

Hibernia Project Royalty Regime

Discovered in 1979, the Hibernia Field is located about 315 kilometres east southeast of St. John's in 80 metres of water. The field is located within the Jeanne d'Arc basin and, according to the Canada-Newfoundland Offshore Petroleum Board, contains an estimated 884 million barrels of recoverable reserves.

Royalty Structure	
Basic Royalty	
First 3 million barrels (Production start-up) and 18 months after Production start-up	1%
Until earliest of: (i) Next 18 months; or (ii) Production exceeds 120 mmbbls	2%
Until earliest of: (i) Next 18 months; or (ii) Production exceeds 194 mmbbls	3%
Until earliest of: (i) Next 18 months; or (ii) Production exceeds 268 mmbbls	4%
Thereafter	5%
Net Royalty	
Tier 1	
Rate	30%
Return Allowance	15%
Tier 2	
Rate	12.5%
Return Allowance	18% + CPI*

* Consumer Price Index

Royalty Calculation

1. Basic Royalty

Basic Royalty increases from 1% to 5% of *Gross Revenue*. After production start-up, this *Basic Royalty* is equal to 1% of *Gross Revenue* and increases by 1% either every 18 months or when production reaches certain levels. The maximum *Basic Royalty* rate is 5%. During the scheduled repayment of loans guaranteed by the Government of Canada, the *Basic Royalty* Rate is indexed or reduced to the extent that crude oil prices are below \$30 US/BB1 (1987 \$US). This is applicable to the Hibernia project only.

2. Net Royalty

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

- **Tier 1**

The Tier 1 *Net Royalty* is 30% of *Net Revenue* after a *Return Allowance* of 15% is achieved. *Basic Royalty* is a credit against this royalty. Therefore, the interest holders pay the higher of *Basic Royalty* or Tier 1 *Net Royalty*.

- **Tier 2**

The Tier 2 *Net Royalty* is 12.5% of *Net Revenue* after a *Return Allowance* of 18% plus the CPI is achieved. The Tier 2 *Net Royalty* is in addition to any other royalties payable.

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Royalty Concepts

Basic Royalty - percentage of gross revenue.

Net Royalty - percentage of net revenue.

Gross Revenue - gross sales revenues less eligible transportation costs to the point of sale.

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.

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