



talk about royalties.

May 2009

Facts on Royalties

Royalties are an important part of the Alberta government's revenue stream. They help fund important programs like health, education and infrastructure. They ensure that Albertans receive a portion of the benefits arising from the development of the province's energy resources. A well designed royalty system endeavours to strike the right balance between returning a share of the profits to the province as resource owner, while encouraging risk taking by the private sector to develop the resource which creates jobs and economic growth.

The Alberta Department of Energy is responsible for the administration of the *Mines and Minerals Act*, which sets out the requirements for the responsible development of Alberta's non-renewable mineral resources. In Alberta, 81% of the subsurface mineral rights are owned by the Crown. The remaining 19% are owned by the Government of Canada in national parks or held on behalf of First Nations and by individuals or corporations as a result of land grants made by Canada in the 1800s.

Companies are granted the right to explore for and develop petroleum and natural gas resources, in exchange for the value to Albertans that flows from development in the form of royalties, bonus bid payments (the amount of money offered or bid for the mineral rights) and rents. A royalty is the price charged by the energy resource owner for the right to develop those resources.

Royalty rates are set with the expectation that industry will earn a reasonable rate of return given the risk and investment they make in developing the resource. When setting royalty rates, the government considers factors such as commodity prices, production, costs and the province's competitive ability to attract industry investment.

Year by Year

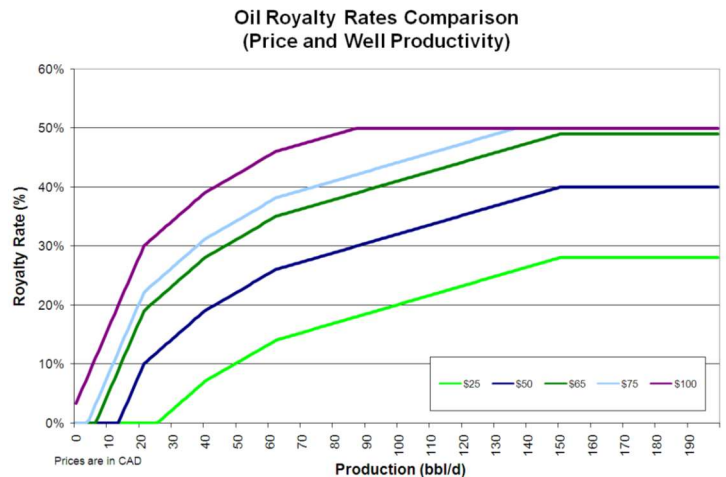
Total revenue collected

- 2006/07 \$12.260 billion
- 2007/08 \$11.271 billion
- 2008/09 \$12.530 billion (Budget 2009 – current)
- 2009/10 \$6.103 billion (Budget 2009 – projected)

HOW ARE ROYALTIES CALCULATED?

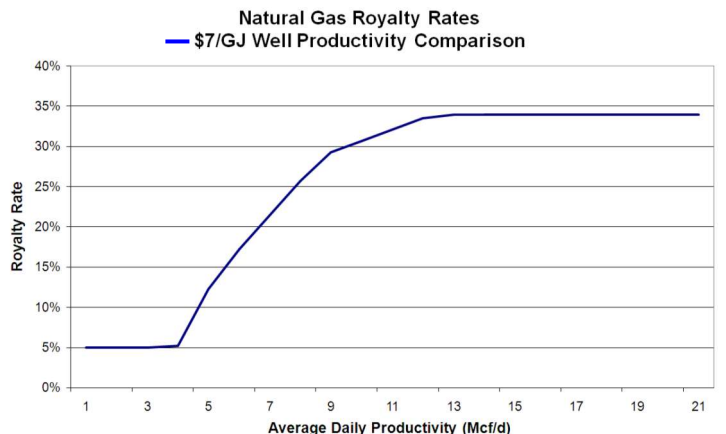
Conventional Oil

Royalties are set by a sliding rate formula containing separate elements that account for oil price and well production. Royalty rates will range up to 50%, with rate caps at \$120 per barrel (bbl).



Natural Gas

Gas royalties are set by a sliding rate formula sensitive to price and production volume. New royalty rates will range from 5% to 50% with rate caps at \$17.75 Cdn/GJ (gigajoule) .





talk about royalties.

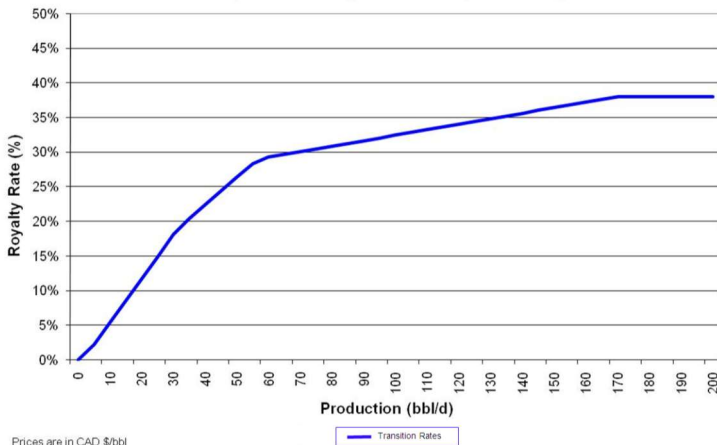
Conventional Oil and Natural Gas Transitional Royalty Rates

For a new natural gas or conventional oil well between 1,000 to 3,500 metres the Government of Alberta is providing industry with a one-time option of selecting a transitional rate or the conventional oil/natural gas royalty rate.

All wells drilled between now and 2013 that adopt the transitional rates will be required to shift to the conventional oil/natural gas royalty rates on January 1, 2014. No wells drilled before the effective date of the transitional rate program (November 19, 2008) or oil sands projects are eligible for the transitional rates.

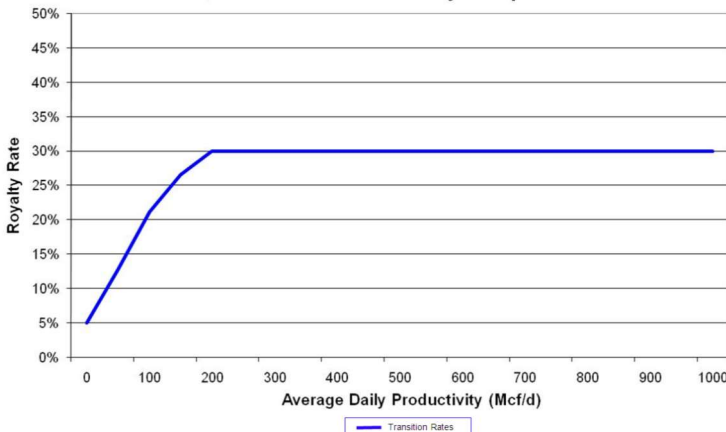
The five year transition option is designed to provide lower royalties at some price levels in the initial years of a well's life when production rates are the highest.

Conventional Oil Royalty Rates Comparison
(based on a price of \$75 per barrel)



Prices are in CAD \$/bbl

Natural Gas Royalty Rates
\$6.75/GJ Well Productivity Comparison



Oil Sands

A sliding scale is used for oil sands royalty rates ranging from 1% to 9% pre-payout and 25% to 40% post-payout depending on the price of oil. Project "payout" refers to the point at which the oil sands developer has earned sufficient revenues to recover all of the allowed costs for the project plus a return allowance.

The base royalty starts at 1% and increases for every dollar the world oil price, as reflected by West Texas Intermediate (WTI), is priced above \$55 per barrel, to a maximum of 9% when oil is priced at \$120 or higher.

The net royalty starts at 25% and increases for every dollar oil is priced above \$55 per barrel to 40% when oil is priced at \$120 or higher.

Price WTI C\$/bbl	Royalty Rate on Gross Revenue	Royalty Rate on Net Revenue	Price WTI C\$/bbl	Royalty Rate on Gross Revenue	Royalty Rate on Net Revenue
Below C\$55	1.00%	25.00%	C\$90	5.31%	33.08%
C\$55	1.00%	25.00%	C\$95	5.92%	34.23%
C\$60	1.62%	26.15%	C\$100	6.54%	35.38%
C\$65	2.23%	27.31%	C\$105	7.15%	36.54%
C\$70	2.85%	28.46%	C\$110	7.77%	37.69%
C\$75	3.46%	29.62%	C\$115	8.38%	38.85%
C\$80	4.08%	30.77%	C\$120	9.00%	40.00%
C\$85	4.69%	31.92%	Above C\$120	9.00%	40.00%

Coal

Under the Coal Royalty Regulation, there are two royalty regimes based on the nature of the coal resource developed:

- The royalty rate for Crown-owned Sub-bituminous (Plains) coal, used mainly to generate electricity, is: \$0.55/tonne.
- The royalty rate for Crown-owned Bituminous (Mountain/Foothills) coal, which is based on a revenue minus costs royalty regime, is:
 - Before mine payout: 1% of mine mouth* revenue
 - After mine payout: 1% of mine mouth* revenue plus 13% of net revenue

*Mine mouth - royalty is calculated based on the value of the coal at the mine, so any transportation costs or port costs are deducted.