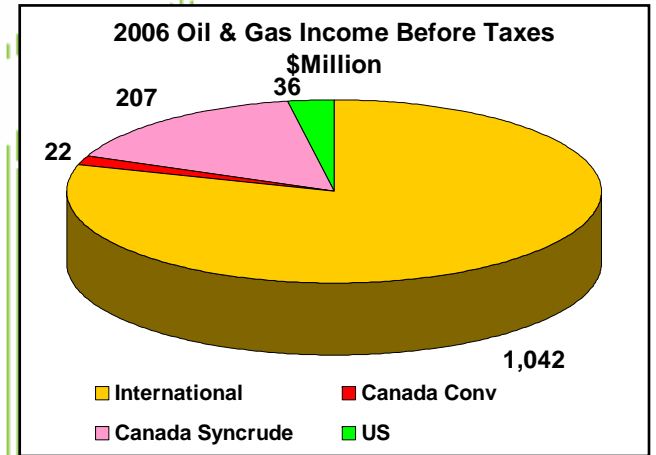


# 2007 Alberta Royalty Review

Roger Thomas – Sr. VP Canadian Oil & Gas

# Nexen - International Oil & Gas Company

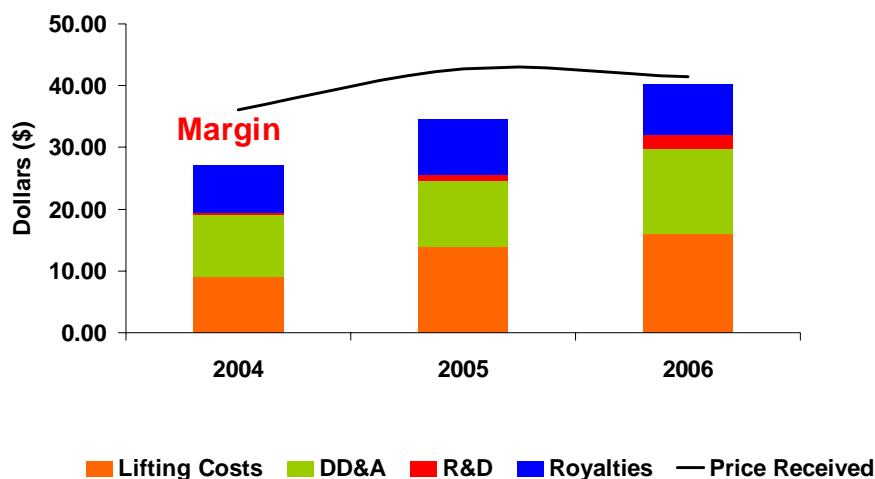
## Head Office: Calgary



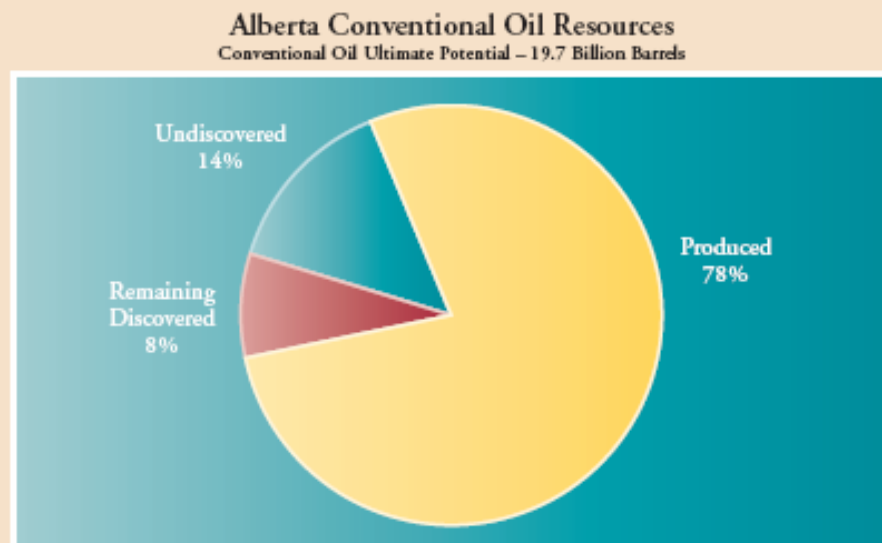
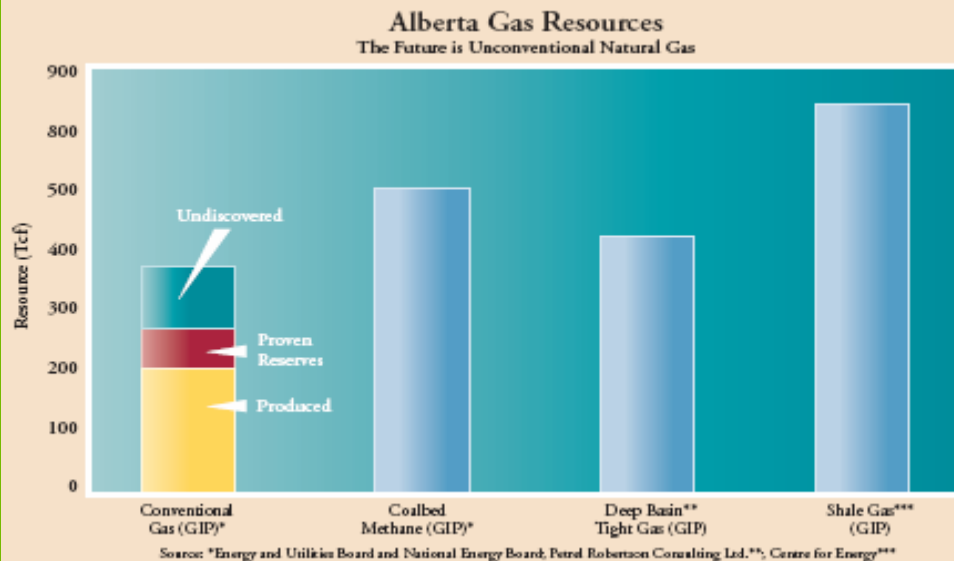
# Nexen's Conventional Business in Canada

2006 Gross Sales (\$millions)	573
Royalties	-114
Lifting Costs	-223
Depletion, Depreciation & Amortization	-162
Exploration, R&D and Other	<u>-52</u>
2006 Operating Profit before Tax	<u>22</u>

- Gross royalties are calculated on sales
- Dramatic increases in costs:
  - Finding and Development
  - Operating & Admin Costs
- Smaller profit margins
- Production per well declining
- Reserve size smaller
- Slowdown in drilling

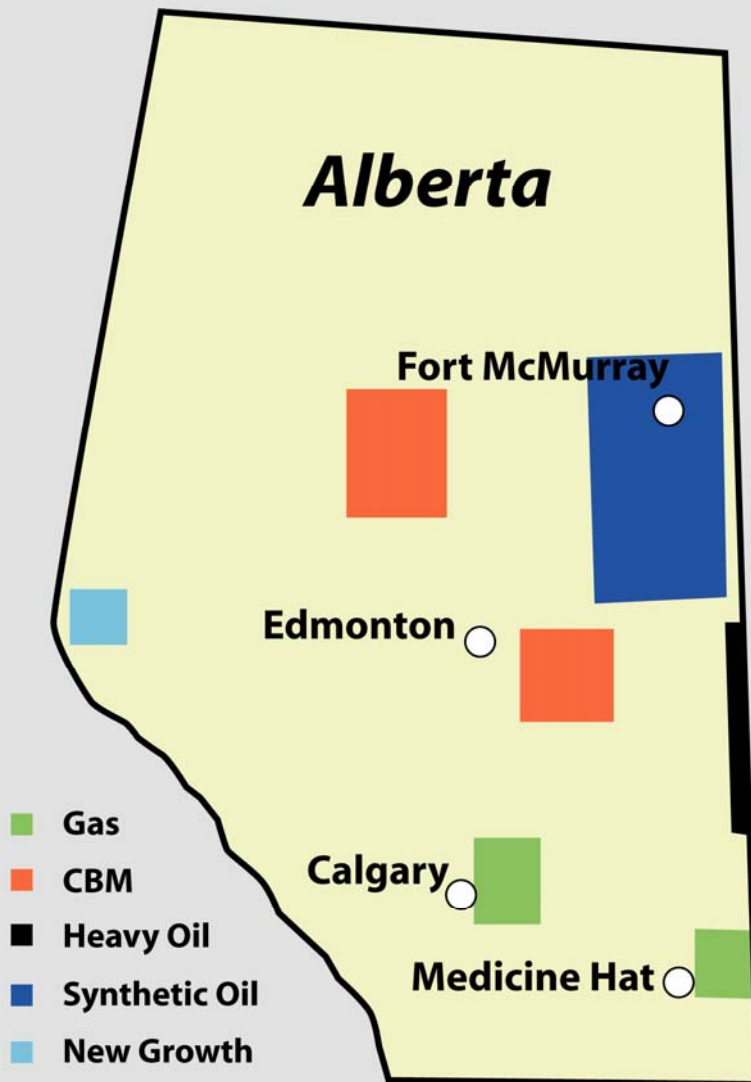


# Transitioning to Unconventional Resource



- **The future is in unconventional resources**
  - Movement to oil sands and unconventional gas (CBM, shale gas, deep tight gas)
  - Vast resources in place with the potential for long life production and income generation
  - Opportunities are unproven, require new technology, large upfront investment, high risk, slower payback (cycle time)

# Nexen's Participation in Alberta



## ■ Nexen's Alberta Activities

- Innovative SAGD bitumen extraction and upgrading to premium synthetic crude
- Continued development of Syncrude
- Breaking ground on Coal Bed Methane development in the Upper Mannville
- Assessing Shale gas development potential

- **Nexen has invested over \$4 billion in capital in the past four years in Canada**

# Generic Oil Sands Royalty Regime



Nexen Inc.

## ■ Working as Intended

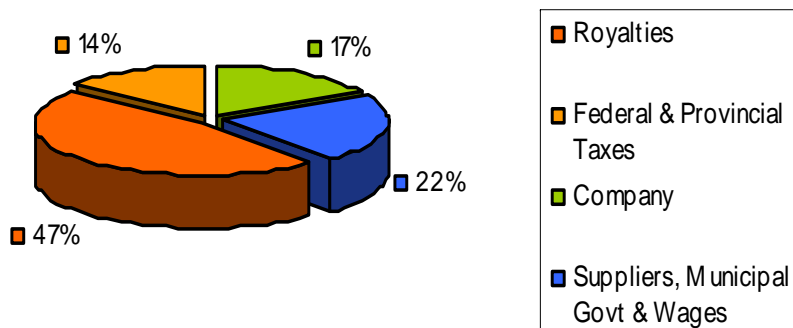
- Promotes development of the oil sands and related economic activity
- Maintains a stable fiscal and legal framework
- Recognizes the technical risk, economic uncertainties and high cost of entry
- Provides for government participation in oil price upside
- Encourages technology innovation
- Maintains Alberta's competitiveness

## ■ Recommendation

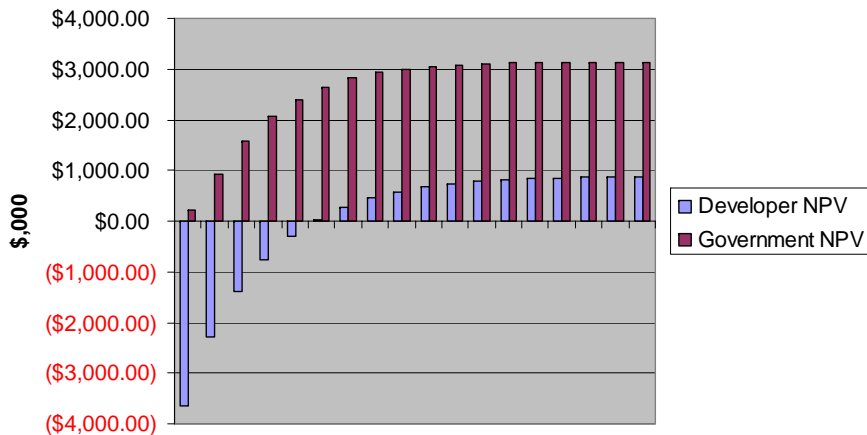
- The existing regime is working as intended and should be preserved

# Unconventional Development – The Future of Natural Gas

Who gets What?  
Return (NPV<sub>10</sub>) from a Mannville CBM Well  
AECO \$6.50



Government & Developer Cash Flow



## ■ Different than Conventional

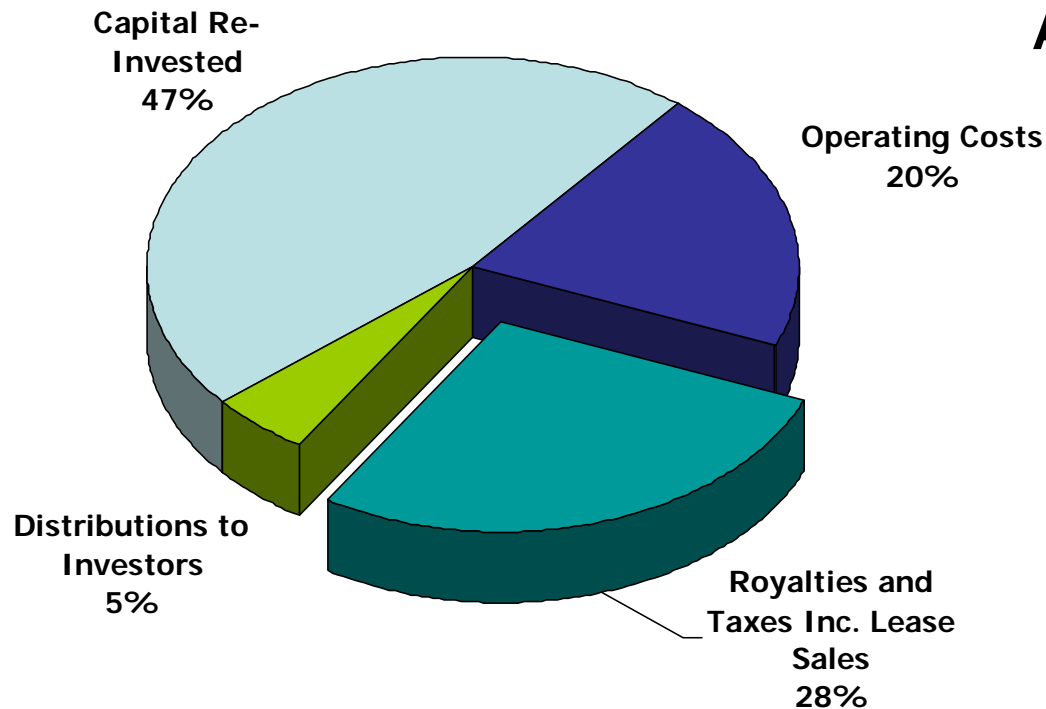
- Longer cycle time between investment and cash flow returns
- Higher risk and technical uncertainty
- Increased operational risk
- Substantial upfront capital investment
- Significant royalties are paid long before developer reaches breakeven

## ■ Recommendation

- Encourage unconventional development with a royalty mechanism similar to the generic oil sands royalty regime

# Benefits to Albertans

## Industry Revenue Distribution 2006



Source: ARC Financial

### Oil & Gas industry is a driving force behind the Alberta Advantage:

- Royalties
- Corporate Taxes
- Land Bonuses
- Employment
- Energy services, pipeline, rail, trucking, air travel, real estate, professional consulting, steel, surveying, travel, food services, communications.....

*53% of Alberta's 2004 GDP was derived from the Oil and Gas Industry.*

# Summary

- **Keep the Industry strong in Alberta to ensure future benefits to Albertans**
- **Preserve the principles of Alberta's business climate - stability, certainty, consistency and fairness**
- **Maintain existing generic royalty regime for oil sands production**
- **Improve gross royalty structure for a more balanced sharing of risk and reward on emerging unconventional resource plays**