
EXPLORATION LICENCE FAQs

Ministry of Energy and Resources

Guideline

Effective: April 1, 2011. Revised January 2024

Governing Legislation:

Act: *The Crown Minerals Act*

Regulation: *The Oil and Gas Tenure Registry Regulations*
Part 8

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 Oil and Gas Tenure Registry Regulations* (the Regulations) and are solely intended as a general reference guide to be used in conjunction with existing legislation.

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Act and Regulations

Copies of the complete Act and Regulations in PDF format can be downloaded from the King's Printer at no cost:

<https://publications.saskatchewan.ca>

- [Crown Minerals Act, C-50.2](#)
- [Oil and Gas Tenure Registry Regulations, C-50.2 Reg 31](#)
 - PART 8 Exploration Licences

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: 8-4(b) of the Regulations.*

- 2. 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 submitted through the Integrated Resource Information System (IRIS). *Ref: 8-5(4) of the Regulations.*

- 3. 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: 8-7(3) of the Regulations.*

- 4. 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 through the Integrated Resource Information System (IRIS). *Ref: 8-5(2) of the Regulations.*

- 5. Our company licenced a well prior to the 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 always have a valid licenced well during the extension period.*

- 6. 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: 8-5(2) and (4) of the Regulations.

7. 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.

8. 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.

9. 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?

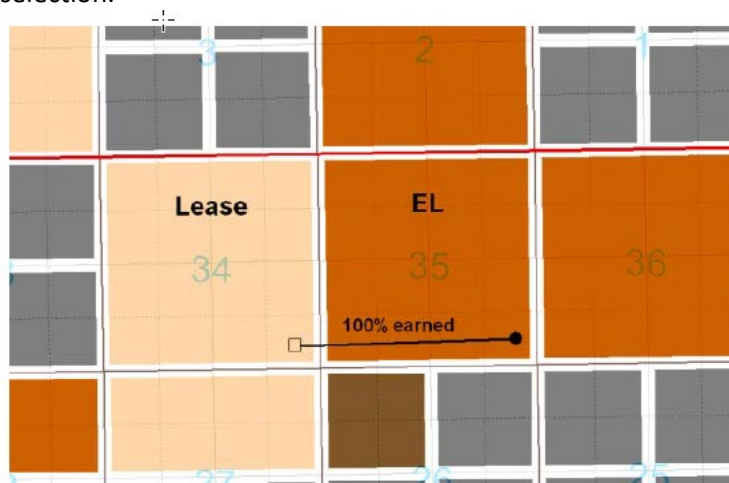
- a. If the well is drilled on the freehold portion, the area factor will be multiplied by the percentage of Crown minerals on the section. For example, if the section is $\frac{3}{4}$ freehold and $\frac{1}{4}$ crown and you drill on the freehold portion, your area factor for lease selection purposes would be reduced by 75%.
- b. If you drill on the crown portion, you will earn 100% of the area factor.

10. 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 to qualify for lease selection purposes (see FAQ #11).

11. 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, more or less, (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.



- 12. 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.

- 13. 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.

- 14. 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.

15. 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.

16. 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.

17. 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: 8-5(2) of the Regulations.*

18. 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.

19. 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: 8-9 of the Regulations.*

20. 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.

21. There seems to be some confusion in our office between the expiry date and the 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 always remain subject to a disposition.

Lease selection example – Calculation of Area Factors

Conversion of exploration licence to lease

8-11(1) If the holder of an exploration licence is in compliance with section 89 of *The Oil and Gas Conservation Regulations, 2012*, the holder may apply to convert the exploration licence to one or more leases.

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: **AF = TD x F** where

AF 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 $AF = TD \times F$
 - a. the decimal is rounded to the nearest quarter section
 - i. .00 to .12 earns **0** sections;
 - ii. .13 to .37 earns **.25** sections;
 - iii. .38 to .62 earns **.50** sections;
 - iv. .63 to .87 earns **.75** sections; and
 - v. .88 to .99 earns **1.0** section.
5. The rounded area factors are then summed to determine total sections earned.

<i>Well Locations</i>	<i>Total Measured Depth (TD), metres</i>	<i>Factor (F)</i>	<i>Decimal (TD x F)</i>	<i>Area Factor (AF) rounded to the nearest quarter section</i>	<i>Drilled on</i>
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
<i>Total Sections Earned</i>				35.75	
<i>Total Sections in Grouped Exploration Licenses (EL 789 and EL 783)</i>				48.00	
<i>Sections Returning to the Crown</i>				12.25	