

Natural Gas Royalty Regime

Offshore Natural Gas Royalty

Royalty comprised of two components: basic and net. Basic and net royalty rates change through a smooth progression in between a low and high tier bandwidth.

Basic Royalty:

- to begin with project production
- basic royalty rates driven by netback value of production

Netback Price (NP)	Basic Royalty Rate (BRR)
< Cdn\$4 (NP _{min})	2% (BRR _{min})
> Cdn\$8 (NP _{max})	10% (BRR _{max})
where Netback Price is the calculated price to the project net of transportation costs $BRR = BRR_{min} + \{[(NP - NP_{min}) \div (NP_{max} - NP_{min})] \times (BRR_{max} - BRR_{min})\}$ Basic Royalty = (revenue – transportation costs) x BRR	

Net Royalty:

- to begin with project cost recovery
- net royalty rates driven by revenue to cost index

R Factor (R)	Net Royalty Rate (NRR)
< 1 (R _{min})	0% (NRR _{min})
> 4 (R _{max})	50% (NRR _{max})
where R = (cumulative revenue less cumulative transportation costs less cumulative royalty paid) ÷ (cumulative project capital & operating costs) $NRR = NRR_{min} + \{[(R - R_{min}) \div (R_{max} - R_{min})] \times (NRR_{max} - NRR_{min})\}$ Net Royalty = (revenue – transportation costs – project capital & operating costs – basic royalty paid) x NRR	