

Terra Nova Project Royalty Regime

Discovered in 1984, the Terra Nova field is located 350 kilometres east southeast of St. John's, or 35 kilometres southeast of Hibernia. The field is located within the Jeanne d'Arc basin and, according to the Canada-Newfoundland Offshore Petroleum Board, contains an estimated 354 million barrels of recoverable reserves.

Royalty Structure	
<i>Basic Royalty</i>	
Until earliest of: (i) 50 mmbbls cumulative production (ii) Simple Payout	1%
After 50 mmbbls until the occurrence of Simple Payout	2.5%
After the occurrence of Simple Payout for the next 100 mmbbls	5%
Next 100 mmbbls	7.5%
Thereafter	10%
<i>Net Royalty</i>	
Tier 1 Rate Return Allowance	30% 10%+CPI*
Tier 2 Rate Return Allowance	12.5% 18% + CPI*

* Consumer Price Index

Royalty Calculation

1. Basic Royalty

The *Basic Royalty* increases from 1% to 10% of *Gross Revenue* as either certain production levels are achieved or when *Simple Payout* occurs.

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 10% plus the CPI 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.

Simple Payout - point in time when the costs related to a particular project are recovered.

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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