New Generic Offshore Oil Royalty Regime

Basic Royalty:

- to begin at first production and increase with project cost recovery
- fixed basic royalty rates linked to revenue over cost index (R Factor)

R Factor (R)	Basic Royalty Rate (BRR)
First Oil to $R < 0.25$	1%
$0.25 \leq R < 1$	2.5%
$1 \leq R < 1.25$	5%
$R \geq 1.25$	7.5%

where R = (cumulative gross sales revenue and incidental revenue less cumulative transportation costs less cumulative basic and net royalty paid to prior month) ÷ (cumulative pre-development, capital & operating costs)

Basic royalty = (gross sales revenue - transportation costs) x BRR

Net Royalty:

- to begin with project cost recovery
- sliding scale net royalty rates driven by revenue over cost index (R Factor)

R Factor (R)	Net Royalty Rate (NRR)
$R < 1$ (R_{min})	0%
$1 \leq R \leq 3$	10% (NRR_{min}) - 50% (NRR_{max})
$R > 3$ (R_{max})	50%

R has the same definition and calculation as for the basic royalty above

$NRR = NRR_{min} + \{[(R - R_{min}) \div (R_{max} - R_{min})] \times (NRR_{max} - NRR_{min})\}$

Net royalty = (gross sales revenue + incidental revenue – transportation costs – project capital & operating costs) x NRR

<u>Notes:</u>

1. The new regime will comprise a basic and net royalty with both linked to cost recovery and profitability as measured by one R Factor calculation.
2. Basic royalty rates will range from 1% to 7.5% with step increases linked to the R Factor.
3. Net royalty set to one tier with sliding scale flexible rates ranging from 10% to 50%. Rates linked to same R Factor as defined for basic royalty.
4. Basic royalty is a credit against net royalty.
5. Royalty calculations are to be compiled on a <u>monthly</u> basis.
6. The new regime does not include return allowances, uplifts and consumer price index adjustments on project costs.

Newfoundland Labrador