

March 30, 2010

9021-5000-59240-06

Bill Meeuwissen, P.Eng.
Vice President, Production and Operations
Monterey Exploration Ltd.
1000, 500 - 4th Ave S.W.
Calgary AB T2P 2V6

Dear Mr. Meeuwissen:

**RE: OFF-TARGET PRODUCTION PENALTY
GOOD ENGINEERING PRACTICE APPROVALS
HERITAGE – MONTNEY “A” POOL**

Commission staff have reviewed your letter dated March 16, 2010, requesting clarification regarding gas target area for Good Engineering Practice (GEP) approval, in the Heritage regional field Montney formation.

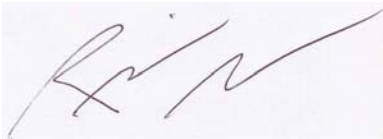
GEP approvals granted under Part 8, Division 6, Section 101 of the *Drilling and Production Regulation* are intended to allow the drilling and production of gas wells at increased density without regard for normal spacing and target areas.

As previously noted, the Commission has undertaken initiatives to identify the appropriate level of regulatory control for unconventional gas resource development. One item is the size of the target area buffer, to optimize gas recovery from this low permeability formation while also protecting correlative rights.

At this time of significant legislative re-crafting of regulatory instruments, the Commission is not yet at a point to release a general guideline regarding reservoir development impacts. However, the Commission is agreeable to receiving applications for waiver of the gas off-target production penalty for specific wells within your areas of concern, provided that no point in the completed portion of the well bore is closer than 150 m to the lease line. Waiver of penalty may be made under Section 10(6) of the *Regulation*.

Should you have any questions, please contact the undersigned at (250) 419-4421.

Sincerely,



Richard Slocomb, P.Eng.
Supervisor, Reservoir Engineering
Resource Conservation