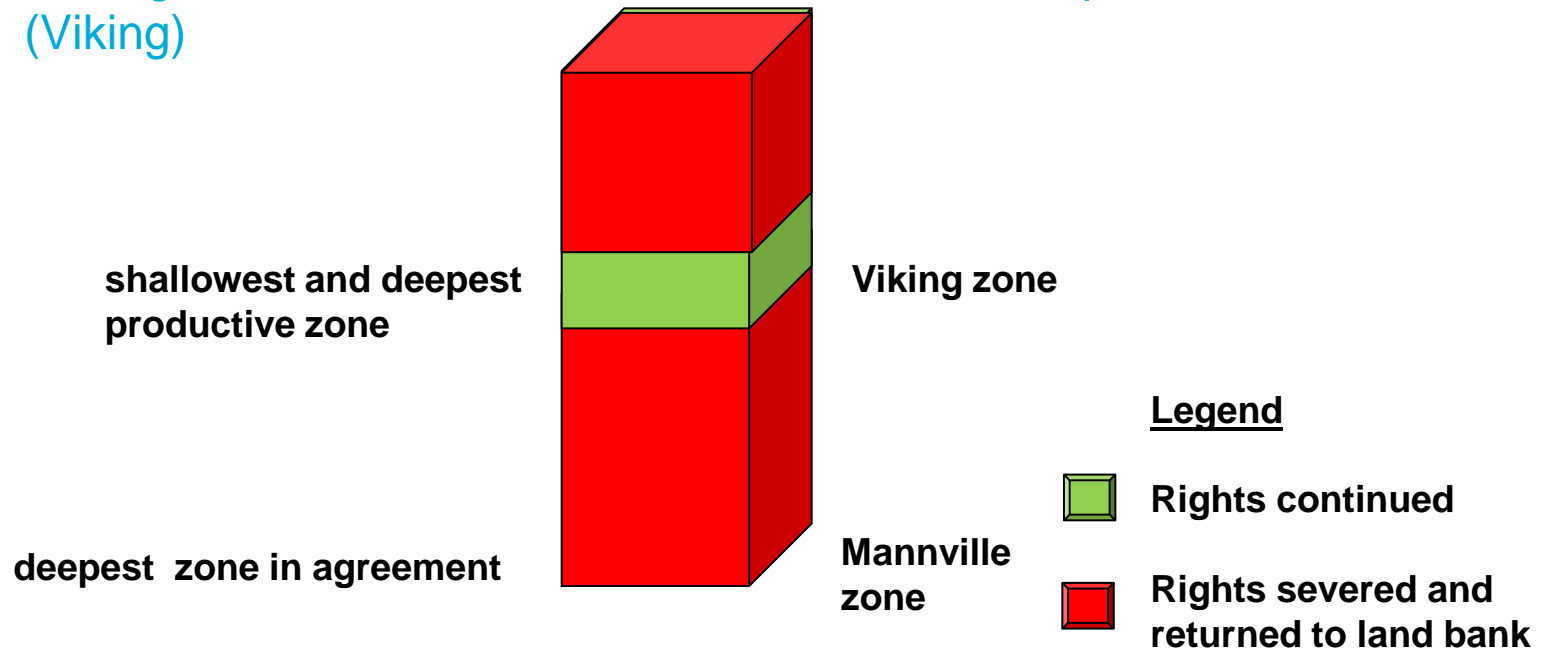
- This agreement has been determined to be non-productive
 - From surface to the top of the shallowest productive zone (Viking)
 - From the base of a zone shallower (Mannville) than the deepest zone (Ferne) currently in the agreement



Shallow Rights Reversion Notices

Shallow and deep rights severance (zone specific)

- The rights from surface to the top of the zone and the rights below the base of that zone are non-productive (Viking)
- The agreement will continue as to the PNG in the productive zone (Viking)

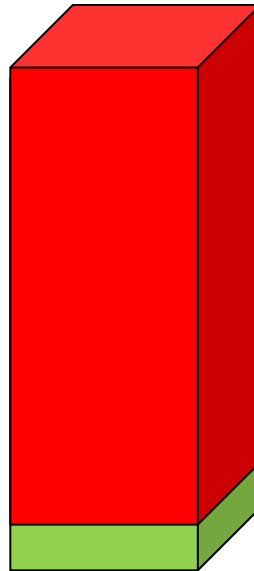


Shallow Rights Reversion Notices

Deeper rights still productive and no shallow zone (zone specific)

- All rights in the agreement above the top of the deepest productive zone are non-productive (Mannville)
- The agreement will continue as to the PNG in the productive zone (Mannville)

shallowest and deepest
productive zone
deepest zone in agreement



Mannville
zone

Legend



Rights continued



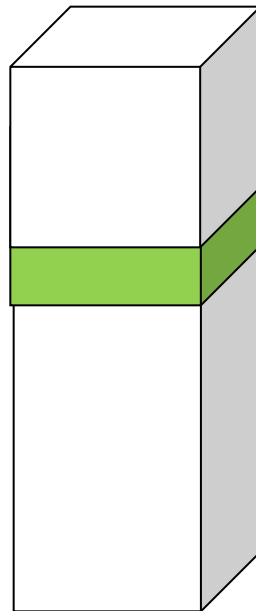
Rights severed and
returned to land bank

Shallow Rights Reversion Notices

single substance and zone specific

- This agreement has natural gas in a single zone and is productive
- You will receive notification of the review and no action is required

single productive substance
and single zone



Viking zone

Legend



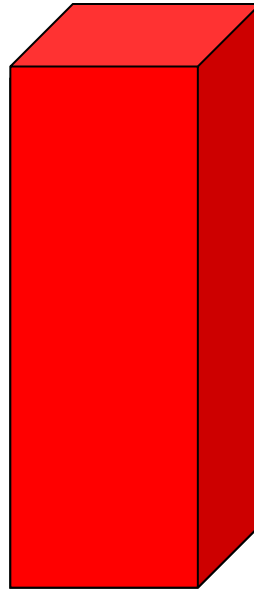
Rights continued



Rights severed and
returned to land bank

Shallow Rights Reversion Notices

- No productive zones in the agreement
- A notice is served on all PNG rights in the agreement.
- If no zone is proven productive at the expiry of the notice, the entire agreement is cancelled



Legend



Rights continued

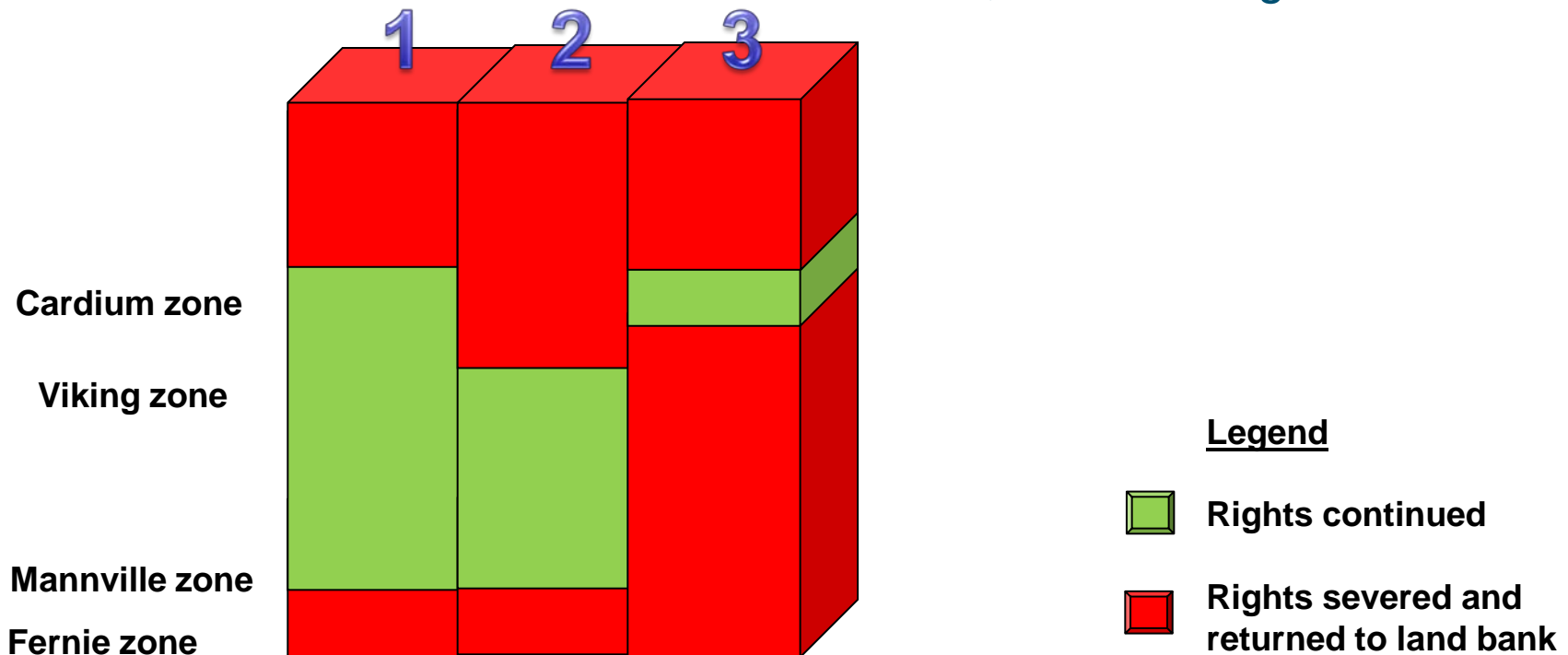


Rights severed and
returned to land bank

Shallow Rights Reversion Notices

Multiple scenarios in one agreement

- Sections 1, 2 and 3 of this agreement have all PNG from surface to base Fernie zone. After our SRR review, the following will occur



Shallow Rights Reversion Notices

Multiple scenarios in one agreement

- This is what your Amended Appendix will look like

TRACT ONE

M-R-TWP: 1

PETROLEUM AND NATURAL GAS FROM THE TOP OF THE CARDIUM ZONE
TO THE BASE OF THE MANNVILLE GRP

TRACT TWO

M-R-TWP: 2

PETROLEUM AND NATURAL GAS FROM THE TOP OF THE VIKING ZONE
TO THE BASE OF THE MANNVILLE ZONE

TRACT THREE

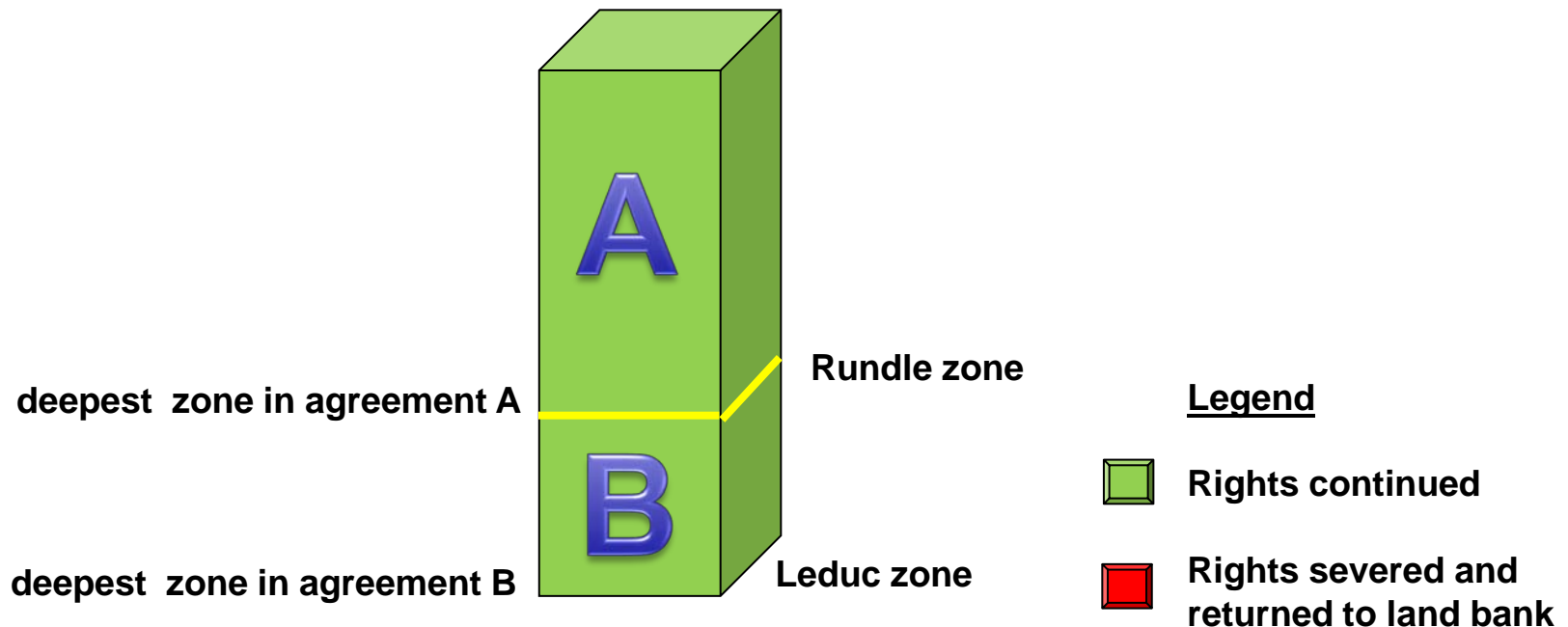
M-R-TWP: 3

PETROLEUM AND NATURAL GAS IN THE CARDIUM ZONE

Shallow Rights Reversion Notices

Stacked agreements

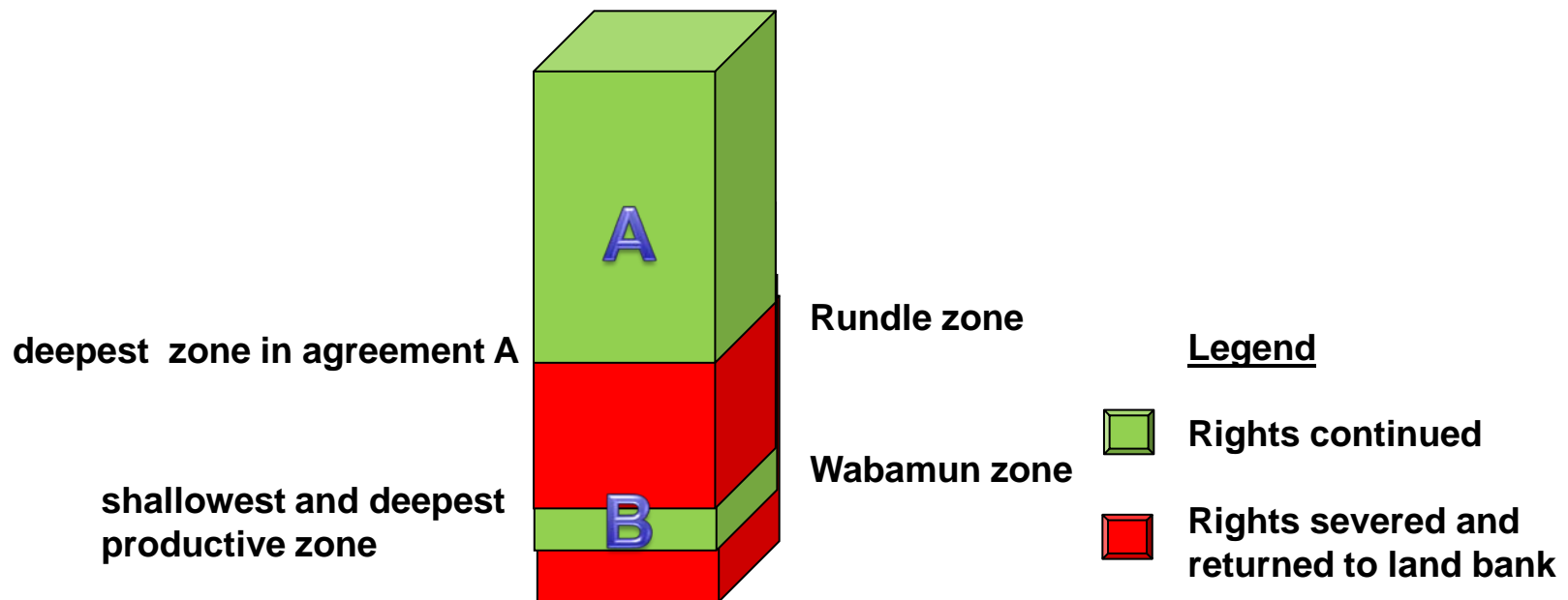
- Agreement A has all PNG from surface to base Rundle zone
- Agreement B has all PNG below base Rundle zone to base Leduc zone



Shallow Rights Reversion Notices

Stacked agreements after review - severance

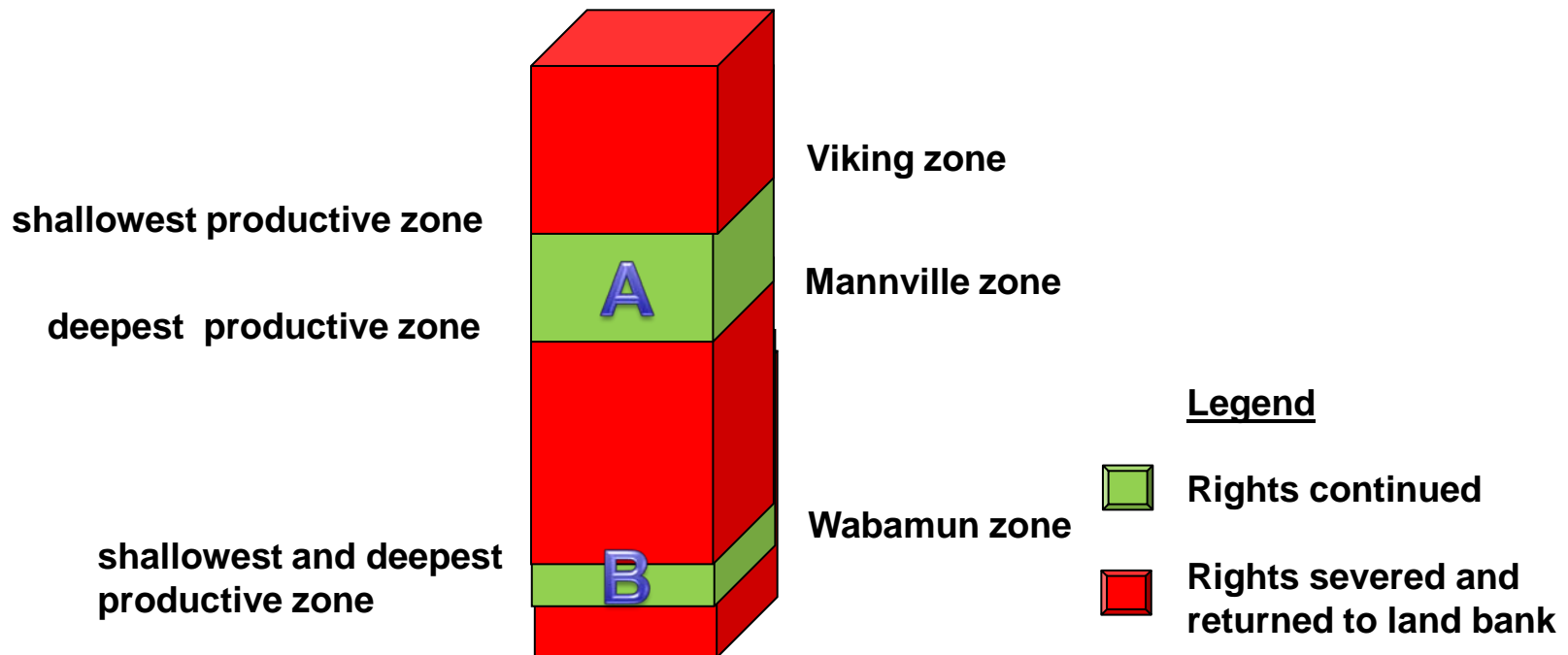
- Only the deeper agreement is served a SRR notice
- Agreement A has all PNG from surface to base Rundle zone
- Agreement B will have PNG as to the Wabamun zone



Shallow Rights Reversion Notices

Stacked agreements after review - severance

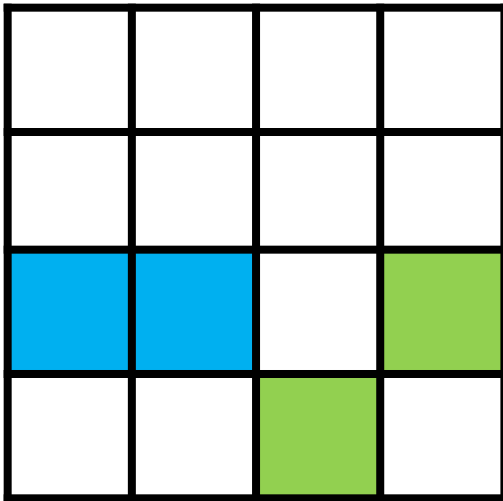
- Shallow and deep agreements are served a SRR notice
- Agreement A will have all PNG from the top of Viking zone to base Mannville
- Agreement B will have PNG as to the Wabamun zone



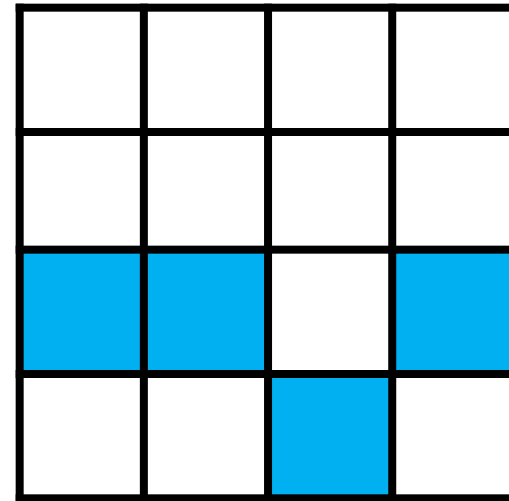
Consolidation

Consolidation

- In the past, only areal agreements could be consolidated if the agreements met all the required criteria.



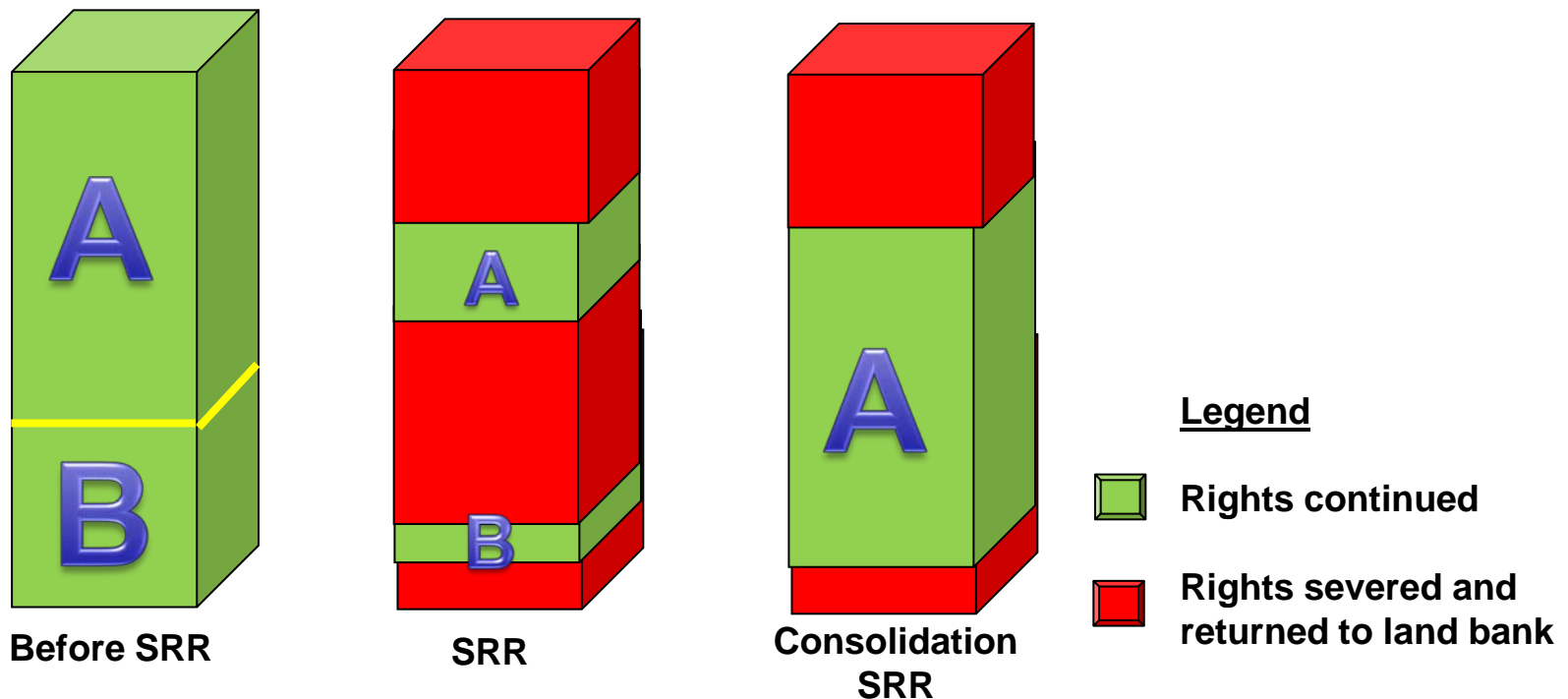
Before Consolidation



After Consolidation

Consolidation

- A lessee may choose to consolidate stacked agreements prior to the department's SRR review in order to retain more rights



Consolidation

- Information Letter 2010-10 criteria for consolidation of both areal and stacked agreements
 - Be in the same term
 - Be for the same substance
 - Have identical surface access restrictions
 - Not be contained within a unit agreement
 - Have the same designated representative
 - Have lessees with equal interests in all agreements
- Stacked agreements must be contiguous (no break in rights)
- Areal agreements must be laterally or diagonally contiguous except where freehold and entirely disposed Crown rights intervene by no more than one section

Consolidation

Term Date Rules

- If all PNG agreements being consolidated have the **same term date** – the resulting agreement will be assigned the lowest agreement number of the group and the term date of that agreement. The other agreements will be cancelled.
- If the PNG agreements being consolidated have **different term dates** – the resulting PNG agreement will be assigned the agreement number with the earliest expiry and the term date of that agreement. The other agreements will be cancelled.

Consolidation

How to Apply

- Agreements in their primary or intermediate term
 - A letter requesting that your agreements be consolidated must be received in the department prior the expiry of each agreement included in the request.
- Agreements that are subject to shallow rights reversion notices
 - A letter requesting that your agreements be consolidated must be received in the department prior to the expiry of the notice of each agreement included in the request.
- The department will review the agreements in your consolidation request to ensure they meet all the criteria. If they do, the agreements will be consolidated. If they don't, we will notify you and tell you what criteria was not met.

Questions?