

FREQUENTLY ASKED QUESTIONS

(Prepared 19-02-08)

What is the royalty regime in Saskatchewan? Is the province likely to change it?

At the present time, the oil sands royalty regime for Crown lands in Saskatchewan is based on 1% of gross revenues prior to payout and 20% after payout. (Payout is achieved when there has been cash recovery of eligible capital costs and expenses.)

The recently elected Premier of Saskatchewan and the province's Minister of Energy have both stated publicly on numerous occasions, both in Saskatchewan and outside the province, that they have no intention of changing the royalty regime. The Premier has also publicly stated that he aims to provide a regulatory environment that will help build the emerging unconventional oil and gas sector in Saskatchewan, and that this may include government help with research and development.

What are the proposed royalty changes in Alberta and how will they affect Oilsands Quest?

The proposed new oil sands royalty regime in Alberta will be effective January 2009. Royalty rates will be determined by a sliding scale based on the price of West Texas Intermediate (WTI) oil in Canadian dollars per barrel.

The Base Royalty Rate, charged on gross bitumen revenues prior to payout, will remain at 1% up to \$55 Cdn per barrel; it will increase for every dollar oil is priced above \$55 Cdn per barrel to a maximum of 9% when WTI is priced at \$120 Cdn per barrel. The Net Royalty Rate, charged on net bitumen revenues after payout, will stay at 25% up to \$55 Cdn per barrel; it will increase for every dollar oil is priced above \$55 Cdn per barrel to a maximum of 40% when oil is priced at \$120 Cdn per barrel. The province will exercise its existing right to receive "royalty-in-kind" on oil sands projects (raw bitumen delivered to the Crown-operated Alberta Petroleum Marketing Commission in lieu of cash royalties) to support value-added upgrading projects in Alberta.

Based on today's oil prices, industry interpretations of the new royalty regime and the anticipated high quality of our oil sands resources in Alberta, we believe that these resources could provide positive economic returns.