

December 17, 2010

OIL SANDS TENURE INFORMATION BULLETIN 2010-12

Subject: Minimum Level of Evaluation Work Performed on Oil Sands Agreements prior to or during the 2010/2011 Drilling Season

The *Oil Sands Tenure Regulation, 2010* (the "Regulation") came into effect on December 1, 2010 and, among other things, clarifies the minimum level of evaluation requirements for oil sands agreements. Information Bulletin 2010-11 provides further instructions regarding the requirements related to drilling, logging and coring of oil sands zones to meet the minimum level of evaluation ("MLE") and the information to be included in applications for a lease selection (i.e., permit to lease conversion) or applications for a primary lease to be continued (i.e., lease continuation).

The goal of the regulatory MLE provisions remains that oil sands agreement holders evaluate each section in their agreements by drilling and logging through all leased zones in their entirety. Lessees are also expected to obtain cores through all zones that potentially contain crude bitumen in at least 25% of the sections containing those wells. (Alternatively, agreement holders may drill 60% of the sections, coring 25% of the wells in those sections, and evaluate the balance of the lands by seismic or electromagnetic methods).

Alberta Energy appreciates that there were inconsistent interpretations of the MLE requirements in the past, and that some oil sands agreement holders have budgeted and planned their MLE work for the 2010/2011 drilling season for specific oil sands zones and therefore may not have met, or will not meet, the drilling, logging and coring requirements under the Regulation, or its predecessor, the *Oil Sands Tenure Regulation*. Our understanding is that this could effect on the order of 100 wells.

Rather than jeopardize a company's MLE work done to date, Alberta Energy will accept work done by an agreement holder for MLE purposes during the 2010/2011 drilling season (ending April 30, 2011) if it meets the following standard:

- As per subsection 3(2)(a) of the Regulation, at least one evaluation well must be drilled in each section (or part of a section) of the agreement. But, despite subsection 3(1), the evaluation wells will qualify for MLE if the wells are drilled and logged through at least one oil sands zone.
- Despite subsection 3(2)(c) of the Regulation, to qualify for MLE a minimum of 25% of the evaluation wells referred to in the previous bullet must be cored in at least one zone potentially containing crude bitumen within the agreement.

- As per subsection 3(3)(a) of the Regulation, at least one evaluation well must be drilled in not less than 60% of the sections (or parts of sections) of the agreement. But, despite subsection 3(1), the evaluation wells will qualify for MLE if the wells are drilled and logged through at least one oil sands zone within the agreement.
- Despite subsection 3(3)(c) of the Regulation, to qualify for MLE a minimum of 25% of the evaluation wells referred to in the previous bullet must be cored in at least one zone potentially containing crude bitumen within the agreement.

No other requirements for MLE in the Regulation will change. This temporary standard only applies for work done by the current agreement holder and will not be applied to “historical” work not conducted by the current agreement holder. The work done during the 2010/2011 drilling season will be eligible as described regardless of the expiry date of the agreement (whether in 2011, 2012 or later), but all agreement holders will still be required to make a lease selection or lease continuation application under the Regulation prior to expiry.

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