



PETROBANK

ENERGY AND RESOURCES LTD.



ALBERTA ROYALTY REVIEW

FORT McMURRAY

JUNE 5, 2007

***STRENGTH
IN OUR RESOURCES***



FORWARD LOOKING STATEMENTS

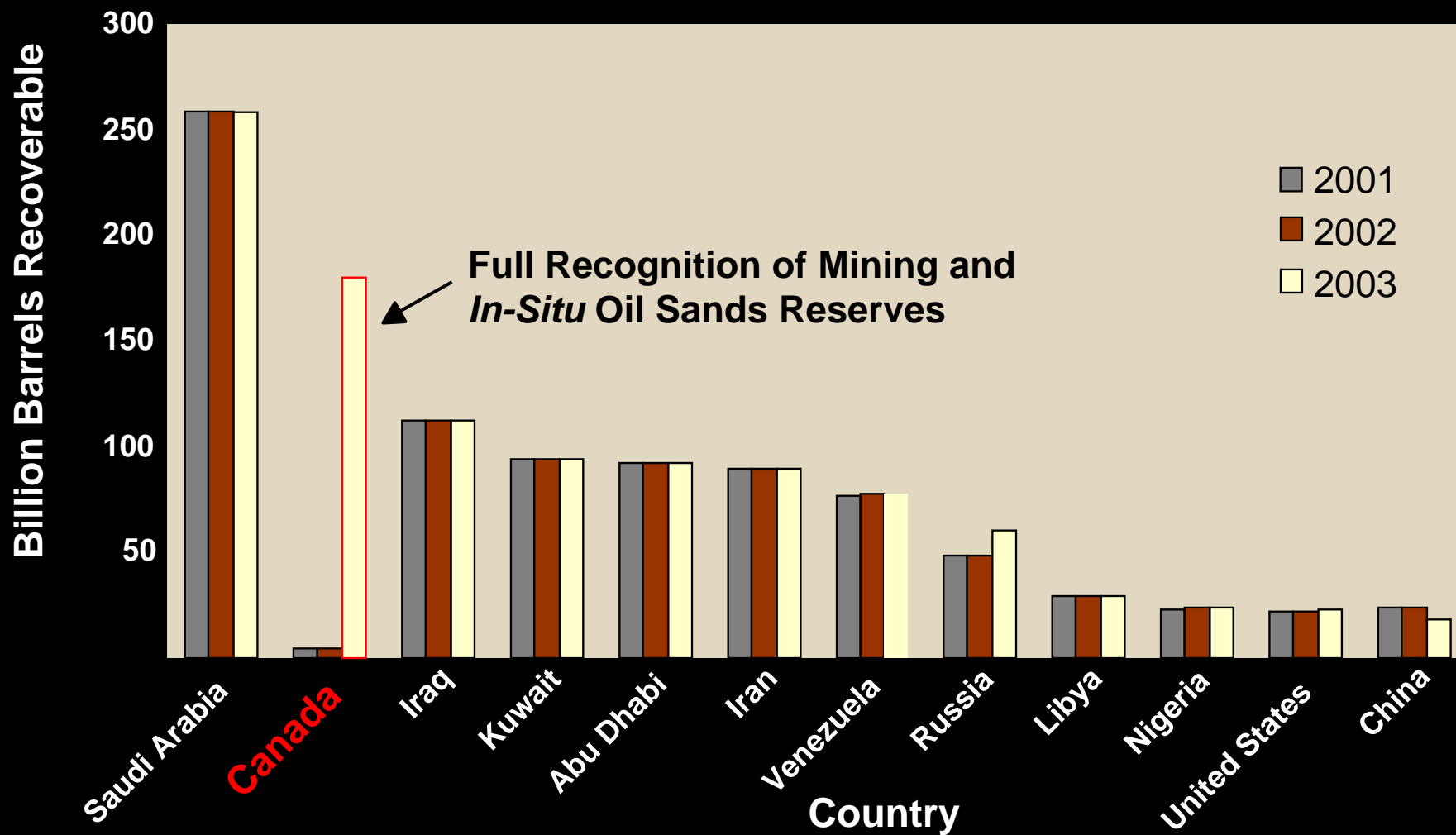


Statements in this presentation may contain forward-looking statements including management's assessment of future plans, operations, expectations of future production and capital expenditures. Information concerning reserves may also be deemed to be forward-looking statements as such estimates involve the implied assessment that the resources described can be economically produced. These statements are based on current expectations that involve numerous risks and uncertainties, which will cause actual results to differ from those anticipated. These risks include, but are not limited to: the risks of the oil and gas industry (e.g. operational risks in exploration, development and production; potential delays or changes in plans with respect to exploration or development projects or capital expenditures; the uncertainty of reserve estimates; the uncertainty of estimates and projections relating to production, costs and expenses, and health, safety and environmental risks), fluctuation in foreign currency exchange rates and commodity price fluctuation. As a consequence, actual results may differ materially from those anticipated in the forward-looking statements. In addition, the THAI™/CAPRI™ processes and other technologies are early stage and future results may differ from those anticipated.



WORLD OIL RESERVES - RECOVERABLE

The Current Fiscal Structure is Working



Sources: Oil & Gas Journal 2003, Joseph P. Riva, Jr.



OIL SANDS DEVELOPMENT REALITIES

Risks Have Not Changed From The 1990s  **PETROBANK**
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- **Multi billion dollar investments**
- **Long construction period before production**
- **Return on invested capital is at risk over a long period of time**
- **Key economic drivers such as commodity price, construction costs and operating cost escalation are unpredictable**
- **A reasonable and stable tax, royalty and regulatory framework is a prerequisite to foster a healthy investment environment**



PRE-1997 OIL SANDS FISCAL POLICY



- **Individual, negotiated agreements between Government and project operators**
 - **Inconsistent terms between competing projects**
 - **Considerable time spent in negotiating project specific terms, including subsidies**
 - **New project development was hampered as operators did not have a predictable fiscal basis to evaluate project economics**
 - **A small number of commercial projects that went forward (Syncrude, Suncor and Cold Lake)**



1997 GENERIC ROYALTY OBJECTIVES



- **Accelerate development of the oil sands while ensuring a fair return to the resource owners – the people of Alberta**
- **Facilitate development of oil sands by private sector**
 - **Oil sands development will occur when investors can expect to make a reasonable profit from a venture**
 - **Government will not directly participate through grants, loans, loan guarantees, or any other “special” deals**
- **Ensure oil sands development is competitive with other global petroleum development opportunities**
- **Create a standard set of royalty terms for new projects and a clear, consistent, and stable system**
- **Advance the development and implementation of new technology**



CURRENT OIL SANDS ROYALTY



- **Government shares in each project's profit after capital investment is recovered**
- **Industry and government share future price variability**
- **The new oil sands fiscal policy provides:**
 - **Framework for industry to determine pace of growth**
 - **Fiscal certainty with a stable and predictable regulatory, royalty and taxation environment**
 - **A level playing field for all potential oil sands investors**
 - **Incentives to foster new technology development**



PRESENT INVESTMENT ENVIRONMENT*

Offsetting 'Return On Investment' Impacts  **PETROBANK**
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- **Positive ROI impacts**
 - Oil prices have increase 2.5 times
 - Federal and provincial tax reductions
- **Negative ROI impacts**
 - Capital costs increases by over 2.5 times
 - Operating and sustaining capital costs increases over 2.5 times
 - Elimination of accelerated capital cost allowance
 - Greenhouse gas compliance
 - Canadian/US dollar exchange rate increase

*Source: CAPP



CURRENT OIL SANDS FISCAL IMPACTS*



- **According to the government of Alberta, 75% of Alberta's oil sands production is already paying the full, post-payout 25% net profit royalty**
- **The Alberta government estimates for 2006/2007:**
 - **Oil sands royalties at almost \$2.5 billion**
 - **Oil sands lease bonuses at almost \$1.2 billion**
- **Oil sands royalties will grow significantly as new projects come on-line**
- **Government and industry will (in effect) equally share in the future net revenue generated by oil sands production**

*Source: CAPP, Government of Alberta



ROYALTY REVIEW CONCLUSIONS

The Current Fiscal Structure is Working



- **The generic oil sands regime implemented in 1997 was then, and remains, a correct and fair policy**
- **Royalty terms reflect the economic realities of major capital projects and are aligned with the investor's economic drivers**
- **Stability of the fiscal regime is critical to attracting capital, maintaining competitiveness and encouraging technological innovation**
- **Current royalty policies enabled the growth in resource development we are now enjoying and will yield increasing government revenue for the long term**



TECHNOLOGY DEVELOPMENT

Technology Enhances Sustainability



- **We should not assume that today's technology is viable, sustainable (or even appropriate) for future oil sands development or economic forecasting**
- **Significant investment in new technology is required to ensure the long term viability of the oil sands and the demand for innovation is increasing**
- **The potential for increased profitability directly impacts the rate of development of new technology**
- **Destabilizing the fiscal framework may negatively impact innovation and retard new technology implementation in Alberta**



PETROBANK'S OIL SANDS TECHNOLOGY

A Step Change Technology



- Petrobank is pioneering innovative oil sands technology with global applicability.
- At the WHITESANDS project, we are applying the THAI™ and CAPRI™ technologies, which will lower capital and operating costs per barrel, increase resource recovery and partially upgrade the bitumen in-situ, with lower environmental impact.
- Our technology also has a shorter project construction period and time to payout, thereby increasing and accelerating government revenues.
- Would ground breaking new technology be developed as quickly under a more onerous fiscal regime?
- Will the next THAI™ project be implemented in Alberta or elsewhere in the world?



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