

## Nova Scotia Offshore Royalty Regime

### Overview

Nova Scotia has an Offshore Petroleum Royalty Regime that is based upon revenues and profits. The regime is designed to recognize the inherent risks involved in offshore oil and gas exploration and production. The regime provides arrangements for the currently producing Sable Offshore Energy Project and the Deep Panuke Project which is currently under development, as well as a generic formula for future projects. The generic royalty regime is explicitly designed to encourage risk-taking by offering lower royalties for the first project in a new area - a so called "high risk project".

### Authority

The authority for the Government to put in place regulations that set royalty levels for oil and gas projects in the offshore Nova Scotia area comes from the Offshore Petroleum Royalty Act. The Act also provides for royalty agreements to be put in place between offshore production license holders and the government of Nova Scotia. In July of 1999, the government of Nova Scotia signed formal royalty agreements with each interest owner of the Sable Offshore Energy Project, and in June 2006 signed an Offshore Strategic Energy Agreement (OSEA) with Encana Corporation concerning the Deep Panuke Project. Generic royalty regulations will apply to future offshore oil and gas projects. Each of the royalty regimes stipulate that royalty will be a function of both the value of petroleum leaving a project boundary as well as profits associated with the operation of a project. Royalty is initially set as an increasing percentage of gross revenues before it switches to increasing percentages of net revenues. Royalty rates increase with project profitability. Once net revenue royalty levels are reached, royalty cannot be less than a specified level of gross revenues.

### Royalty Terminology

**Gross Revenues (GR):** The value of petroleum leaving the boundary of an offshore project.

**LTBR:** Long Term Government of Canada Bond Rate (10 year).

**Net Revenue (NR):** The gross revenue of a project less the costs associated with getting the petroleum to the project boundary.

**Return Allowance (RA):** A percentage of unrecovered project costs. Once simple payout is achieved, the return allowance ceases to be calculated.

**Simple Payout:** The point at which project revenues first reach or exceed the sum of allowed exploration costs, capital costs, operating costs and royalties paid. Corporate income tax is not an allowed cost for royalty purposes.

### Sable Offshore Energy Project Royalty Regime

Gross Revenue Royalty	
<b>Tier 1</b>	1% GR, 36 month period
<b>Tier 2</b>	2% GR, until simple payout RA based on 5% + LTBR
<b>Tier 3</b>	5% GR, until simple payout RA based on 12.5% + LTBR
Net Revenue Royalty	
<b>Tier 4</b>	30% NR, until simple payout RA based on 45% + LTBR *
<b>Tier 5</b>	35% NR *

\* minimum of 1% or 5% of GR payable depending on average gas price.

## Deep Panuke Project Royalty Regime

Gross Revenue Royalty	
Tier 1	2% GR, until simple payout RA based on 5% + LTBR
Tier 2	5% GR, until simple payout RA based on 12.5% + LTBR
Net Revenue Royalty	
Tier 3	20% NR, until simple payout RA based on 25% + LTBR *
Tier 4	32.5% NR *

\* minimum of 5% GR payable.

## Generic Royalty Regime

### Base Regime

Gross Revenue Royalty	
Tier 1	2% GR, until simple payout RA based on 5% + LTBR
Tier 2	5% GR until simple payout RA based on 20% + LTBR
Net Revenue Royalty	
Tier 3	20% NR until simple payout RA based on 45% + LTBR *
Tier 4	35% NR *

### Small Oil

Gross Revenue Royalty	
Tier 1	2% GR until later of 2 years or simple payout RA based on 5% + LTBR
Tier 2	5% GR until later of 3 years or simple payout RA based on 20% + LTBR
Net Revenue Royalty	
Tier 3	Same as Tier 3 of BASE REGIME *
Tier 4	Same as Tier 4 of BASE REGIME *

### High Risk

Gross Revenue Royalty	
Tier 1	Same as Tier 1 of BASE REGIME
Tier 2	Same as Tier 2 of BASE REGIME
Net Revenue Royalty	
Tier 3	20% NR *

\* Minimum of 5% GR payable.

For projects that fall under the Base Regime, only successful finding costs are allowed costs for royalty purposes. For projects that fall under the Small Oil or High Risk regimes, in addition to successful exploration costs, unsuccessful exploration costs associated with the project may be allowed costs for royalty purposes.

**For more information on royalties onshore and offshore Nova Scotia including areas designated as High Risk for royalty purposes, please contact:**

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