

Oil Sands Royalty New Royalty Framework Royalty Calculation Training

January 8, 2009

Session Highlights

- Summary of what's new/changed in the royalty reporting forms
- Post-Payout Good Faith Estimate (GFE) walkthrough of Inputs and Calculated Fields
- Pre-Payout Monthly Royalty Calculation (MRC) walkthrough of Inputs and Calculated Fields
- End of Period (EOP) Statement – to be addressed at a later date

Summary of What's New or Changed

- Reporting:
 - Volumes at Royalty Calculation Point (RCP)
 - Arm's Length (AL) and Non Arm's Length (NAL) information
 - Density, BVM Transportation Allowance, Adjusted BVM Price, Other Oil Sands Product FMV (when there is insufficient AL dispositions)
- Revenue Determination for Royalty Calculation:
 - Volume at RCP x Unit Price
 - Unit Price will depend on % AL Sales
- Royalty Rates:
 - Variable rates depending on WTI prices, published by DOE by 5th business day following month of production <http://www.energy.alberta.ca/OilSands/584.asp>
 - Pre-Payout Gross Revenue R% (ranges from 1% to 9%)
 - Post-Payout Gross Revenue R% (ranges from 1% to 9%)
 - Post-Payout Net Revenue R% (ranges from 25% to 40%)
- Determination of Bitumen Adjusted BVM Price for unit price calculation when there are insufficient or no AL dispositions
 - Inputs for Adjusted BVM calculation will be published by DOE by the 20th business day following month of production <http://www.energy.alberta.ca/OilSands/584.asp>

Summary of What's New or Changed

- Unit Price Calculation:
 - 3 prices are calculated for each product, price selection will depend on % AL sales:
- Legend:
 - TC – total consideration received or receivable in the 3rd party disposition
 - HC – handling charges in relation to 3rd party disposition
 - TD – 3rd party disposition quantity
 - NQ – production quantity at RCP less AL disposition
 - P – Adjusted BVM Price or FMV
 - Adjusted BVM Price – bitumen price calculated using BVM and adjusted for quality and transportation
 - PQ – total volume of oil sands products produced and delivered at the RCP for the month
 - CD – cost of diluent if oil sands product is a blend

$$\%AL \text{ Sales} = TD / PQ$$

Unit Price – addressed in Section 32 of OSRR 2009

Summary of What's New or Changed

- If %AL Sales \geq Threshold of 40%:
 - All Oil Sands Product Unit Price = $(TC - HC) / TD$

- If %AL Sales $<$ Threshold of 40%:
 - Bitumen and Other Oil Sands Product Unit Price = $((TC - HC) + (NQ \times P)) / PQ$, where NQ is the 'product' production quantity at RCP less AL disposition
 - Blended Bitumen Unit Price = $((TC - HC) + ((NQ \times P) + CD)) / PQ$, where NQ is 'clean crude bitumen' production quantity at RCP less AL disposition

- If No AL Sales:
 - Bitumen and Other Oil Sands Product Unit Price = $(NQ \times P) / PQ$, where NQ is <product> production quantity at RCP
 - Blended Bitumen Unit Price = $(NQ \times P) + CD / PQ$, where NQ is <clean crude bitumen> production quantity at RCP
 - $NQ = PQ$ when there is no AL disposition

- NQ in Blended Bitumen Unit Price Calculation requires a restatement of the blend volumes to bitumen (i.e., require removal of the diluent in the blend)

Summary of What's New or Changed

- Revised Pre-Payout MRC and Post-Payout GFE Forms to meet the new royalty calculation requirements
- Pre-Payout MRC also changed to report estimates (like the GFE)
 - Require estimated revenue, royalty and cost for future production months in the Period, however
 - Each month in the Period is a stand alone month for royalty calculation, not a monthly instalment of annual royalty
 - Amendments are reported on same form under the appropriate month
- Other Form Improvements:
 - Handling Charges and Diluent Costs are reported 'as is - without the negative multiplier', 'math' will net costs from revenue
 - Input fields shown in Blue, Calculated fields shown in Black
 - Formula sheet provided for Calculated Fields
 - Notes for additional clarity

Summary of What's New or Changed

- Revised OSR Monthly Royalty Forms are posted in DOE website:
<http://www.energy.alberta.ca/OilSands/811.asp>
- Revised PSR Monthly Royalty Form for Oil Sands wells subject to Conventional Oil Royalty are also posted in above website. Form is revised due to New Royalty Framework changes for Oil Royalty (see Dec 12 presentation)
- Revised forms are to be used effective Production Month 2009-01. Use old forms for production months prior to 2009.
- Crown Agreements (CA) that have not transitioned to OSR are not subject to the New Royalty Framework changes but will have revised royalty forms that are similar to the revised OSR royalty forms
 - Will discuss CA specific forms with impacted operators separately
- Syncrude and Suncor Transition Agreements will use the same revised royalty forms as OSR Projects
 - Will discuss with impacted operators for any unique requirements separately

Forms Walk-Through

- GFE Spreadsheet Review:
 - Input Fields
 - Calculated Fields
- MRC Spreadsheet Review:
 - Input Fields
 - Calculated Fields

Questions?