Manitoba Petroleum Fiscal Regime

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Manitoba Petroleum Fiscal Regime

Provincial Crown Oil & Gas Royalties
Provincial Freehold Oil & Gas Production Taxes
Drilling Incentive Program

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MANITOBA PETROLEUM FISCAL REGIME

INTRODUCTION

This publication provides a summary of Manitoba's petroleum fiscal regime including Provincial Crown Oil Royalties and Freehold Production Oil Tax. It also outlines the Manitoba Drilling Incentive Program designed to encourage investment in the sustainable development of the Province's petroleum resources.

The Province's petroleum fiscal regime is established under *The Oil and Gas Act and The Oil and Gas Production Tax Act* and related regulations.

Access to these statutes published by Manitoba's Statutory Publications is available on the Petroleum Branch website at the following address:
http://www.manitoba.ca/iem/petroleum/actsregs/home.html
or by mail at:

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OIL CLASSIFICATION

Oil produced in Manitoba is classified in one of four categories, **old oil, new oil, third tier oil** and **holiday oil.**

Old Oil includes

- oil produced from a well drilled prior to April 1, 1974 that does not qualify as new oil or third tier oil.

New Oil includes

- oil that is not third tier oil and is produced from a well drilled on or after April 1, 1974 and prior to April 1, 1999;
- oil produced from an abandoned well re-entered on or after April 1, 1974 and prior to April 1, 1999;
- oil produced from an old oil well that, in the opinion of the Director, can be reasonably attributed to an increase in reserves from an enhanced recovery project implemented after April 1, 1974 and prior to April 1, 1999; or

- oil produced from a horizontal well.

Third Tier Oil includes

- oil produced from a vertical well drilled on or after April 1, 1999;
- oil produced from an abandoned well that is re-entered on or after April 1, 1999;
- oil produced from an inactive vertical well, activated after April 1, 1999;
- oil produced from a marginal well that has undergone a major workover; or
- oil produced from an old oil well or new oil well that, in the opinion of the Director, can be reasonably attributed to an increase in reserves from an enhanced recovery project implemented under *The Oil and Gas Act* after April 1, 1999.

Holiday Oil includes

- oil production that is exempt from any royalty payable under the *Crown Royalty and Incentives Regulation*, or any tax payable under the *Oil and Gas Production Tax Regulation.* Note that wells drilled or receiving a marginal well major workover incentive after December 31, 2013 and prior to January 1, 2019, have a requirement to pay a minimum royalty on Crown production and a minimum tax on freehold production.

PROVINCIAL CROWN OIL ROYALTIES

The royalty on production from Provincial Crown oil and gas rights is determined under the *Crown Royalty and Incentives Regulation* of *The Oil and Gas Act*.

Crown royalty is a function of the monthly oil production from a spacing unit, or oil production allocated to a unit tract under a unit agreement or order.

The formulae used for the determination of Crown Royalty are shown in Table 1.

Figure 1 and Table 2 show Crown oil royalty rates as a function of production.

Crown oil royalty rates are not price sensitive.

For horizontal wells, Crown royalty is calculated per spacing unit based on oil production allocated to the spacing units within the drainage unit of the well, as determined under the *Crown Royalty and Incentives Regulation* (Figure 2).

Table 1: Manitoba Crown Oil Royalty Determination

MONTHLY PRODUCTION (m^3) **(calculated to nearest 0.1 m^3)**	**CROWN ROYALTY VOLUME (m^3)** **(calculated to nearest 0.01 m^3)**
0 to 50	K x P^2/265
over 50	K x (9.43+ 0.45 (P-50))

K is equal to one of the following multiplying factors:

0.00 Holiday Oil
0.47 Third Tier Oil
0.55 New Oil
1.00 Old Oil

P is the monthly oil production in cubic metres (m^3)

$$\text{CROWN ROYALTY RATE (\%)} = \frac{\text{CROWN ROYALTY VOLUME}}{\text{MONTHLY PRODUCTION}} \times 100$$

Figure 1: Manitoba Crown Oil Royalty Rates (%)

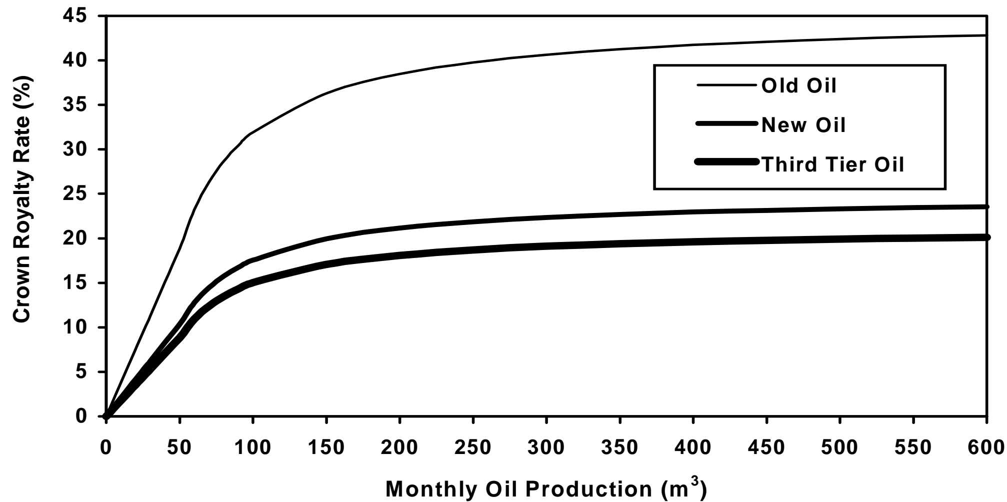


Table 2: Manitoba Crown Oil Royalty Rates (%) – Example

Production (m^3/month)	Third Tier Oil	Third Tier Holiday	New Oil	New Oil Holiday	Old Oil	Pre MDIP 2014 Holiday
0	0.0	0.0	0.0	0.0	0.0	0.0
20	3.5	3.0	4.2	3.0	7.5	0.0
30	5.3	3.0	6.2	3.0	11.3	0.0
40	7.1	3.0	8.3	3.0	15.1	0.0
50	8.9	3.0	10.4	3.0	18.9	0.0
60	10.9	3.0	12.8	3.0	23.2	0.0
70	12.4	3.0	14.5	3.0	26.3	0.0
80	13.5	3.0	15.8	3.0	28.7	0.0
90	14.3	3.0	16.8	3.0	30.5	0.0
100	15.0	3.0	17.6	3.0	31.9	0.0
150	17.1	3.0	20.0	3.0	36.3	0.0
200	18.1	3.0	21.2	3.0	38.5	0.0
250	18.7	3.0	21.9	3.0	39.8	0.0
300	19.1	3.0	22.4	3.0	40.6	0.0
350	19.4	3.0	22.7	3.0	41.3	0.0
400	19.6	3.0	23.0	3.0	41.7	0.0
450	19.8	3.0	23.2	3.0	42.1	0.0
500	19.9	3.0	23.3	3.0	42.4	0.0
550	20.0	3.0	23.4	3.0	42.6	0.0
600	20.0	3.0	23.6	3.0	42.8	0.0

Minimum Crown Royalty (MCR)

For a well drilled after December 31, 2013 and before January 1, 2019 (MDIP 2014 Holiday Volume), there is a requirement to pay a minimum Crown royalty. The royalty payment will be required on the following volumes:

1. (a) 8,000 m^3 if the well is

    (i) a horizontal well,

    (ii) a deep development well completed for production in the Birdbear Formation or a deeper formation, or

    (iii) a deep exploratory well drilled below the Birdbear Formation; or

(b) 4,000 m^3 if the well is a non-deep exploratory well drilled more than 1.6 kilometres from a well cased for production from the same or deeper zone; or

(c) 500 m^3 if the well is a vertical oil well that is not subject to subclauses (a) or (b);

2. 500 m^3 if the well was a marginal oil well that undergoes a major workover after December 31, 2013 but before January 1, 2019.

The royalty payable is the lesser of

(a) 3% of the volume of the oil produced for each producing month; or

(b) the royalty that would be payable for each producing month if the well production was not classified as holiday oil.

For an MDIP 2014 holiday volume, royalty calculations will be based on the production of the well and exclude production from other wells that may share spacing units.

Minimum Crown Royalty Rate Vertical Well Example 1 (MCR 1)

A vertical well finished drilling on January 31, 2014 and because it was drilled on or after April 1, 1999, oil produced from the well is classified as third tier oil. The well received 500 m^3 of holiday oil volume and started producing on February 2, 2014. Oil produced from the first month was 300 m^3.

Step 1: The Crown royalty volume for February is calculated using a 3% royalty rate:

300 x .03 = 9.00 m^3

Step 2: The Crown royalty volume is calculated as if the well was not on holiday:

K x (9.43 + .45(P-50))
The third tier K factor is .47
.47 x (9.43 + .45(300-50))
Crown royalty volume is 57.31 m^3

Step 3: The Crown royalty payable would be 9.00 m^3 because it is the lesser volume.

Royalties due = 9 m^3 X Price

This well produces for two months and in April 2014 produced 50 m^3. The well had a remaining holiday volume of 20 m^3.

Step 1: The Crown royalty volume for April on the monthly production will be calculated using a royalty rate of 3%. The well is treated as if on holiday for the whole month.

50 x .03 = 1.5 m^3

Step 2: The Crown royalty volume is calculated as if the well was not on holiday

$K \times P^2/265$
The third tier K factor is .47
$.47 \times 50^2/265$
Calculated Crown royalty volume is 4.43 m^3

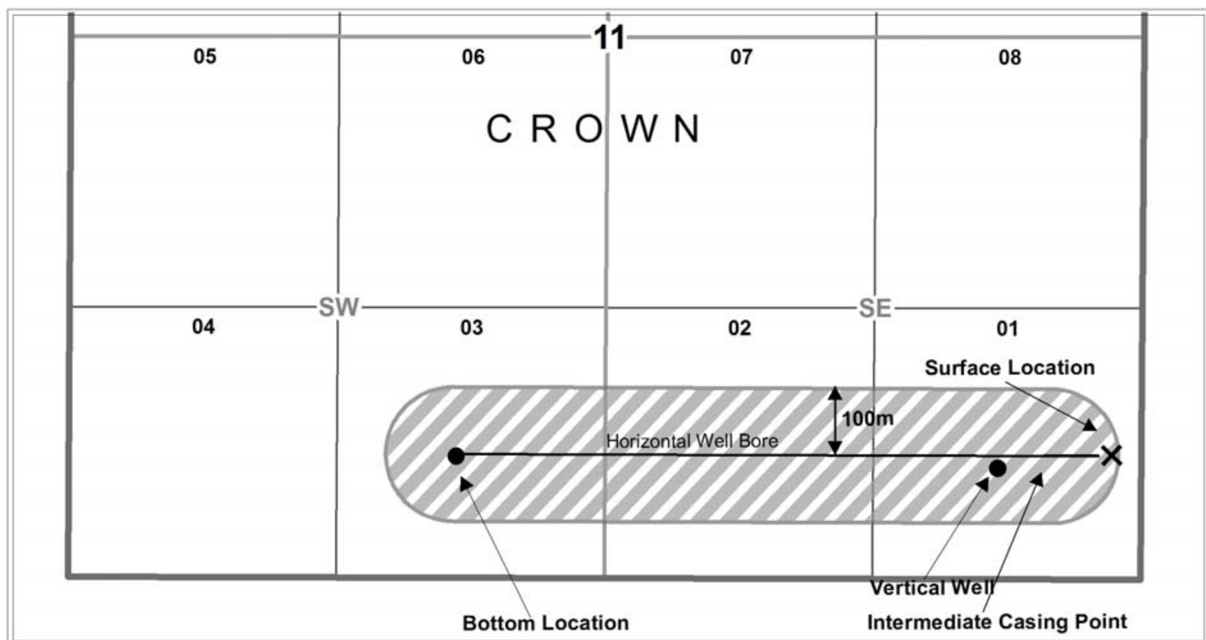
Step 3: The Crown royalty payable on the holiday production would be 1.5 m^3 because it is the lesser volume.

Royalties Due = 1.5 m^3 X Price

Crown Royalty Rate Horizontal Well Examples

Minimum Crown Royalty Example 1a (MCR 1a)

In this example we have an MDIP 2014 horizontal well situated on Crown owned minerals and the well traverses three spacing units. In spacing unit 1 there is a previously existing vertical well that was drilled in 2013. That vertical well is a third tier well and its holiday volume has been utilized. The horizontal well has MDIP 2014 holiday volume and has an oil classification of New Oil. Production from the vertical well is not considered in the horizontal well royalty calculations.



The horizontal well production is allocated to each spacing unit:

- Location 1 - 33%
- Location 2 - 38%
- Location 3 - 29%

For this month the horizontal well has produced 200 m^3 of oil.

Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	3% Royalty	Regular non-holiday calculation	Royalty Volume Payable
1 Crown	33	200 x 33% = 66	66 x 3% = 1.98 m^3	K x (9.43+ 0.45 (P-50)) =.55 x (9.43 + 0.45(66-50)) = 9.15 m^3	1.98 m^3
2 Crown	38	200 x 38% = 76	76 x 3% = 2.28 m^3	K x (9.43 + 0.45 (P-50)) = 0.55 x (9.43 + 0.45(76-50)) = 11.62 m3	2.28 m^3
3 Crown	29	200 x 29% = 58	58 x 3% = 1.74 m^3	K x (9.43 + 0.45 (P-50)) = 0.55 x (9.43 + 0.45(58-50) = 7.17 m^3	1.74 m^3

Royalty payable = royalty volume x oil price.

Crown Royalty Example 1b (MCR 1b) (no minimum in this example)

After the horizontal well has produced all of the MDIP 2014 holiday volume, regular royalty calculations will resume. The horizontal well produced 200 m3 of new oil and the vertical well produced 45 m3 of third tier oil. In this case the 45 m3 of production from the vertical well must be included in the calculation of royalties for spacing unit 1.

From the above table example the allocated production from the horizontal well for spacing unit 1 would be 66 m3. So the production from spacing unit 1 is 66 (new oil) + 45 (third tier oil) = 111 m3.

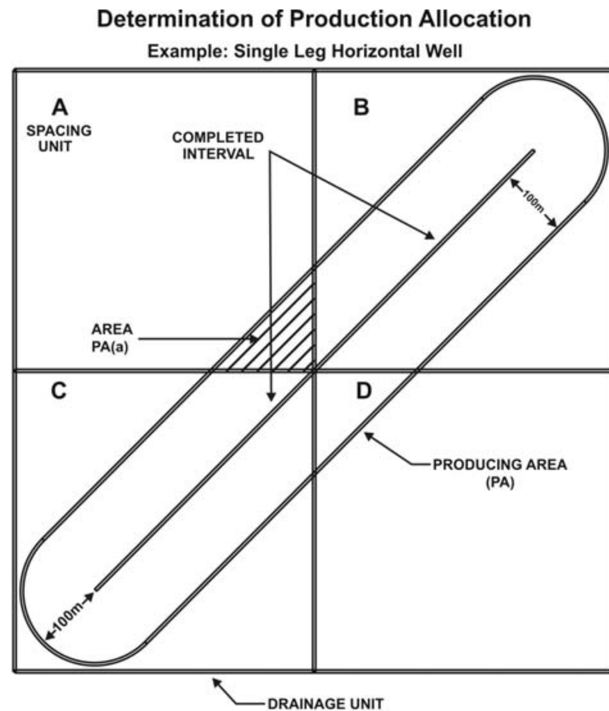
Step 1: Calculate new oil royalty
K x (9.43 + .45(P-50))
.55 x (9.43 + .45(111-50)) = 20.28 m3
New oil portion = 20.28 x (66/111) = 12.06 m3

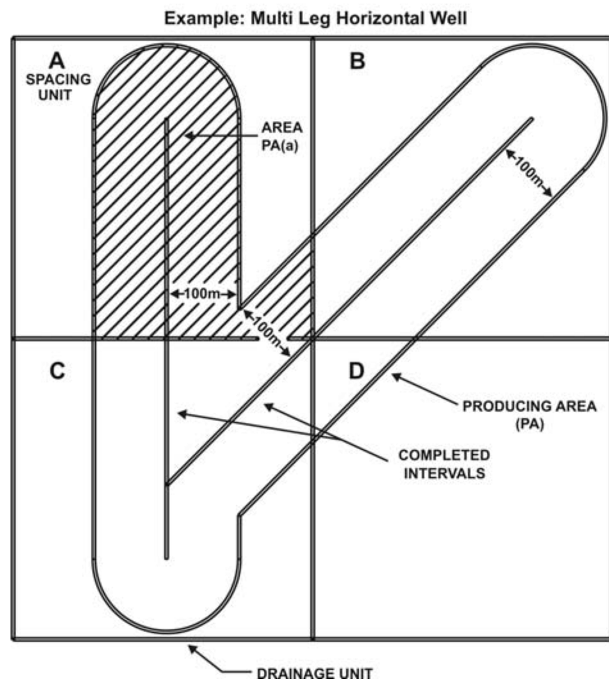
Step 2: Calculate third tier royalty
.47 x (9.43 + .45(111-50) = 17.33 m3
Third Tier portion = 17.33 x (45/111) = 7.02 m3

Step 3: Total royalty volume for spacing unit 1 is 12.06 + 7.03 = 19.09 m3.
Royalty Payable = 19.09 m^3 X Price

The other spacing units are calculated normally.

Figure 2: Determination of Production Allocation for Horizontal Wells





$$A = HWP \times \frac{PA\,(a)}{PA}$$

Where:

A — *is the production allocated to spacing unit A;*

HWP — *is the production from the horizontal well in cubic metres (m^3)/month;*

PA (a) — *is the area of the producing area within spacing unit A, and;*

PA — *is the producing area of the horizontal well determined in accordance with the Crown Royalty and Incentives Regulation.*

PROVINCIAL FREEHOLD OIL PRODUCTION TAXES

The Oil and Gas Production Tax Act levies a tax on production from freehold oil and gas rights. The tax is based on monthly production from a spacing unit, or production allocated to a unit tract under a unit agreement or order.

For horizontal wells, the tax is calculated per spacing unit based on the production allocated to spacing units within the drainage area in accordance with any production allocation agreement. If there is no production allocation agreement, it is assumed that the horizontal well's production is divided equally among all spacing units in the drainage unit.

The Act provides that the operator of a well is responsible for payment of the tax on any freehold oil production. The oil and gas rights owner's and any other royalty or working interest owner's share of the tax is deducted from the payment made to them by the operator from the sales revenue.

A working interest owner, who takes its oil in kind and markets the oil, may be designated by the Director as a special operator. A special operator is responsible for filing returns and payment of the tax for its share of the production.

The freehold oil production tax is determined under *The Oil and Gas Production Tax Regulation* and is based on the formulae shown in Table 3.

Figure 3 and Table 4 show freehold oil production tax rates as a function of production.

Freehold oil production tax rates are not price sensitive.

Table 3: Manitoba Freehold Oil Production Tax Rate (%) Determination

OIL CLASSIFICATION	MONTHLY PRODUCTION (m3) (calculated to nearest 0.1 m^3)	TAX RATE (%) (calculated to nearest 0.01 %)
HOLIDAY OIL	All Volumes	0.00
THIRD TIER OIL	46.0 or less	0.00
	over 46.0	11 – 465/P
NEW OIL	36.0 or less	0.00
	over 36.0, and less than 65.0	0.23P – 8.11
	65.0 and over	19.59 – 820/P
OLD OIL	20.0 or less	0.00
	over 20.0, and less than 65.0	0.43P – 8.24
	65.0 and over	42.76 – 1500/P

P is the monthly oil production in cubic metres (m^3)

Figure 3: Manitoba Freehold Oil Production Tax Rates (%)

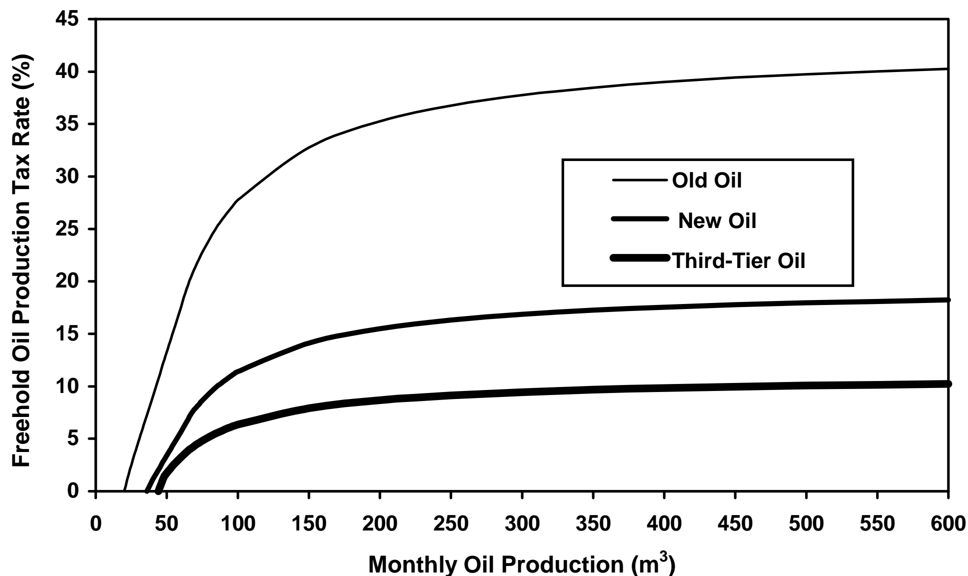


Table 4: Freehold Oil Production Tax Rates (%) – Example

Production (m³/month)	Third Tier Oil	Third Tier Holiday	New Oil	New Oil Holiday	Old Oil	Pre-MDIP 2014 Holiday
0	0.0	0.0	0.0	0.0	0.0	0.0
20	0.0	0.0	0.0	0.0	0.0	0.0
30	0.0	0.0	0.0	0.0	4.7	0.0
40	0.0	0.0	1.1	1.0	9.0	0.0
50	1.7	1.0	3.4	1.0	13.3	0.0
60	3.3	1.0	5.7	1.0	17.6	0.0
70	4.4	1.0	7.9	1.0	21.3	0.0
80	5.2	1.0	9.3	1.0	24.0	0.0
90	5.8	1.0	10.5	1.0	26.1	0.0
100	6.4	1.0	11.4	1.0	27.8	0.0
150	7.9	1.0	14.1	1.0	32.8	0.0
200	8.7	1.0	15.5	1.0	35.3	0.0
250	9.1	1.0	16.3	1.0	36.8	0.0
300	9.5	1.0	16.9	1.0	37.8	0.0
350	9.7	1.0	17.2	1.0	38.5	0.0
400	9.8	1.0	17.5	1.0	39.0	0.0
450	10.0	1.0	17.8	1.0	39.4	0.0
500	10.1	1.0	18.0	1.0	39.8	0.0
550	10.2	1.0	18.1	1.0	40.0	0.0
600	10.2	1.0	18.2	1.0	40.3	0.0

Minimum Production Tax (MPT)

For a well drilled after December 31, 2013 and before January 1, 2019, there is a requirement to pay a minimum production tax. As with Crown royalties the payment will be based on the volumes established in the Crown Royalty and Incentives Regulation for minimum Crown royalty volumes. The production tax payment will be required on the following volumes:

1. (a) 8,000 m^3 if the well is

    (i) a horizontal well,

(ii) a deep development well completed for production in the Birdbear Formation or a deeper formation, or

(iii) a deep exploratory well drilled below the Birdbear Formation, or

(b) 4,000 m^3 if the well is a non-deep exploratory well drilled more than 1.6 kilometres from a well cased for production from the same or deeper zone: or

(c) 500 m^3 if the well is a vertical oil well that is not subject to subclauses (a) or (b);

2. 500 m^3 if the well was a marginal oil well that undergoes a major workover after December 31, 2013 but before January 1, 2019.

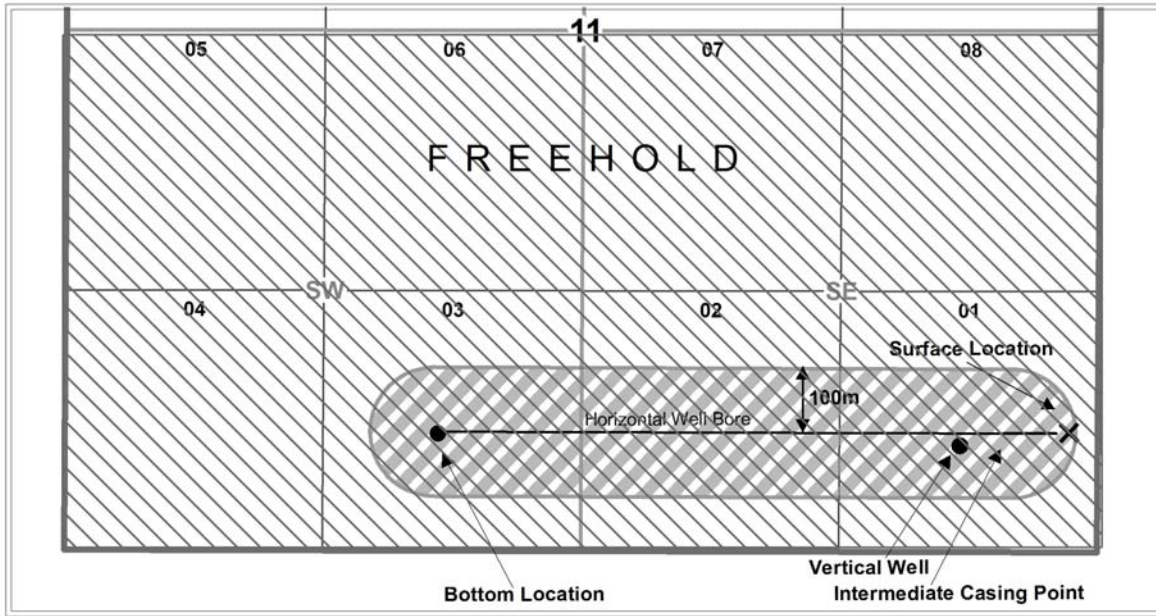
The production tax payable on holiday volumes is the lesser of

(a) 1% tax rate for oil produced for each producing month; or

(b) the production tax that would be payable for each producing month if the well production was not classified as holiday oil.

Minimum Production Tax Rate Example 1 (MPT 1)

In this example we have an MDIP 2014 horizontal well situated on freehold minerals and the well traverses three spacing units. In spacing unit 1 there is a previously existing vertical well that was drilled in 2013. That well is a third tier well and its holiday volume has been utilized. The horizontal well has MDIP 2014 holiday volume and the production from the vertical well is not considered in the horizontal well royalty calculations. The oil from the horizontal well is classified as New Oil.


11
05
06
07
08
FREEHOLD
SW
SE
04
03
02
01
Surface Location
100m
Horizontal Well Bore
Vertical Well
Bottom Location
Intermediate Casing Point

The horizontal well production is allocated to each spacing unit:

Location 1 - 33%
Location 2 - 38%
Location 3 - 29%

For this month the horizontal well has produced 200 m^3 of oil.

Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	Regular non-holiday tax rate calculation	Production Tax Payable Rate	Production Tax Payable
1 Freehold	33	200 x 33% = 66 m^3	19.59 – 820/P = 7.17%	1%	66 x 1% = .66 x price
2 Freehold	38	200 x 38% = 76 m^3	19.59 – 820/P = 8.80%	1%	76 x 1% = .76 x price
3 Freehold	29	200 x 29% = 58 m^3	.23P – 8.11 = 5.23%	1%	58 x 1% = .58 x price

After the horizontal well has produced all of the MDIP 2014 holiday volume, regular production tax calculations will resume. The horizontal well produced 200 m3 of new oil and the vertical well produced 45 m3 of third tier oil. In this case the 45 m3 of production from the vertical well must be included in the calculation of production taxes for spacing unit 1. Total production for spacing unit 1 P = 66 + 45 = 111 m3.

Step 1: Calculate new oil production tax using a P of 111 m3

19.59 – 820/P
19.59 = 820/111 = 12.20%
For the 66 m3 of new oil production the tax rate will be 12.20%

Step 2: Calculate third tier royalty using a P of 111 m3

11 – 465/P
11-465/111 = 6.81%
For the 45 m3 of third tier oil production the tax rate will be 6.81%

Step 3: Total production tax payable

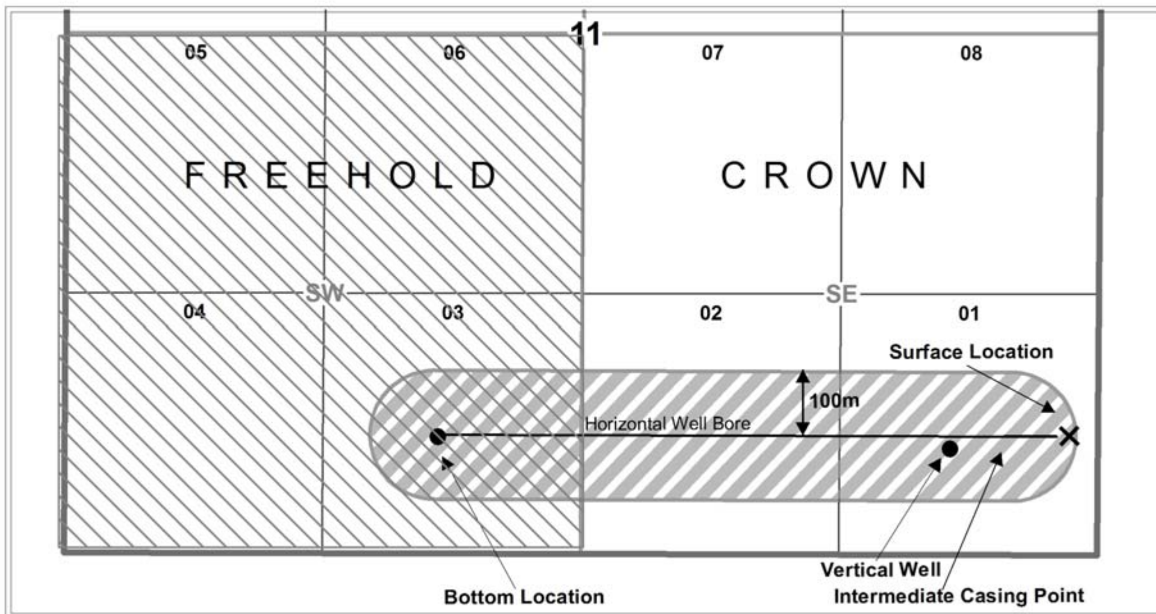
66 x 12.20% + 45 x 6.81% = 11.11 m3
Royalties Payable = Price x 11.11 m3

The other spacing units are calculated normally.

Combined Minimum Royalty and Minimum Production Tax Rate Example (MPT 2)

In this example there is an MDIP 2014 horizontal well situated on freehold minerals and crown minerals. The well traverses three spacing units with 1 and 2 being crown minerals and spacing unit 3 being freehold minerals. In spacing unit 1 there is a previously existing vertical well that was drilled in 2013. That well is a third tier well and its holiday volume has been utilized. The horizontal well has MDIP 2014 holiday

volume and the production from the vertical well is not considered in the horizontal well royalty calculations. The oil production from the horizontal well is classified as New Oil.



The horizontal well production is allocated to each spacing unit:

Location 1 - 33%
Location 2 - 38%
Location 3 - 29%

For this month the horizontal well has produced 200 m^3 of oil.

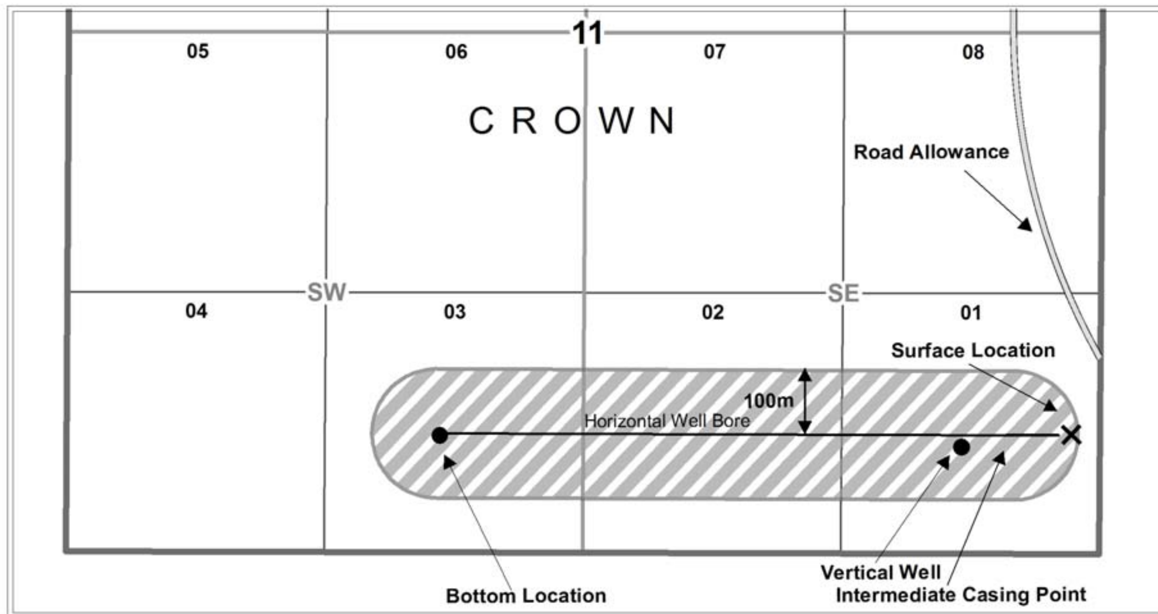
Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	3% Royalty	Regular non-holiday calculation	Royalty Volume Payable
1 Crown	33	200 x 33% = 66	66 x 3% = 1.98 m^3	K x (9.43+ 0.45 (P-50)) =.55 x (9.43 + 0.45(66-50)) = 9.14 m^3	1.98 m^3
2 Crown	38	200 x 38% = 76	76 x 3% = 2.28 m^3	K x (9.43 + 0.45 (P-50)) = 0.55 x (9.43 + 0.45(76-50)) = 11.62 m3	2.28 m^3

Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	Regular non-holiday tax rate calculation	Production Tax Payable Rate	Production Tax Payable
3 Freehold	29	200 x 29% = 58 m^3	.23P – 8.11 = 5.23%	1%	58 x 1% = .58 x price

Assuming an oil price of $600 m3, the total amount owning will be:
(1.98 x $600) + (2.28 x $600) + (58 x .01 x 600) = $1188 + $1368 + $348 = $2904

Combined Minimum Royalty and Minimum Production Tax ExampRle 2b

Assume the same characteristics as Example MCR 1a but that there is a road allowance that crosses through spacing unit 1. The minerals under the roadway are freehold and account for 1.875% of the mineral ownership within the spacing unit.



Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	3% Royalty	Regular non-holiday calculation	Royalty Volume To Use for Payment
1 Crown	33	200 x 33% = 66 m3	(66 x 98.125%) x 3% = 1.94 m^3	K x (9.43 +.45(P-50)) =0.55 x (9.43 + .45(66-50)) = 9.15 m^3 Minus Freehold Share = 9.15 x 98.125% = 8.98 m^3	1.94 m^3

Spacing Unit	Horizontal Allocation %	Production x Hz Allocation	Regular non-holiday tax rate calculation	Minimum Production Tax Payable Rate	Production Tax Payable
1 Freehold	33	200 x 33% = 66 m^3 Road allowance Share 66 m3 X 1.875 = 1.24	19.59 – 820/P = 7.17% This would be 7.17% of the road allowance share of production (1.24 m^3 x 7.17%)	1%	1%

Assuming a price of $600 per m3, the total amount owing will be:
(1.94 x $600) + (66 x 1.875% x 1% x $600) = $1,164 + $7.43 = $1171.43
OR
(1.94 x $600) + (1.24 m^3 x 1% x $600) = $1,164 + $7.43 = $1171.43

Pressure Maintenance Project Incentive (PMPI)

The calculations for royalties and production taxes for units are dependent upon the historical regime in which the units were created.

For new waterfloods or other EOR (Enhanced Oil Recovery) projects approved after April 1, 1999, the Branch will determine a Third Tier EOR Factor. The Third Tier EOR Factor will be applied to old oil and new oil production from the approved project area to determine a project's Third Tier EOR Production. The Third Tier EOR Factor is determined at the time of project approval and is based on the ratio of incremental EOR recoverable reserves to total remaining recoverable reserves for the project area. The Third Tier EOR Factor is the fraction of old oil and new oil from the project area that qualifies as Third Tier EOR.

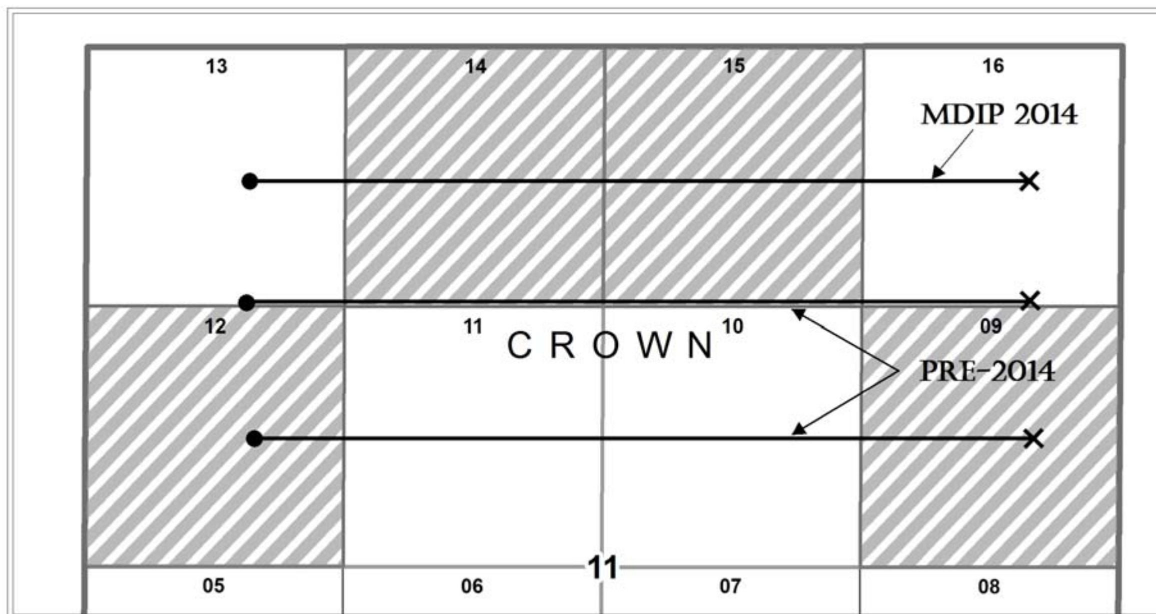
Under MDIP 2014, calculations of unit royalties and production taxes have not been dramatically altered with the exception of allowing an automatic increase to 18 months of pressure maintenance project incentive for wells converted that have a remaining holiday volume. When converting or placing a WIW (Water Injection Well) on injection, the PMPI allows for 4 spacing units (adjoined to a vertical well, or 4 spacing units that are part of the horizontal allocation for a horizontal well) to receive a tax and royalty incentive. These selected spacing units do not pay any taxes and royalties. The royalty and production tax holiday is for 18 months for a well converted to injection which has a remaining holiday volume, or 12 months for wells drilled as injection wells.

Under MDIP 2014 all unselected spacing units of wells with remaining MDIP 2014 holiday volume will be required to pay MCR or MPT.

Scenario 1
A horizontal well is drilled during 2014 into an existing unit and receives MDIP 2014 holiday volume. For the purposes of taxes and royalties, the production from this well is excluded from the unit production. Minimum crown royalty/minimum production tax will be payable on the production from this well. These calculations would be the same as the previous examples MCR 1a and MPT 1a.

Scenario 2
A new unit is formed after December 31, 2013, and it consists of a 2014 MDIP well which is on holiday and two wells drilled prior to 2014. Any wells with a remaining holiday volume that are converted to injection wells will allow for up to 4 selected spacing units to receive an 18 month holiday from the payment of all production taxes and royalties. After 18 months the PMPI expires.

Any wells that are on holiday during the PMPI period will continue to countdown holiday volumes assigned to that well regardless of whether it is receiving PMPI.



In this example there are 3 unit wells on Crown minerals. The middle well was drilled prior to 2013 and then converted to injection in 2014. The well has remaining holiday volume. Because of this, the well's PMPI period is extended from 12 months to 18 months. MDIP 2014 allows for 4 spacing units to be selected adjacent to the converted injection well. (If the injection well is a horizontal well, 4 spacing units representing the majority of the horizontal drainage may be selected). The selected spacing units 9, 12, 14 and 15 will receive PMPI. These spacing units do not pay any royalties (including MCR) during the entire PMPI period.

Spacing units 10, 11, 13 and 14 were not selected for PMPI. Spacing units 13 and 16 which belong to an MDIP 2014 well must be considered for MCR using the same methodology as MCR 1a. Locations 10 and 11 belong to a pre MDIP 2014 well and do not have to pay MCR.

After 18 months the PMPI expires. At that point the MDIP 2014 well still has a remaining holiday volume therefore all spacing units for this well must be considered for MCR. The production from this well is not included in the unit calculations.

PROVINCIAL GAS ROYALTIES AND TAXES

The provincial Crown royalty payable on gas is equal to 12.5% of the volume sold, calculated for each production month.

The Provincial freehold tax on gas is equal to 1.2% of the volume sold, calculated for each production month.

There is no Crown royalty or freehold tax payable on gas consumed as lease fuel.

MANITOBA DRILLING INCENTIVE PROGRAM

The Manitoba Drilling Incentive Program provides the licensee of newly drilled wells, or qualifying wells where a major workover has been completed, with a **"holiday oil volume"**.

"Holiday oil volumes" must be produced within 10 years of the finished drilling date of a newly drilled well, or the completion date of a major workover on a marginal well.

A new well drilled or receiving a marginal/major workover incentive after December 31, 2013 and before January 1, 2019 will be required to pay a minimum Crown royalty, or if the well is producing from freehold oil and gas rights, a minimum production tax during the production of holiday oil. Examples for the calculation of taxes and royalties for holiday oil are detailed in previous sections.

Wells drilled or converted for purposes of injection in an approved enhanced recovery project earn a one year exemption from the payment of Crown royalty or freehold production tax on production allocated to the unit tract in which an injection well is located.

The program consists of 7 components:

1. Vertical Well Incentive
2. Exploration and Deep Well Incentive
3. Horizontal Well Incentive
4. Marginal Well Major Workover Incentive
5. Pressure Maintenance Project Incentive
6. Solution Gas Conservation Incentive
7. Holiday Oil Volume Account

1. Vertical Well Incentive

The program provides the licensee of a vertical development or exploratory well drilled after December 31, 2013 and prior to January 1, 2019 with 500 m^3 of holiday oil volume. To qualify the well must be drilled less than 1.6 kilometres from the nearest well cased for production from the same or a deeper zone.

2. Exploration and Deep Well Incentive

Under the Exploration and Deep Well Incentive an exploratory well or deep development well drilled after December 31, 2013 or prior to January 1, 2019 earns a HOV as follows:

(a) Non-deep exploratory well drilled more than 1.6 kilometres from a well cased for production from the same or a deeper zone earns a HOV of 4,000 m^3;
(b) Deep exploratory well drilled below the Birdbear Formation earns a HOV of 8,000 m^3; and
(c) Deep development well completed for production in the Birdbear or deeper formation earns a HOV of 8,000 m^3.

3. Horizontal Well Incentive

Any horizontal well (defined as a well that achieves an angle of at least 80 degrees from the vertical for a minimum distance of 100 m) that is drilled after December 31, 2013 or prior to January 1, 2019, earns a holiday oil volume of 8,000 m^3.

4. Marginal Well Major Workover Incentive

Any marginal well where a major workover is completed prior to January 1, 2019 earns a holiday oil volume of 500 m^3.

A ***marginal oil well*** is defined as an abandoned well, or well that,

- was not operated over the previous 12 months, or
- produced oil at an average rate of less than 3 m^3 per operating day, as determined by the Director of Petroleum.

A ***major workover*** includes:

- the re-entry of an abandoned well;
- the deepening of a well into a new formation;
- the recompletion of a well from one pool to another;
- the drilling of a horizontal leg
- the repair of the casing in a well by installation of a new string of casing or by other means as approved by the Director in advance; and,
- any other workover that, in the opinion of the Director will cost more than $75,000 and is designed to increase recovery from a pool.

Upon completion of a major workover on a marginal well, any production from a vertical well is classified as ***third tier oil***. Horizontal well production retains the new oil classification.

5. Pressure Maintenance Project Incentive

The Pressure Maintenance Project Incentive (PMPI) provides for a one year exemption from the payment of Crown royalty or freehold production tax on production allocated to a unit tract in which an injection well is drilled or a well is converted to water injection.

Wells eligible for the PMPI include those drilled for the purpose of injection in an approved enhanced recovery project, as well as vertical or horizontal wells that are converted to injection.

The PMPI exemption is for one year beginning in the month in which injection commenced and applies for a vertical well, to the unit tract in which the well is located; and for a horizontal well, to the four unit tracts containing the majority of the injection area, as determined by the Director of Petroleum (defined as the area within 100 m of the completed interval of the horizontal well; Figure 2).

Under the PMPI, for a well that is converted to injection after December 31, 2013 and before January 1, 2019, the exemption period will be extended to 18 months beginning in the month in which injection commenced, if the well has remaining holiday oil volume.

6. Solution Gas Conservation Incentive

The province has introduced a new Solution Gas Conservation Incentive, the purpose of which is to encourage the implementation of new projects that capture solution gas. To obtain the incentive, the proponent must make application to the Director of Petroleum. Approved

projects implemented after December 31, 2013 will be exempt from the payment of Crown royalty and production tax on gas produced from the project until December 31, 2018.

7. Minimum Crown Royalty and Production Tax

A well drilled or receiving a marginal/major workover incentive after December 31, 2013 and before January 1, 2019 will be required to pay a minimum Crown royalty, or if the well is producing from freehold oil and gas rights, a minimum production tax. Examples for the calculation of taxes and royalties for holiday oil are detailed in previous sections.

8. Holiday Oil Volume Account

Previous iterations of the Manitoba Drilling and Incentive Program provided a Holiday Oil Volume Account which was established for each company earning holiday oil. The Account allowed for the movement of holiday oil volume to and from wells under specific conditions.

As of January 1, 2015, Holiday Oil Volume Accounts will be eliminated. Until December 31, 2014, a holder of an Account will be able to make a one-time transfer of 2,000 m^3 of holiday oil to a well drilled during the period January 1, 2014 to December 31, 2014. To implement the transfer, the holder of the holiday account must contact the Petroleum Registrar for approval.

For the period January 1, 2014 to January 1, 2015, holiday oil volume may not be transferred from individual wells to the account.

QUESTIONS AND ANSWERS

Q1 What is a *"Holiday Oil Volume Account*" and when will they be extinguished?

A1 A ***Holiday Oil Volume Account*** *is administered by the Branch. The account is established for each company (licensee) for all wells that qualify under previous iterations of Manitoba Drilling Incentive Program. The account reflected all well activity and holiday oil volume assignments under the program.* ***As of January 1, 2015 all holiday oil volume accounts will be extinguished. As of January 1, 2014, no holiday oil may be transferred from a well to a holiday oil volume account.***

Q2 Can earned holiday volumes be transferred from one company account to another?

A2 No. As of January 1, 2014, no transfers of existing holiday accounts is allowed.

Q3 Can holiday oil be transferred from the holiday oil volume account to a new well?

A3 Yes. For well drilled after December 31, 2013 and prior to January 1, 2015, a one-time assignment of 2,000 m^3 made be made from the holiday oil volume account to the well. The transfer request must be made to the registrar prior to January 1, 2015.

Q4 Can a horizontal well earn more than 8,000 m^3 if an additional leg is drilled?

A4 Yes. Under the provision of the marginal/major workover incentive, additional legs may receive 500 m^3 of holiday oil. Application must be made to the Director of Petroleum.

Q4 How is the Marginal Well Incentive eligibility determined?

A4 Make an application to the Director outlining the work that has been performed on the well, the production history of the well, the average production for the 12 month period prior to the workover, the last date of production, proof off the cost of the work performed, recompletion reports, and the expected impact on oil recovery.

Q5 How are the spacing units selected for the Pressure Maintenance Project?

A5 The company will send a letter to the Petroleum Registrar selecting the spacing units. For a horizontal well converted to injection, the 4 spacing units select must comprise over 50% of the horizontal well allocation.

Q6 How is approval received for the Solution Gas Conservation Incentive?

A6 By application to the Director outlining details of the project.

Q7 How is MCR or MPT calculated when the holiday volume for an MDIP 2014 is less than the well's monthly production.

A7 The well is treated as if it is on holiday for the full month and will be off holiday in the following month.