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## **Crown Royalty and Incentives Regulation**

**Regulation 109/94**  
**Registered March 26, 2001**

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**The Crown Royalty and Incentives Regulation, M.R. 109/94, is amended by**  
**M.R. 43/2001**  
**M.R. 50/99.**  
**M.R. 227/96**  
**M.R. 165/95**  
**M.R. 52/95**

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### **Definitions**

#### Definitions

**1(1)** In this regulation,  
**"Act"** means The Oil and Gas Act;

**"drainage unit"** means an area, determined by the director in accordance with this regulation, that

- (a) is allocated to a horizontal well for the purpose of producing oil and gas, and
- (b) consists of all spacing units located within 100 m of the completed interval of the horizontal well;

**"holiday oil"** means oil production that is exempt from any royalty payable under this regulation or any tax payable under the Oil and Gas Production Tax Regulation, Manitoba Regulation 28/97;

**"holiday oil volume"** and **"HV"** mean

- a. the volume of holiday oil, in cubic metres, produced from a new oil well or third tier oil well, as that volume
  - (i) was determined under The Mines Act, R.S.M. 1987, c. M160, or
  - (ii) is determined under section 4 of this regulation, or
- b. the volume of holiday oil, in cubic metres, produced from a marginal well after that well has undergone a major workover, as that volume is determined under section 4 of this regulation;

**"horizontal well"** means a horizontal well as defined in the Drilling and Production Regulation;

**"inactive well"** means a well that has been designated by the director as a inactive well under section 54 of the Drilling and Production Regulation, Manitoba Regulation 111/94 and for which any applicable levy has been paid or is not yet overdue;

**"licensee"** means the holder of a well license issued under Part 8 of the Act;

**"major workover"** means

- a. the re-entry of an abandoned well,
- b. the deepening of a well into a new geological formation,
- c. the recompletion of a well from one pool to another,
- d. the repair of casing in a well involving the installation of a new string of casing or by other means that are approved by the director in advance, or
- e. a workover designated by the director under Schedule G;

**"marginal oil well"** means a well that

- a. is abandoned or has not operated in previous 12 months, or
- b. over the previous twelve months, produced oil at an average rate, as determined by the director, of less than one cubic metre for each day the well was operated but does not include a well drilled within 12 months of having undergone a major workover;

**"new oil"** means oil that is not third tier oil and that is produced from

- a. a new oil well, or
- b. an old oil well that, in the opinion of the director, can reasonably be attributed to an increase in reserves as a result of a project of enhanced recovery implemented after April 1, 1974 and before April 1, 1999 under the Act or The Mines Act, R.S.M. 1987, chapter M160;

**"new oil well"** means:

- a. a well that was drilled and completed on or after April 1, 1974 and before April 1, 1999, in a spacing unit that, at the time the well was drilled, contained no other producing well or any well capable of producing,
- b. an abandoned well that is re-entered on or after April 1, 1974 and before April 1, 1999, or
- c. a horizontal well;

**"old oil"** means oil other than new oil, third tier, or holiday oil;

**"old oil well"** means an oil well that produces old oil;

**"produced"** means produced from a well or spacing unit or allocated to a spacing unit under a unit agreement or unit order;

**"producing month"** means, in respect of a well or tract, a month in which oil or gas is produced from or allocated to the well or tract;

**"third tier oil"** means oil that is produced from

- a. a third tier oil well,
- b. an inactive well that is activated after April 1, 1999, or
- c. an old oil well or new oil well that, in the opinion of the director, can reasonably be attributed to an increase in reserves as a result of a project of enhanced recovery implemented under the Act after April 1, 1999; and

**"third tier oil well"** means

- a. a well that
  - (i) is drilled and completed on or after April 1, 1999,
  - (ii) is not a horizontal well, and
  - (iii) subject to subsection (3), is located in a spacing unit that, at the time the well is drilled, contains no other well that is producing or, capable of producing,
- b. an abandoned well that
  - (i) is re-entered on or after April 1, 1999,
  - (ii) is not a horizontal well, and
  - (iii) subject to subsection (3), at the time the well is re-entered is the only well in the spacing unit in which the well is located that is producing or capable of producing, or
- c. a marginal oil well that has undergone a major workover.

## **Classification of oil**

**1(2)** For the purpose of this regulation, oil is classified as holiday oil, third tier oil, new oil, or old oil.

## **Director's discretion**

**1(3)** The director may designate as a third tier oil well a well drilled or re-entered in a spacing unit where, at the time of drilling or re-entering, there is an existing well producing or capable of producing, if the director is of the opinion that the existing well is incapable of economic production.

## **Application of regulation**

**2** This regulation applies to oil and gas produced from a spacing unit in which the Crown holds all or part of the oil and gas rights.

## **Crown royalty on oil and gas to be paid by holder**

**3(1)** Every holder shall pay a royalty to the Crown on oil and gas produced from a lease area as follows

- a. on oil, the volume calculated for each producing month in accordance with Schedule A; or
- b. on gas, 12 ½ percent of the volume sold, calculated for each producing month to the nearest 0.001 thousand cubic metres.

## **Allocation of production to Crown from horizontal well**

**3(2)** Notwithstanding subsection (1) where a drainage unit for a horizontal well is not included in a unit area and consists of two or more spacing units, the director shall determine in accordance with Schedule F the proportion of the production of the horizontal well to be allocated to any of the spacing units that include Crown oil and gas rights.

## **Determination of holiday oil volume**

**4(1)** For the purposes of this regulation and the Oil and Gas Production Tax Regulation, Manitoba Regulation 28/97, the holiday oil volume earned by a well shall be determined under Schedule B, C or G.

Holiday oil volume produced within 10 years

**4(2)** A holiday oil volume must be produced by a well within 10 years after the date on which the drilling of the well is completed or a major workover of the well is completed.

## **Licensee may establish account and assign under Schedule D**

**5** The licensee may, in accordance with Schedule D, assign holiday oil volumes earned under Schedule B, C, or G to a holiday oil volume account established by the registrar in the name of the licensee or other person that the licensee may designate.

## **Crown royalty to be included in sale**

**6** Subject to section 9, the sale of oil and gas produced from a lease area includes the Crown royalty.

## **Valuation of royalty**

**7(1)** The value of a Crown royalty under section 3 is the fair market value of the oil and gas at the wellhead during the producing month.

## **Calculation of fair market value**

**7(2)** For the purpose of subsection (1), the fair market value of oil and gas at the wellhead is an amount equal to the total of:

- a. any posted price of the oil and gas during the producing month, less all reasonable and necessary transportation expenses as approved by the registrar, incurred for the purpose of transporting the oil and gas from the wellhead to the place at which the posted price is determined; and
- b. any price supplement provided by the government of Manitoba or Canada.

## **Posted price established by purchaser**

**7(3)** For the purpose of clause (2)(a), the posted price is any price established by the purchaser for the producing month.

## **Posted price established by director**

**7(4)** Where the director considers that a posted price determined under subsection (3) does not reflect the fair market value, having regard for the quality of the production and the location of the point of sale, the director may by order establish a posted price for the purpose of this regulation.

## **Royalty payments**

**8** The holder shall forward the money payable on the Crown royalty to the registrar, together with a monthly return on a form provided by or acceptable to the registrar, not later than the last day of the month following the producing month.

## **Delivery of Crown royalty to person designated by minister**

**9** The minister may in writing designate a person or agency to take custody of all or part of a Crown royalty in oil and gas, and the holder shall, on written notification by the minister, deliver the royalty to the designated person or agency in such amounts and on such terms and conditions as the minister may specify.

## Repeal

10 The Petroleum Crown Royalty and Incentives Regulation, Manitoba Regulation 63/87, is repealed.

## Coming into force

11 This regulation comes into force on the day The Oil and Gas and Consequential Amendments Act, S.M. 1993, chapter 4, comes into force.

## SCHEDULE A (Section 3)

### CALCULATION OF CROWN ROYALTY VOLUME

#### Definitions

1 In this schedule,

"K": is a multiplying factor determined in accordance with the following table:

Classification of oil	Multiplying factor
old oil	1.00
new oil	0.55
third tier oil	0.47
holiday oil	0.00

"MOP" is the monthly volume of oil in cubic metres produced from a spacing unit, calculated to the nearest 0.1 of a cubic metre.

#### Calculations

2 In sections 3 and 4, the Crown royalty volume is calculated to the nearest 0.01 of a cubic metre, and a result that is 0.005 of a cubic metre or more is rounded up.

#### MOP of 50 or less

3 Where MOP is 50 or less, the Crown royalty volume is equal to the result obtained from the following formula:

$$K \times ((MOP)^2 / 265)$$

## **MOP of more than 50**

4 Where MOP is more than 50, the Crown royalty volume is equal to the result obtained from the following formula:

$$K (9.43 + 0.45 (MOP - 50))$$

## **SCHEDULE B**

(Section 4)

### **Definitions**

1 In this schedule,

"**D**" is the distance in kilometres of the new oil well from the nearest well that is cased as a potential oil well, to the same or a deeper formation, as of the finished drilling date of the new oil well, measured from the centre of the spacing unit of the respective wells, as that distance is determined by the registrar;

"**Enbridge Cromer**" means the terminal of the pipeline operated by Enbridge Pipelines Inc. and located at Cromer, Manitoba; and

"**P**" is the average price in dollars per cubic metre of Manitoba oil delivered to Enbridge Cromer during the month the well was spudded, as that price is determined by the registrar.

### **Re-entry of abandoned well**

2 An abandoned well that is re-entered on or after January 1, 1992, and before January 1, 2004, is not eligible to earn a holiday oil volume under this schedule.

### **Calculation of holiday oil volume**

3 Subject to section 4, the holiday oil volume for a third tier oil well drilled before January 1, 2004 shall be calculated in accordance with the following formulas to a maximum of 10 000 cubic metres:

a. If D is two km or less:

$$HV = D(A) + B$$

In this formula,

$$A \text{ is } 1.7 P + 230;$$

$$B \text{ is } 3130 - 13.6P$$

b. If D is greater than two km:

$$HV = A' (D^2) + B'$$

In this formula,

$$A' \text{ is } 0.17 P + 106.9;$$

$$B' \text{ is } 3163 - 10.9 P$$

### **Deep well holiday oil volume**

4 A third tier oil well that is drilled to a depth sufficient, in the opinion of the director, to completely penetrate the Devonian Duperow Formation earns a holiday oil volume of twice the amount determined under section 3, but to a maximum of 20 000 cubic metres.

### **SCHEDULE C** **(Section 4)**

#### **HORIZONTAL WELL HOLIDAY OIL VOLUME**

##### **Holiday oil volume earned**

1. A horizontal well drilled before January 1, 2004, or well that is re-entered or recompleted by that date in manner that meets the length and angle standards applicable to a horizontal well, earns a holiday oil volume of 10 000 cubic metres.

No additional holiday oil volume for new horizontal leg

2. Drilling a new horizontal leg on a horizontal well that has earned a holiday oil volume under section 1 does not earn an additional holiday oil volume.

### **SCHEDULE D** **(Section 5)**

#### **ASSIGNMENT OF A HOLIDAY OIL VOLUME ACCOUNT**

##### **Conditions applicable to assignments**

1 The assignment of a holiday oil volume to or from a holiday oil volume account is subject to the following:

a. each eligible producing well must retain a holiday oil volume of not less than 500 cubic metres;

b. subject to clause (a), the licensee may assign a holiday oil volume earned by a well to a holiday oil volume account before the well produces 500.1 cubic metres of oil;

c. subject to clause (c.1) and clause (d), where a well has earned a holiday oil volume of less than 2500 cubic metres and the well has produced less than 1000 cubic metres, the licensee may assign any credits from the holiday oil volume account of the licensee or other person to bring the well's holiday oil volume to a maximum of 2500 cubic metres;

c.1 where, in the opinion of the director, a well in clause (c) is completed for production from a formation deeper than the Devonian Three Forks Formation, the licensee may assign any credits from the holiday oil volume account of the licensee or other person to bring the well's holiday oil volume to a maximum of 10 000 cubic metres;



d. where the licensee wishes to assign credits from another person's holiday oil volume account under clause (c) or (c.1), the licensee shall provide the registrar with the person's written consent to such allocation;

e. the holiday oil volume that is earned by a dry hole shall be assigned to the licensee's account or the account of such other person as the licensee may designate;

f. where a well has been drilled to a deeper formation but is completed in a shallow formation before being put on production, and the director is satisfied that the licensee is diligently evaluating the potential of the deeper formation the well is allocated the holiday oil volume that is the lesser of:

(i) the amount it would have earned if the deeper portion of the well had not been drilled; and

(ii) the holiday oil volume the well has earned under Schedule B;

and any remainder of the holiday oil volume that is earned by the well shall be assigned to the holiday oil volume account of the licensee or such other person as the licensee may designate; and

g. This clause is repealed

h. where a portion of a holiday oil volume earned by a horizontal well under Schedule C is assigned to a holiday oil volume account under this Schedule and the licensee of the horizontal well later drills one or more horizontal laterals in the well, the licensee may re-allocate to the well a holiday oil volume from that account if the total of the holiday oil volume assigned to the well, including that portion that was originally retained by the well, does not exceed 10 000 cubic metres.

### **Assignment of holiday oil volume – major workover incentive**

1.1 The assignment of a holiday oil volume earned under Schedule G to or from a holiday oil volume account is subject to the following:

- a. where a marginal oil well is abandoned without producing after a major workover, the holiday oil volume earned by the well is assigned to the holiday oil volume account of the licensee or such other person as the licensee may designate;
- b. the licensee may assign a holiday oil volume earned by a major workover on a marginal oil well to a holiday oil volume account before the well produces 100.1 cubic metres of oil; and
- c. the licensee of a marginal well that has earned an incentive may assign credits from the holiday oil volume account of the licensee or other person to bring the well's holiday oil volume to a maximum of 750 cubic metres, if, at the time of the assignment, the well has produced less than 500 cubic metres after the major workover.

### **Transfer of holiday oil volumes between accounts**

2. Except as provided in section 1 or 1.1 of this schedule, holiday oil volumes are not transferable from one holiday oil volume account to another.

### **Registration of transfer of account**

3. Where the holder of a holiday oil volume account is purchased or merges with another corporation, the registrar shall transfer ownership of the account upon receipt of documentation satisfactory to him or her respecting the purchase or merger.

## **SCHEDULE E** **(Section 4)**

### **ONE YEAR HOLIDAY EARNED BY INJECTION WELLS**

#### **Definition**

1 In this schedule, "injection area" means the area within 100 metres of the completed interval of a horizontal well which area shall be determined by the director in the same manner as a producing area is determined in Schedule F.

#### **Eligible wells**

2(1) The drilling or conversion of the following wells will result in a exemption from the payment of any royalty under this regulation and any tax under the Oil and Gas Production Tax Regulation, Manitoba Regulation 28/97, to the extent set forth in subsection (2):

- a. a well drilled for the purpose of injecting water or another substance as part of a project of enhanced recovery approved under the Act or The Mines Act, R.S.M. 1987, c. M160:
- b. a producing vertical well that is converted to an injection well before producing 250 cubic metres of oil; and
- c. a producing horizontal well that is converted to an injection well before producing 1000 cubic metres of oil.

2(2) An exemption under subsection (1) is for one year beginning in the month in which the injection is started, and applies

- a. for a vertical well, to the tract in which the well is located; and
- b. for a horizontal well, to the tracts that are included in the well's injection area, except that where more than four tracts are located in the injection area, the exemption applies to the four tracts containing the majority of the injection area, as determined by the director.

### **Calculation where well not part of a unit area**

3 If a well referred to in section 2 is located in a spacing unit or spacing units that are not part of a unit area, the one year exemption applies to the spacing unit or spacing units in which the well is located, and is determined in the same manner as the exemption is calculated in section 2 where tracts are involved.

### **Allocation of holiday oil volume account**

4 If a well referred to in section 2 is converted to injection before producing all of its holiday oil volume, any remaining, unproduced holiday oil volume is allocated to the licensee's holiday oil volume account.

## **SCHEDULE F** **(Section 3)**

### **ALLOCATION OF HORIZONTAL WELL PRODUCTION TO SPACING UNITS**

#### **Definition and determination of producing area**

1. In this schedule, "producing area" means the area within 100 m of the completed interval of a horizontal well as determined by the director under this schedule and illustrated in the examples following section 4.

#### **Calculation where spacing units separated by road allowance**

2. Where two spacing units in a drainage unit are separated by a road allowance, the road allowance is deemed to have a zero width and the boundary of the two spacing units is deemed to be the centre line of the road allowance for the purpose of determining:
  - a. the spacing units within the drainage unit,
  - b. the producing area of the horizontal well, and
  - c. the allocation of production of a horizontal well to each spacing unit in the drainage unit.

#### **Determination of production allocation**

3. The production allocated to a spacing unit under subsection 3(2) shall be determined in accordance with the following formula, as illustrated in the example following section 4:

$$A = HWP \times ( PA(a) / PA )$$

where:

A is the production allocated to spacing unit A;

HWP is the production from the horizontal well in cubic metres per month;

PA(a) is the area of the producing area within spacing unit A;

PA is the producing area of the horizontal well determined in accordance with this schedule.

### **Recompletion**

4. Where a horizontal well is recompleted in a manner that results in a change in the completed interval of the well, the director may redetermine the allocation of production for the purpose of subsection 3(2) and shall set the effective date of the new allocation.

## **SCHEDULE G** **(Section 4)**

### **MAJOR WORKOVER INCENTIVE**

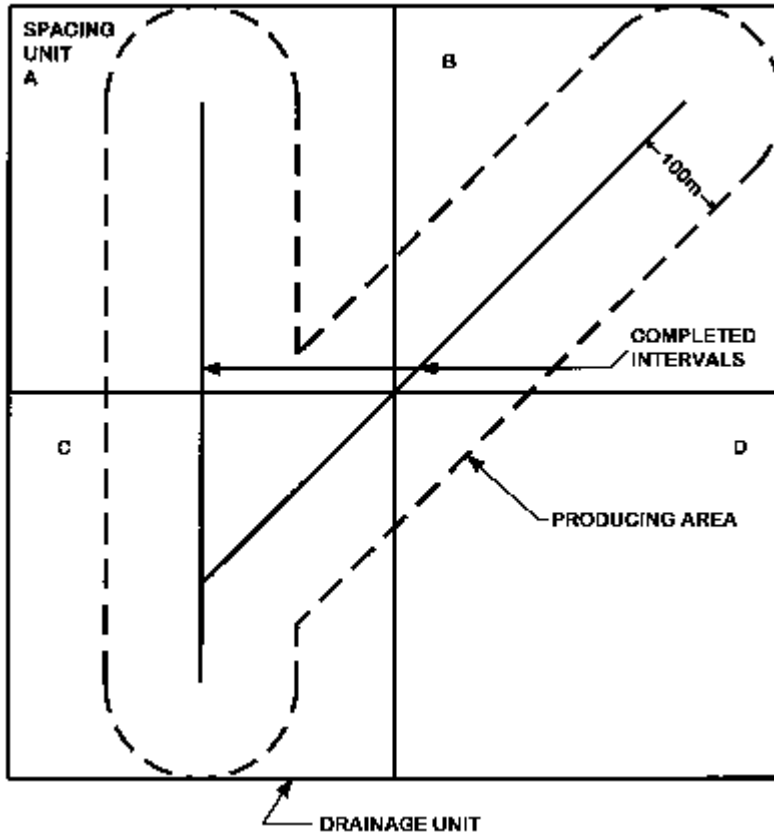
#### **Holiday volume earned**

1. A marginal oil well that undergoes a major workover on or before January 1, 2004 for the purpose of producing oil from the well, earns a holiday volume of 500 cubic metres.

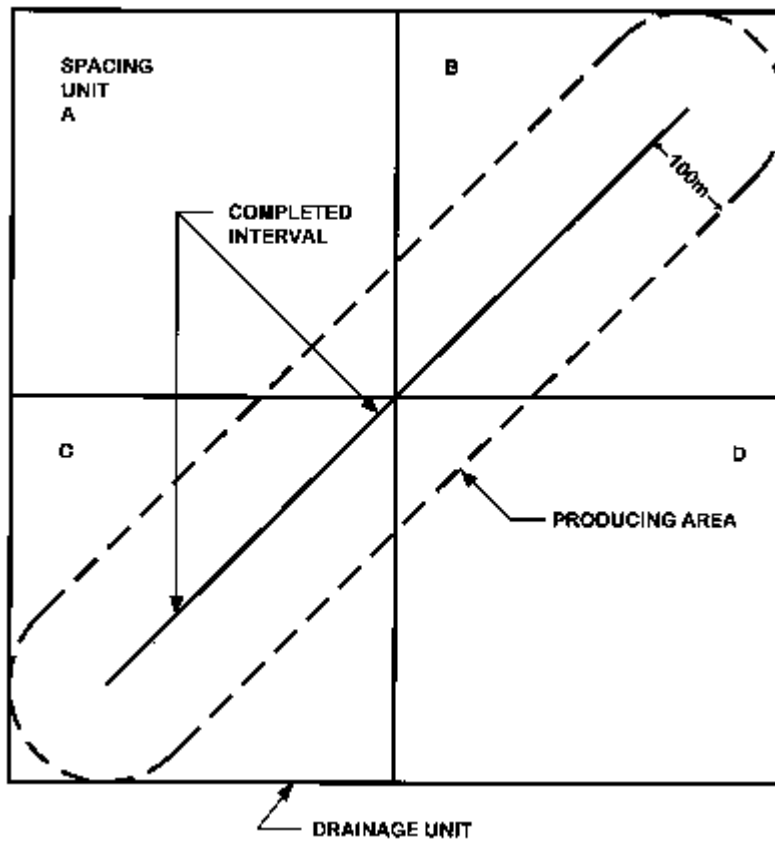
#### **Director may designate major workover**

2. For the purpose of this schedule, the director may designate as a major workover a workover that the director is satisfied cost more than \$10,000 and that is, in his or her opinion, designed to increase recovery from a pool.

**DETERMINATION OF PRODUCING AREA**  
**Example: Multi-Leg Horizontal Well**



**DETERMINATION OF PRODUCING AREA** Example: Single-Leg Horizontal Well



**DETERMINATION OF PRODUCTION ALLOCATION**  
example:

