Alberta’s Royalty Objectives

• Extend the economic life of mature pools to maximize recovery of oil reserves.
• To promote the development of new and more efficient technologies.
• To promote the exploration and development of new reserves while providing the province with a fair share of the value of the resource.
Direct Royalty Sources

• Alberta currently has 4 direct commodity streams of royalty revenue
  – Natural Gas
  – Conventional Oil
  – Oil Sands
  – Coal

In-direct Royalty Sources

• Additional in-direct resource revenue is realized through:
  – Tenure
  – Bonuses and sales of crown leases
  – Rentals and fees
Tenure, Bonus and Fee Royalties

- 2006 - $2.337 billion
- 2005 - $3.646 billion
- 2004 - $1.405 billion
- 2003 - $1.121 billion
- 2002 - $0.718 billion
- 2001 - $1.118 billion

Royalty Payments

Source: Alberta Energy 2006 Annual Report
2006 Provincial Budget Forecasted Revenue

Total Forecasted Revenue = $32.4 billion

Source: Alberta Ministry of Finance 2006 Budget

Natural Resources & Energy Specialization

2006 Provincial Budget Forecasted Expenditures

Total Forecasted Expenditures = $28.3 billion

Source: Alberta Ministry of Finance 2006 Budget

Natural Resources & Energy Specialization
Natural Gas Royalty Program

- Royalty Payments are dependent on:
  - Established select price
  - Vintage of gas discovery
    - Old gas
    - New gas
  - Current market price
  - In Stream Component (ISC)
    - Methane, ethane, propane, butane and pentanes-plus
  - Royalty amounts range from 15% to 35% depending on the above factors

Natural Gas Royalties

- 2006 - $5.435 billion
- 2005 - $8.388 billion
- 2004 - $6.439 billion
- 2003 - $5.450 billion
- 2002 - $5.125 billion
- 2001 - $4.030 billion
Conventional Oil Royalty Program

- Royalty Payments are dependent on:
  - Current market price
  - Oil quality
    - Heavy oil
    - Non-heavy oil
  - Well productivity
  - Vintage of original pool production
    - Old oil
    - New oil
    - Third tier oil
  - Royalty amounts range from 10% to 40% depending on the above factors

Conventional Oil Royalties

- 2006 - $1.330 billion
- 2005 - $1.463 billion
- 2004 - $1.273 billion
- 2003 - $0.981 billion
- 2002 - $1.177 billion
- 2001 - $0.987 billion
Oil Sands Royalty Program

- Revenue minus cost regime
  - 1% of gross revenue until all allowed costs and a return allowance are recovered by the developer
- Once costs recovered, royalty amounts are the greater of:
  - 1% of gross revenues
  - 25% of net revenues

Oil Sands Royalties

- 2006 - $2.480 billion
- 2005 - $0.950 billion
- 2004 - $0.718 billion
- 2003 - $0.197 billion
- 2002 - $0.183 billion
- 2001 - $0.185 billion
Natural Gas Royalty Challenges

• Steadily decreasing production
• Steadily decreasing reserves
• Delays in pipeline development
• Recent “Gas over Bitumen” rulings by the Energy Utilities Board

Conventional Oil Royalty Challenges

• Steadily decreasing production
• Steadily decreasing reserves
• Increasing costs of exploration and extraction
Oil Sands Royalty Challenges

- Explosion in development causing unforeseen issues
  - Environment
  - Infrastructure
  - Labour shortages
- Revenue minus cost program under review
  - Are Albertan's getting their fair share of royalties?
  - Is the program responsible for the explosion in oil sands development?

Conclusion

- Historical reliance on conventional oil and natural gas
  - Both are declining resources
- Oil sands are well primed to make up shortfall in royalties
  - Is the current royalty regime allowing Albertan's to obtain full value from this resource?
For more information

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