Emerging Resources Program Guidelines

Principles and Procedures

Version 1.0

SEPTEMBER 2020

Alberta

Classification: Public

Document Version Register

Version	Version Date	Description of Major Changes
1.0	September 1, 2020	First published version.

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1. Introduction

The Emerging Resources Program (ERP) is designed to encourage industry to open up new oil and gas resources in higher-risk and higher-cost areas that have large resource potential. This will promote innovation and provide industry with experience to accelerate the development of these resources, and generate incremental royalty revenue for Albertans over the long-term.

These guidelines are issued to explain the administration of the Emerging Resources Program, under the Emerging Resources Royalty Regulation (AR209/2016) (the Regulation) and to assist applicants in completing the application process. This document reflects policies and procedures effective January 1, 2017, unless otherwise noted.

In the event of any conflict among the Regulation, the *Mines and Minerals Act* (the Act), the *Natural Gas Royalty Regulation, 2017*, the *Petroleum Royalty Regulation, 2017*, the *Oil Sands Royalty Regulation, 2009*, and these guidelines, the Act and the Regulation will prevail. Inquiries can be directed to:

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2. Program Overview

The ERP came into effect January 1, 2017 under the Modernized Royalty Framework (MRF). The program will accept applications until December 31, 2024. The ERP is application based; applicants will select an emerging resource (target formation and commodity product) and define a project in their program application. In order to be accepted, applicants must demonstrate their project meets all eligibility criteria (see section 3.0, Program Eligibility). All projects must be in the public interest as determined by the Minister of Energy in order to be accepted into the program.

Under the program, eligible wells will be enrolled and assigned an ERP specific cost allowance (C^*_{ERP}) that will replace a well's normal Drilling and Completion Cost Allowance (C^*). The C^*_{ERP} will vary from well to well, with earlier wells in an approved project receiving a larger C^*_{ERP} due to the larger multiplier advantage, than subsequently drilled wells to acknowledge the project's early development.

A C^*_{ERP} will be calculated for each eligible well in a project and when enrolled, will be pooled to create a project cost allowance pool for use by all eligible wells in a given project. Eligible wells will pay a flat royalty of five per cent until their combined revenue equals the total project cost allowance.

Only a limited number of producing oil and gas wells in an approved project can be enrolled. A maximum of 15 per cent of the total projected well inventory within the project area will be eligible to receive benefits.

The project participants may have up to 10 years to drill wells eligible under the program. The length of the project's benefit period will be determined at the time of application, based on an assessment of existing development within the same formation in the vicinity of the project. This acknowledges the project's proximity to other development activity.

An additional five years will be provided for enrolled eligible wells to deplete the project cost allowance (C^*_{ERP} pool) after the project's benefit period ends.

3. Program Eligibility

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 3 and 12

3.1 Project Applications

For the purpose of the program, a project consists of a defined geographical area, a target formation, a set of wells and associated infrastructure.

In order to be eligible for evaluation under this program, a project must be in the public interest, as determined by the Minister of Energy, and meet the following criteria:

- The project targets emerging resources with large resource potential and can generate substantial long-term returns for Albertans.
- The project is high risk and high cost.
- The project is at an early stage of development (no more than 10 per cent of total well inventory drilled within the Project Evaluation Boundary and no more than 15 per cent of total well inventory drilled in the Project Area).
- The project is currently non-commercial and unable to achieve commerciality without the program.
- The net royalty benefit to the Crown (in real terms) with the program from the Project Area is expected to be higher than 150 per cent of that without the program over the lifetime of the project.
- The project consists of a minimum of 18 sections of land and a maximum 144 sections of land.

If the project meets all the eligibility criteria, the Minister of Energy will determine whether a proposed project is in the public interest after performing an economic and technical review of the project application.

- The technical review of the application will look at the project area, project evaluation area, project activity level, status of mineral tenure, and resource potential.
- The economic review of the application will look at the production, costs, and timing. The review includes assessing net present value, profitability ratios, internal rate of return, and the payout period.

For a full explanation of required documentation, please refer to https://www.alberta.ca/emerging-resources-program.aspx

3.2 Well Eligibility

Individual wells within an approved project are eligible for benefits if it:

- is spud within the project area during the project benefit period
- commences production during the project benefit period from the target formation of the approved project
- is classified as oil, gas, or non-project oil sands wells
- produces exclusively from the target formation
- meets the requirements set out in the project approval.

Awell is considered ineligible if it:

- is spud after December 31, 2034
- commences production after December 31, 2034
- is part of an oil sands project
- produces from a formation other than the target formation
- produces from two or more different formations (whether commingled or not-commingled)
- has been at any time part of an approved scheme under the Enhanced Hydrocarbon Recovery Royalty Regulation or the Enhanced Oil Recovery Royalty Regulation.

A well which is initially eligible may subsequently become ineligible if:

- a re-entry results in production from a different formation than the target formation of the approved project, or
- it is on land that is removed from the project due to project area amendments.

3.2.1 Re-entry Wells

Eligible wells that are subsequently re-entered (including lengthening, deepening and/or re-fracturing) may be subject to changes related to continued eligibility for program benefits depending on whether the re-entry activity leads to production from the same target formation or a different formation.

1) If the re-entry well continues to only produce from the target formation, the well will continue to be an eligible well in the project. The incremental C* generated from the re-entry activity will be determined in accordance with the re-entry rules under the MRF (see Alberta Modernized Royalty Framework Guidelines). The incremental C* will be added to the well's C^*_{ERP} and contribute to the project's C^*_{ERP} pool which will be shared by all eligible wells. All production from the well will contribute to the drawdown of the project's C^*_{ERP} pool. The rules around the C^*_{ERP} pool will apply, including the expiry date.

2) Enrolled C^*_{ERP} wells that have re-entry work conducted to produce from a different formation other than the ERP target formation will be removed from the C^*_{ERP} project. The remaining accumulated C^*_{ERP} benefit will remain with the project and the well will not contribute to the project drawdown. The ejected well will only have royalty benefit for the incremental C* earned for the re-entry activity. Once the re-entry incremental C* is drawn down then the well will enter Post C* royalty rates. Incremental C* is determined in accordance with the re-entry rules under MRF. (See the Natural Gas Royalty Regulation, 2017, and the Petroleum Royalty Regulation, 2017.)

In both cases, no royalty recalculation will be conducted for the well's production prior to the re-entry activity.

The well will still be counted towards the first 15 per cent of project area activity for the maximum number of eligible wells of the project.

3.2.2 Wells Removed from Projects

When land with enrolled eligible wells that contribute to the C^*_{ERP} pool are removed from a project due to project area amendments, the wells will become ineligible wells and no longer have access to the project's C^*_{ERP} pool, as of the project amendment date. Instead, these wells will pay post C* royalty rates under the MRF and be subject to the same rules under the MRF. In addition, they will not be able to receive a new C^*_{ERP} in a different ERP project or have access to another project's C^*_{ERP} pool. No royalty recalculation will be conducted for production from these wells prior to the project area amendment.

However, the C^*_{ERP} generated by these wells will remain in the project's C^*_{ERP} pool and be reduced by production from the project's remaining enrolled eligible wells. These detached wells will still be counted towards the 15 per cent of project area activity for the maximum number of eligible wells for the amended project.

See more details for project amendments in Section 7.3.

4. Project Information

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 3 and 4

4.1 Project Area

The project area is where the development of a proposed project will take place:

- The project area must have a minimum area of 18 sections and a maximum of 144 sections.
- The project area only includes lands where the leaseholders have secured the Crown mineral rights (for example, freehold land and undisposed Crown lands are excluded).
- The project area should include all of an applicant's land holdings/interests (including those through third party, project participants. or joint venture partners) within the project evaluation area unless there is a strong reason to exclude these lands. The application must identify these reasons.

4.2 Project Evaluation Area

The project evaluation area encompasses the project area, plus a buffer zone which is a minimum of two sections. The project evaluation area is used to evaluate drilling activity within the region, which will be referred to as project activity.

- Project evaluation boundary is established for each project based on set parameters and may vary with different project area characteristics, which will define the project evaluation area.
- For a project area where sections are contiguous (i.e. connected on a side or corner), the project evaluation boundary is set to two sections from the project area.
- If the project area is non-contiguous, the project evaluation boundary is set at the greater of two sections or half of the greatest distance between two portions of the project area. If this number results in a fraction, it will be rounded up to the nearest half section. See Appendix 1 for detailed examples of how to determine the project evaluation boundary.

4.3 Project Activity Level

The project activity level is a percentage calculated by dividing the total number of existing wells that are in, or have passed through, the target formation (referred to as evaluation wells) by the total potential wells within the project evaluation area.

Activity Level = Evaluation Wells / Total Potential Wells

Evaluation Well: Any well within the project evaluation area based on bottom hole location, penetrating the target formation including dry holes, confidential wells of a project participant, abandoned wells, commingled wells, and producing wells.

Total Potential Wells: This will be calculated as four wells per section. Applicants may submit different spacing for this calculation and this may be accepted should a compelling rationale be provided.

The result will be utilized to assess program eligibility and benefits:

- **Program Eligibility:** Projects must have a project activity level of less than 10 per cent in the project evaluation area at the time of application in order to be eligible for the program.

- **Program Benefits:** The activity level in the project evaluation area (Project Activity Level) will correspond to different benefits in terms of the time available to drill eligible wells and level of cost allowance. See the next section 'Program Benefits' for a detailed benefit schedule.

5. Project Benefits

5.1 Benefit Schedule, C* Multiplier and C^*_{ERP}

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 5, 6, 8, 9 and 10

If a project is approved, Alberta Energy will provide a benefit period during which eligible wells may be drilled and receive benefits, and a maximum number of wells that will be eligible for a program specific cost allowance (C^*_{ERP}). This is based on the project activity level determined during the department's evaluation (see section 4.3 Project Activity Level).

The program specific cost allowance C^*_{ERP} is calculated by multiplying the C*[(1)] for the well by the C* Multiplier applicable to the well. The C* Multiplier corresponds to the project activity level and the years elapsed since the project benefit period commencement date, at the time the well was spud. The C* Multiplier may be 1.5, 1.75 or 2.0 (see 5.3 Project Benefit Period).

C^*_{ERP} = C* x C* Multiplier

[1] See the *Alberta Modernized Royalty Framework Guidelines* for C* determinations.

5.2 Maximum Number of Eligible Wells

The maximum number of eligible wells for a project is the number of wells that may be enrolled for benefits. Wells must be drilled and commence production within the project area during the project benefit period in order to be enrolled into the C^*_{ERP} pool.

The maximum number of eligible wells is calculated by multiplying the total potential wells in the project area by 0.15, rounding the result up to the next whole number, and subtracting any excluded wells.

Rounding example 1 - If the total number of eligible wells are 14.1, round to 15.

Rounding example 2 - If the total number of eligible wells are 14.85, round to 15.

Excluded wells are wells in a project that:

- were spud before the project benefit period commencement date
- are producing or had produced a hydrocarbon from the target formation at the time an application is made
- are producing a hydrocarbon from more than one formation, including the target formation also known as commingled wells
- have been drilled through the target formation prior to the project commencement date for the purpose of either exploration or development.

Excluded well example 1 – The maximum number of eligible wells to enroll in the project C^*_{ERP} pool is 15. If there is a well in the project area spudded and producing hydrocarbons one year before the project within the projects target formation, the new total maximum number of eligible wells that can be enrolled into the C^*_{ERP} pool will be 15 – 1 = 14.

Excluded well example 2 - The maximum number of eligible wells to enroll in the project C*ERP pool is 15. If there are six exploratory wells that were drilled and cased within the project area, and have not produced hydrocarbons from the target formation. The wells were spud 20 years before the project commencement date. The new total maximum number of eligible wells that can be enrolled into the C*ERP pool will be 15 – 6 = 9.

5.3 Project Benefit Period

The project benefit period is the total number of years during which eligible wells may be drilled and commence production.

- An approved project will have up to 10 years to drill eligible wells under the program.
- The length of the project's benefit period will be determined at the time of application based on the project activity level assessed during the department's evaluation (see section 4.3: Project Activity Level*)*. Projects in proximity to very little existing development may be eligible to receive greater program benefits than those in more developed areas.
- Wells drilled and/or commencing production outside of the project benefit period are not eligible for benefits under the program.

The following schedule will be used to determine the project benefit period and each well's C* Multiplier:

Project Activity Level	Project Benefit Period (Years)	Elapsed Time (Years)	C* Multiplier
less than 5%	10	0-4	2.00
		5-8	1.75
		9-10	1.50
greater or equal to 5% and less than 6%	9	0-3	2.00
		4-7	1.75
		8-9	1.50
greater or equal to 6% and less than 7%	8	0-2	2.00
		3-6	1.75
		7-8	1.50
greater or equal to 7% and less than 8%	7	0-1	2.00
		2-5	1.75
		6-7	1.50
Greater or equal to 8% and less than 9%	6	0-4	1.75
		5-6	1.50
Greater or equal to 9% and less or equal to 10%	5	0-3	1.75
		4-5	1.50
Greater than 10%	0	N/A	N/A

Project Benefit Period example 1 - A project with a benefit period of ten years and a benefit period commencement date of 2017/03/01. An eligible well spud on 2020/06/13 and commences production on 2020/07/05 will have a 2.00 multiplier.

Project Benefit Period example 2 - A project with a benefit period of seven years and a benefit period commencement date of 2018/05/01. An eligible well spud on 2021/09/03 and commences production on 2021/09/27 will have a 1.75 multiplier.

5.3.1 Project Benefit Period Commencement Date

The project benefit period commences on the first day of the third month following the month the project is approved, or the month requested by the applicant. This date may be between and including the month an application was received and the third month following the month in which the project was approved. This request must be received within three months of the date the project is approved. A request to select a month for commencement can be sent by email to Energy.MRFPrograms@gov.ab.ca.

Commencement date example - A project application was submitted on January 3, 2017. The department approved the application and sends approval notification to the applicant on August 29, 2017. The project benefit period commencement date is November 1, 2017. The applicant may request a date between January 1 and November 1, 2017.

5.4 C^*_{ERP} Pool

The C^*_{ERP} pool, for an approved project, is determined by aggregating the C^*_{ERP} for each eligible well until the maximum number of eligible wells is reached or the project benefit period ends.

$$C^*_{ERP} \text{ pool} = C^*_{ERP1} + C^*_{ERP2} + C^*_{ERP3} \ldots \text{etc.}$$

The C^*_{ERP} of all enrolled eligible wells is shared amongst all eligible wells within the pool. Enrolled eligible wells will pay a five per cent flat royalty rate until the aggregate cumulative revenue from the eligible wells equals the amount of the C^*_{ERP} pool. An additional five years will be provided for the enrolled eligible wells to deplete the project's C^*_{ERP} pool after the project's benefit period ends, or before the program expiry date, December 31, 2039.

Once a project's C^*_{ERP} pool is depleted, or the project reaches the end of five years following the expiry of the project benefit period, or after December 31, 2039, those wells in the project pay post C* royalty rates in accordance with the Petroleum Royalty Regulation, 2017 or the Natural Gas Royalty Regulation, 2017.

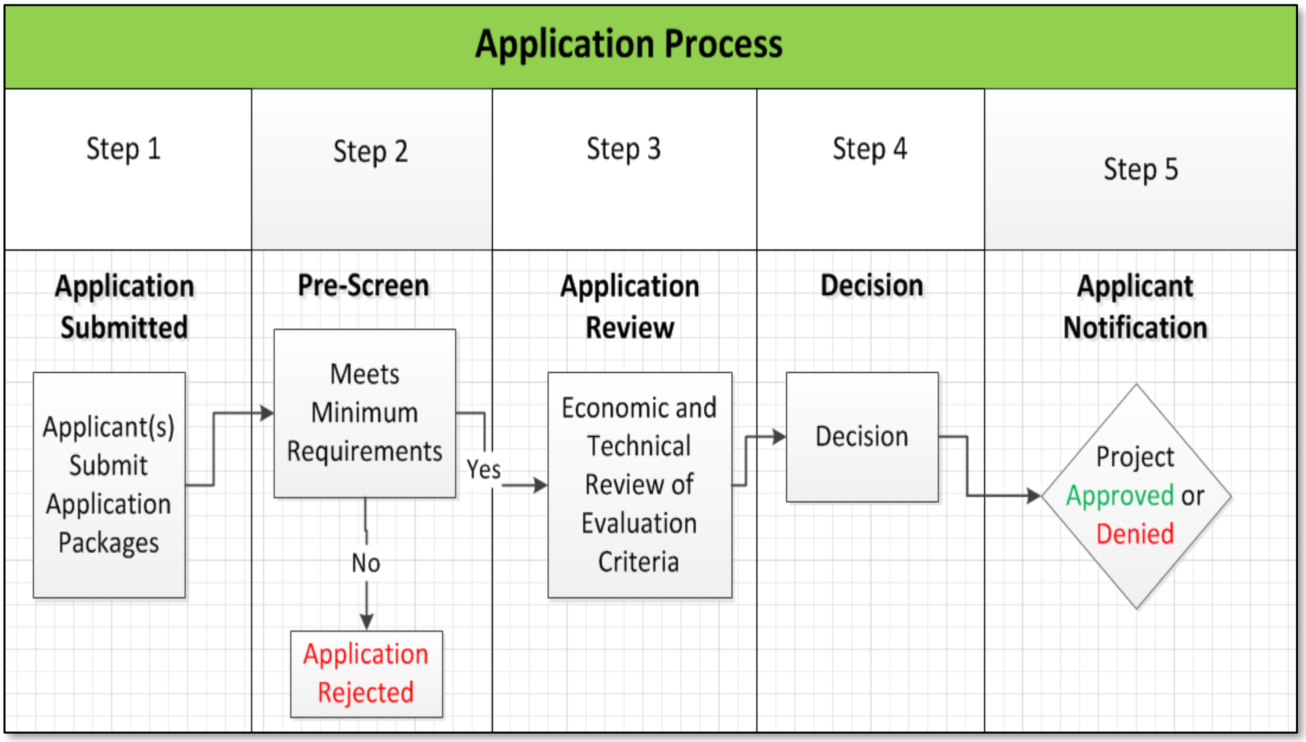
C^*_{ERP} will replenish as additional wells are drilled and become eligible within the project scope. This is done by either drilling new wells (as part of the 15 per cent eligible wells), or by re-entry with incremental drilling.

5.4.1 Allocation of C^*_{ERP} Pool

Under normal conditions, a project's C^*_{ERP} pool is shared by all eligible wells that have received a C^*_{ERP} under the program. However, for a particular production month when the aggregate revenue from all enrolled wells exceeds the remaining C^*_{ERP} pool, a weighted proration approach will be applied to distribute the remaining amount of the project's C^*_{ERP} pool to all eligible wells based on their weight of production in that month. A well's weighted production is calculated as the well's production divided by the total production of all eligible wells for that month, expressed in percentage.

6. Application Process

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 7



6.1 Submission

The application procedure and checklist can be found at https://www.alberta.ca/emerging-resources-program.aspx.

Alberta Energy will conduct a review of the submitted applications to ensure that all required information has been provided as identified in the checklist. Applications will not be considered received by Alberta Energy until all requirements have been met. Once an application is considered received, Alberta Energy will begin the economic and technical review. Correspondence will be sent to acknowledge receipt of the application and any requests for additional information.

Once the economic and technical review has been completed, a determination on the approval of the application will be made. A letter will be sent with either an approved or denied status. Approved projects will be given a project benefit commencement date, which may be amended by request (see section 5.3.1 of this document).

6.2 Information Required in the ERP Application

Applications must contain all of the following required information or an explanation as to why excluded data or information is not applicable.

6.2.1 Cover Letter

A cover letter signed by the President, Vice President, Chief Operating Officer, or equivalent, clearly indicating the program being applied to (e.g. ERP) and the names of any other project participants, if applicable.

6.2.2 Large Resource Potential

6.2.2.1 Emerging Resource

Size in the region and/or formation as a whole.

6.2.2.2 Project Area

Petroleum Resource Assessment Report – current as of the filing of this application, which includes a resource estimate for the project area. The report must be authenticated by a registered member of the Association of Professional Engineers and Geoscientists of Alberta (APEGA) and prepared in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) or Petroleum Resources Management System (PRMS).

6.2.3 Early Stage Development

- Clearly defined 'Project Evaluation Area' on an appropriately scaled map of Alberta in PDF format, which also identifies the project area lands and emerging resource target formation.
- Alberta Mineral Information – Agreement Detail Report land schedule that includes all of the Project Area lands and is current as of the date of application.
- If there are multiple parties in a single application, the primary applicant must provide a legal document (such as a JV Resolution) confirming all project participants.
- Confirmation that the applicant and any other project participant agrees to provide all

proprietary confidential well data within the project evaluation area.

- A well list, which includes the Unique Well Identifier (UWI), of all wells that have penetrated the related emerging resource target formation within the project evaluation area.

6.2.4 Commerciality

The commerciality analysis must demonstrate the project is unlikely to become commercial without the program, and is likely to achieve commerciality with the assistance of the program. The analysis should include the following information:

6.2.4.1 Cash flow analysis of overall project without program benefits

- Production projections for wells that will be drilled in the project area.
- Model inputs must be detailed, including production forecasts and profiles, production rates, drilling plan, infrastructure plan and timeline, as well as reserve assumptions.
- Detailed demonstration of methodology.
- Where required, analysis will utilize defined inputs (such as oil price forecasts) provided by Alberta Energy.

6.2.4.2 Cash flow analysis of overall project with program benefits

- Production projections for wells that will be drilled in the project area.
- Model inputs must be detailed, including production forecasts and profiles, production rates, drilling plan, infrastructure plan and timeline, as well as reserve assumptions.
- Detailed demonstration of methodology.
- Where required, analysis will utilize defined inputs (such as oil price forecasts) provided by Alberta Energy.

Also, provide an explanation for how and when the project will improve commerciality under MRF royalty rates. For example, this could be achieved through reduced costs, production gains, etc.

6.3 Spreadsheets

There are two spreadsheets that must also be completed – ‘Project Without Program’ and ‘Project With Program’. The spreadsheets can be found here:https://www.alberta.ca/assets/documents/ERPspreadsheets.xlsx.

6.3.1 Completing the Spreadsheets

- Fill out the ‘Project without Program’ tab – this should include your estimated level of development in the absence of the Emerging Resources Program.
- Fill out the ‘Project with Program’ tab – this should be your proposed development pattern with the Emerging Resources Program.
- Enter cost information into both tabs, including a description of the cost and the value.
- Add columns or rows as necessary.

7. Approved Projects

7.1 Approval process

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 7

Alberta Energy evaluates each application under the Regulation.

During the approval process, Alberta Energy will:

- contact the project operator to rectify any deficiencies in the application
- evaluate the application
- examine the technical risks associated with the project
- review projected costs in relation to expected recovery
- make a recommendation to the Minister
- notify the applicant of the Minister's decision.

In the approval, the Minister may establish terms and conditions relating to the project and may also amend the approval to add, change, or delete those terms and conditions.

Operators of approved projects will be advised of:

- the commencement month of the five per cent royalty rate
- the benefit term
- terms and conditions relating to the project.

7.2 Project Updates

7.2.1 Wells Added to project

The applicant is responsible to advise Alberta Energy of any eligible wells that need to be enrolled into C^*_{ERP} pool within the project. The applicant must advise Alberta Energy in writing – either by hardcopy or electronic format. If Alberta Energy is not advised, then those wells would be subject to royalty under the MRF without the C* multiplier being applied or the C^*_{ERP} from that well being added to the pool for the project. There would be no increase to the C^*_{ERP} pool. This could result in wells that are tied to the project prematurely depleting the C^*_{ERP} pool and paying post C* rates.

7.3 Project Amendments

7.3.1 Project Area Expansion

A new program application will be required if the applicant requests to revise the number of eligible wells, or to add new project lands from outside the project evaluation area of the original project. The new application will be subject to all the program eligibility criteria for approval.

The operator of a project will have to advise the department if new expansion lands are located within the project evaluation area of the original application. The program benefits (number of eligible wells and number of years) will remain the same and no new program application would be required. The total number of sections cannot exceed the maximum set out in the regulation.

When project expansion occurs within the project evaluation area, wells spud prior to the project commencement month and located within the expanded area will not be eligible for any C^*_{ERP} under the project nor have access to the project's C^*_{ERP} pool. The maximum number of eligible wells will not be recalculated for the project. Wells subsequently drilled after the commencement date on the expansion area, may be eligible for benefits subject to the normal eligibility criteria. Any new wells that are drilled in the new project area on the new lands will still have to meet all eligibility criteria. In addition, notification to Alberta Energy is required to add the eligible wells to the existing C^*_{ERP} pool.

7.3.2 Project Area Reduction

Program benefits will remain the same if the Project Area is reduced by no greater than 20 per cent; and no new program application is required. If the Project Area is reduced by more than 20 per cent, the department will terminate the project. Requests by the applicant to reduce the Project Area by more than 20 per cent will be denied.

Leases that were part of an approved project could become part of another project under this program, and will not form the basis for calculation of total project inventory for more than one project, if the two projects are targeting the same emerging formation.

When less than 20 per cent of original project area lands are removed from a project, and this land contains project wells eligible for and receiving benefits, those wells will be separated from the project's C^*_{ERP} pool. The well will pay regular post C* royalty rates and will not be eligible for a new C* or well level cost allowance unless incremental drilling occurs after separation. Removing lands containing wells will not trigger any recalculation of the total number of eligible wells. If lands that have wells enrolled into the C^*_{ERP} pool are removed from the project area, the operator of the project will have to notify Alberta Energy prior to the date of the removal.

7.4 Project Benefit Period Extension

Emerging Resource Royalty Regulation (Alberta Regulation 209/2016), Section 17

The Minister may extend the project benefit period for all approved projects, or a class of approved projects, if the Minister is of the opinion that an extension is justified based on a significant and prolonged reduction in market prices that is negatively impacting the production of hydrocarbons in Alberta.

8. End of Program Benefits

8.1 Program Exit

Normally, projects will stop receiving benefits either at: the end of their benefit period, or maximum number of eligible wells has been drilled and there is no C^*_{ERP} pool remaining – whichever is earlier.

If, after the benefit period, the project has any remaining pooled $C^*_{ERP,}$ the draw down period will be extended by five years. If the pooled C^*_{ERP} is not drawn down to zero after the five year extension, then the remaining pooled C^*_{ERP} will expire. If the pooled C^*_{ERP} is not drawn down to zero on or before December 31, 2039 (program expiry), then it will expire.

8.2 Termination of Approval

Emerging Royalty Regulation (Alberta Regulation 209/2016), Section 15

A project may be terminated if:

- requested by the project representative
- the project area is less than 18 sections or more than 144 sections
- a term or condition relating to the project approval is breached
- documents or information are not provided under Section 16 of the regulations.

Note: If the approval of a project is terminated, the project's eligible wells that received C^*_{ERP} will continue to draw down the remaining C^*_{ERP} pool. The C^*_{ERP} pool will be available to those wells for up to five years after the project terminates. Wells drilled in the project area after a project is terminated will fall under the MRF regime.

8.3 Revocation of Approval

Emerging Royalty Regulation (Alberta Regulation 209/2016), Section 14

The Minister may revoke a project approval if, in the opinion of the Minister, a project participant made any misrepresentation that is attributable to neglect, carelessness, or wilful default, or has committed a fraud in providing a document or other information under the Regulation.

9. Issue Resolution Process

These guidelines describe existing ERP business practices. The operator may request further interpretation of any part of these guidelines as it applies to the administration of ERP.
Request can be sent by email to Energy.MRFPrograms@gov.ab.ca or by mail to:

Executive Director, Royalty Operations
Energy Operations Division
Alberta Energy
7th Floor, North Petroleum Plaza
9945 - 108 Street
Edmonton AB T5K 2G6

10. Reporting and Review

Emerging Royalty Regulation (Alberta Regulation 209/2016), Section 16
Mines and Minerals Administration Regulation (Alberta Regulation 262/97), Section 23.8(1)

Alberta Energy requires an annual report from the project representative that will be reviewed by the department for program monitoring and performance measurement activities.

10.1 Annual Approval Status Update Report Requirements

The report should contain a brief summary describing the project's progress over the past year, including:

- interpretation of overall project performance relative to the application milestones and timelines
- a well list, which includes the Unique Well Identifier of any additional wells that have been phased in on the Project Area lands
- average production per well
- any changes to the project evaluation boundary or area clearly defined on an appropriately scaled map in PDF format and in spatial data format (shapefiles)
- changes in ownership (leases), including lands acquired and land expired in land schedule format and clearly defined on an appropriately scaled map in PDF format and in spatial data format (shapefiles)
- project activity since application/last report including:
  - number of wells drilled and in production
  - total and cumulative capital investment
  - total kilometers of new roads built for the project
  - total kilometres of new pipeline built for the project
  - wells drilled compared to original project drilling plan estimate
  - average capital costs per well compared to original estimate.

The report should explain if the project is meeting the original benchmarks as intended. If the project is not achieving original benchmarks, the report should explain the ongoing challenges that the project is facing.

10.2 Report Timing

Approval Status Update Reports must be provided annually within a grace period of three calendar months from the anniversary date (Project Benefit Period Commencement Date).

If the report is not received by Alberta Energy, then the applicant will be assessed a penalty of $1,000 for the first partial or full month after the grace period and $5,000 for every full or partial month following the grace period (refer to Section 23.8 of the Mines and Minerals Administration Regulation for additional details regarding penalties).

11. Public Disclosure of Information

Alberta Energy may disclose to the public certain data pertaining to projects participating in the ERP; as described in Section 26.2(3) of the Mines and Minerals Administration Regulation (262/1997), including:

- the C^*_{ERP} pool, the maximum number of eligible wells, the project area, the project benefit period commencement date, the project representative, the total potential wells within the project area and the total potential wells within the project evaluation area of the approved project
- the C^*_{ERP}, the C* and the C* multiplier for each eligible well in the approved project
- the total number of wells and the total number of eligible wells in the approved project that produced hydrocarbons from the target formation
- the total volume of hydrocarbons produced from the target formation by wells in the approved project
- the total cumulative revenue from wells in the approved project
- the total royalty or royalty compensation paid or payable in respect of hydrocarbons produced from the approved project.

12. Glossary of Terms

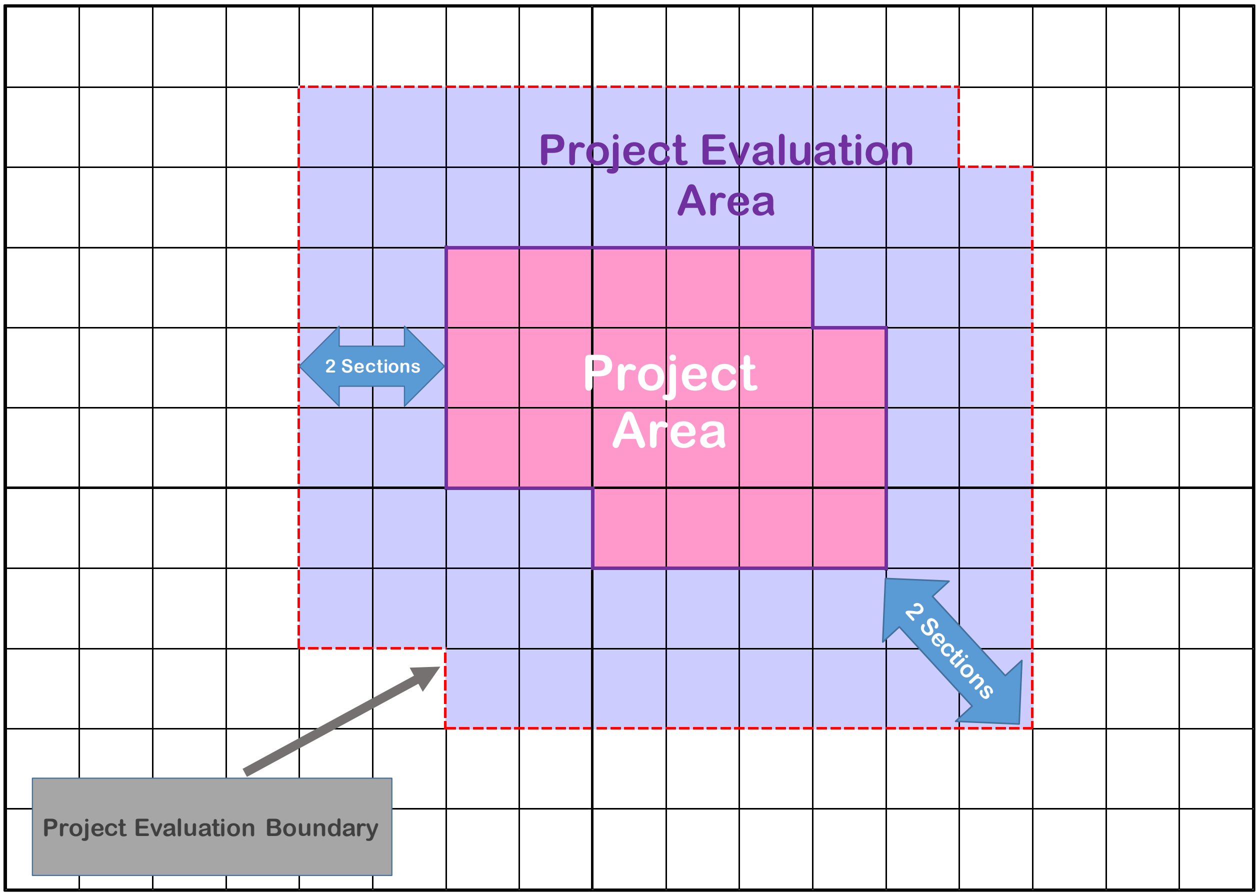
C*	The drilling and completion cost allowance in dollars calculated for a well as defined in the Alberta Modernized Royalty Framework Guidelines.
C^*_{ERP}	Eligible well's C* increased by a specific multiplier.
C^*_{ERP} Pool	Total of all eligible well's $C^*_{ERP.}$
C*Multiplier	The factor that an eligible well's C* is multiplied by (2.0, 1.75, or 1.5).
Enrolled Eligible Wells	Wells that have been registered through correspondence with Alberta Energy to be included in the C^*_{ERP} Pool. These wells would be the wells that make up the 15 per cent of the total projected well inventory minus any pre-existing wells that would receive the benefit; also known as Enrolled C^*_{ERP} Wells.
Project Area	The defined area of an Emerging Resource Project (ERP).
Project Benefit Period	Period, in calendar months, in which the project that is used in the evaluation of activity in the area.
Project Evaluation Boundary	A boundary that establishes the Project Evaluation Area.
Project Evaluation Area	An area surrounding a proposed ERP project that is used in the evaluation of activity in the area.
Project Activity Level	A percentage, derived by taking the number of evaluation wells in the evaluation area, divided by the total number of potential wells in the evaluation area.
Evaluation Well	A well within the project evaluation area, based on bottom hole location, penetrating the target formation, including: dry holes, confidential wells of project participant, abandoned wells, commingled wells, or wells producing a hydrocarbon.

13. Appendices

13.1 Appendix 1: Contiguous vs Non-Contiguous Project Area

Example 1: Contiguous

In the first example, the project area is contiguous and the project evaluation boundary is set using a two-section buffer.



Example 2: Non-Contiguous

In the second example the project area is non-contiguous and the project evaluation boundary is set at the greater of two sections or half of the greatest distance between two portions of the project area. If this number results in a fraction, it will be rounded up to the nearest half section.