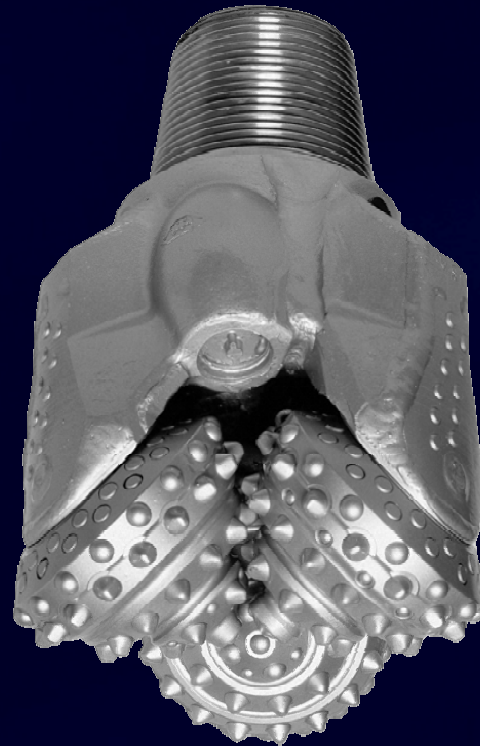


COMPTON

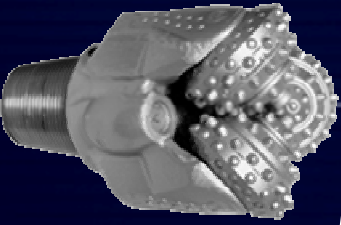
PETROLEUM CORPORATION



Alberta Royalty Review

May 24, 2007

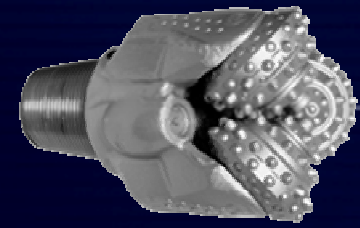
Compton Profile



- Geographically focused operations
 - 3 core areas
 - 4 natural gas resource plays
 - 1 conventional light oil play
- Large land base and drilling inventory
 - 1.8 million acres (1.4 million net)
 - Spent last 10 years building up land base
- Reserve base – 2006
 - 1.5 Tcfe (¼ billion boe) P+P reserves
 - 20 year proved RLI
- 2007 and beyond – Pure Resource Play
 - Natural gas focused large scale drilling program required

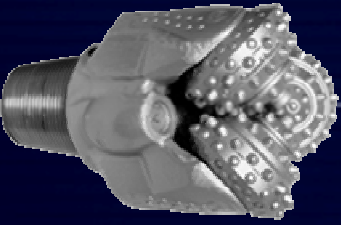
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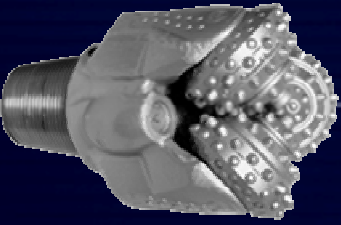
Alberta's current royalty structure

- Alberta's conventional oil and gas reserves are in decline
- The future and growth of Alberta's oil and gas industry and the Alberta economy will be driven by the development of oil sands and unconventional natural gas resource plays
 - Immediate future growth of the oil sands is dependent on natural gas



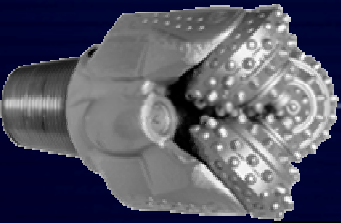
Alberta's current royalty structure

- Current royalty structure fair, with the exception of unconventional (tight) gas development
 - Royalty rates favour conventional crude oil
 - Elimination of deep gas royalty holiday
- Like oil sands, unconventional gas development requires significant upfront capital investment and longer lead times
- High initial production is critical to the economics of unconventional gas production, but high initial production attracts higher royalty rates
- Existing high industry cost structure has placed continued downward pressure on producer returns
- A royalty structure that assists producers in recovery of initial investment will foster the development of unconventional reserves



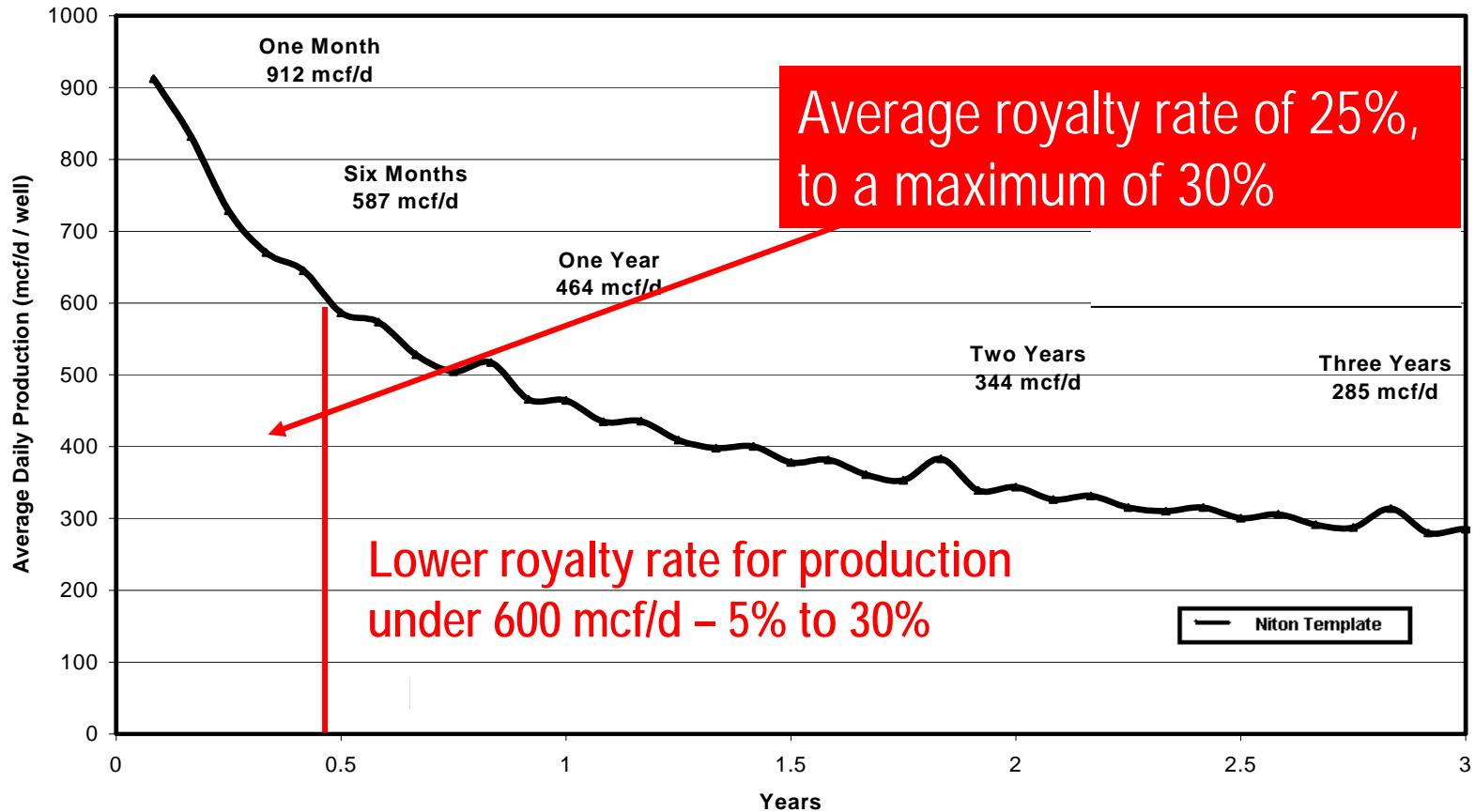
Unconventional Tight Gas Characteristics

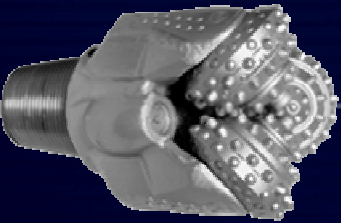
- High initial decline rates, up to 60% in the first year
- Wells must produce at low pressures, requiring significant infrastructure and compression facilities
- Down-spacing to 4 to 8 wells per section required for optimal recovery
- Significant upfront investment for land, gathering systems and compression
 - High initial investment, similar to oil sands development
- With the maturing WCSB, productivity of new wells is generally lower, and requires more expensive technology to develop and extract



Unconventional Natural Gas – Niton Normalized Production Profile

Niton Normalized Production Profile
(59 wells)





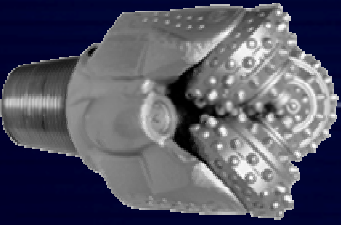
Unconventional Gas vs. Conventional Oil Returns

"Royalties from conventional oil have increased with price, but at a much slower pace than those from natural gas."

-- Canadian Association of Petroleum Producers, May 2007

| | Niton | | Worsley | |
|---|-------|---|---------|---------------------------------|
| | | Tight Gas \$/Mcf Higher Productivity | | Crude Oil \$/Bbl Light Crude |
| Sale Revenue | | \$8.15 | | \$65.73 |
| Crown Royalty | 25.7% | <u>(\$2.10)</u> | 15.0% | <u>(\$9.86)</u> |
| | | \$6.06 | | \$55.87 |
| Operating & transportation costs | | <u>\$1.19</u> | | <u>\$10.15</u> |
| Field net back | | \$4.87 | | \$45.71 |
| Industry Avg. F&D Costs per CAPP | | <u>(\$3.50)</u> | | <u>(\$21.00)</u> |
| Industry Avg. Return before G&A, interest & taxes | | \$1.37 | | \$24.71 |
| Industry Avg. Return per boe (6:1) | | \$8.22 | | \$24.71 |

Source: Compton select representative fields, recent four month actual averages.



Recommendations

- Adjust existing crown royalty rates for natural gas to create a level playing field for natural gas producers
 - 58% of Alberta crown royalties came from natural gas in fiscal 2005-06
- Unconventional gas producers are paying disproportionately high royalty rates, while the challenges and upfront costs are similar to that of oil sands based on productivity and reserves
- Given this reality, it is critical that crown royalty calculations – especially for natural gas – be brought in line with those royalties affiliated with conventional oil production
 - i.e., base the initial royalty rate on the average of the first 12 months of production for unconventional natural gas
- The Province should consider significant changes to tight gas spacing to encourage additional drilling, prove up more reserves and production, and generate increased sustainable royalty income