Generic Onshore Royalty Regime

On June 21 1994, the Province of Newfoundland and Labrador announced a generic onshore royalty system which will apply to the province's onshore petroleum resources.

Royalty Structure	
Basic Royalty	
Royalty Holiday	First 2 million barrels
Basic Royalty	5%
Net Royalty	
Tier 1 Rate Return Allowance	 20% 5% + LTGBR*
Tier 2 Rate Return Allowance	 5% 15% + LTGBR*

* Long Term Government Bond Rate

Royalty Calculation

1. Royalty Holiday

There is no royalty payable on the first two million barrels or equivalent of production for a project.

2. *Basic Royalty*

After two million barrels of production, a *Basic Royalty* of five percent is payable.

3. *Net Royalty*

The *Net Royalty* consists of a two-tier profit sensitive royalty which become effective when *Net Royalty Payout* occurs.

- **Tier 1**

  The Tier 1 *Net Royalty* is 20% of *Net Revenue* after a *Return Allowance* of 5% + LTGBR is achieved. *Basic Royalty* is a credit against this royalty. Therefore, the interest holders pay the higher of *Basic Royalty* or *Net Royalty*.

- **Tier 2**

  The Tier 2 *Net Royalty* is 5% of *Net Revenue* after a *Return Allowance* of 15% + LTGBR is achieved. The Tier 2 *Net Royalty* is in addition to any other royalties payable.

Newfoundland Labrador

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Royalty Concepts

Basic Royalty - percentage of gross revenue.

Net Royalty - percentage of net revenue.

Net Revenue - gross revenue less eligible project costs.

Net Royalty Payout - point in time when the costs related to a particular project are recovered plus a specified return allowance on those costs. The Net Royalty Payout is divided into two tiers with each tier having a different return allowance.

Return Allowance - rate of return on unrecovered costs.