

6. Royalty Reporting and Payment

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 27 to 34

The Crown's royalty share is calculated and paid monthly at the rate prescribed by the Regulation:

- For **pre-payout projects**, the applicable royalty is 1% of the project's gross revenue.
- For **post-payout projects**, the applicable royalty is the greater of
 - 1% of the project's gross revenue, or
 - 25% of the net revenue for the **period**

Royalty reporting requirements depend on whether or not a project has reached payout—the first day of the month during which its cumulative revenues equal its cumulative costs. (see 4.3, "The Royalty Calculation for Pre-Payout Projects" and 4.4, "The Royalty Calculation for Post-Payout Projects")

What is a period?

Section 1(u) of the Regulation defines a period as each **calendar year** that occurs between the project's effective date and the date when project approval is revoked.

When a project reaches payout part way through the year, two periods are used for reporting purposes. The last day of the pre-payout period is the day before the post-payout period begins.

What is a month?

Section 3 of the Regulation defines a month, except as otherwise specified by the Minister, as the period of time that begins at 8:00 AM on the first day of the month and ends immediately before 8:00 AM on the first day of the next month.

6.1 Reporting Requirements for Pre-Payout Projects

Both pre-payout and post-payout projects must submit an operator's forecast each year.

6.1.1 Monthly Royalty Calculation Reporting Forms (MRC)

The monthly royalty* calculation is submitted to the Department on the appropriate reporting form (MRCs). The following project information is required:

- project identification, as itemized in the table on 6.4.1.1, "Required Information"
- the sales volume and sales revenue, and the sales price per volume for each oil sands product

- the net volume and net price of all crude bitumen sold that month
- the volume of crude bitumen produced for the month
 - For a project that is subject to a unit agreement, Crown and freehold production volumes must be reported separately, as indicated on the form.
- the unit price
 - All handling charges must be reported in order to calculate the unit price. (see 4.2.4, "Unit Price")

Because the unit price is different for each oil sands product, a separate MRC must be completed for each product.

- the volume and cost of any diluent included in the sales product
- The appropriate portion of diluent cost is deducted from the Crown's royalty share.

The project operator who completes the MRC must ensure to include contact information such as; name, e-mail address, telephone number and date prepared.

Each reporting form is itemized below and a sample is provided in the Appendix. All reporting forms are available for download on the Departments website.

- MRC-1a Pre-payout Monthly Royalty Calculation (Blended Bitumen)
- MRC-1b Pre-payout Monthly Royalty Calculation (Bitumen)
- MRC-1c Pre-payout Monthly Royalty Calculation (Synthetic Crude Oil)
- MRC-1d Pre-payout Monthly Royalty Calculation (Other Oil Sands Products)

6.1.1.1 Amendments

A project operator may submit an amended MRC if the original submission's data was subject to an adjustment. Although the amount of royalty payable may change when the report is amended, the due date for payment remains unchanged. If the adjustment results in an underpayment, interest would be calculated starting the day after the royalty was payable. For example, royalty for oil sands products sold or disposed of in April is due on May 31 even if an amended report is submitted after this date. Interest on an underpayment would be calculated as of June 1.

The Crown does not pay interest on royalty overpayments made by the operator, whether the overpayment was made on an original or an amended MRC.

6.1.1.2 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 28

Pre-payout monthly royalty calculations must be submitted by the last day of the month, following the production month*, in which the Crown's royalty share was disposed of, consumed or used. For example, production and royalty for April would be reported by May 31. Penalties and interest may be levied if pre-payout monthly

reports are submitted late, or improperly completed. (see 6.6, "Penalties" and 6.7, "Interest".)

If the due date falls on a non-business day, the next business day will apply as a due date.

6.1.2 End of Period Statement Reporting Forms (Pre-Payout)

End of period statements detail project operations from both a financial and a production perspective. These statements are a comprehensive package which must be signed by an **executive authorized** officer of the project operator and include project identification information, as itemized in the table in 6.4.1.1, "**Required Information**".

Each reporting form contained in the package is described below and a sample is provided in the Appendix. All reporting forms are available for download on the Departments website.

6.1.2.1 Contents of Pre-Payout Reporting Package

6.1.2.1.1 Auditor's Letter Requirement (PRE-1)

A letter from an independent auditor is required if the project's crude bitumen sales average more than 1,590 m³ per day (i.e., 10,000 bpd) during the period. If sales are less than the 1,590 m³ per day threshold, statements prepared by project operators are sufficient.

If an independent audit is required, the auditing firm must provide a signed letter verifying that, in the firm's opinion, the project operator has complied with the requirements of the Regulation.

If the project reached the 1,590 m³ per day threshold, the external auditor's opinion applies only to the current period cost and revenue portion of the statements, and not to the opening cumulative balance. However, since both the opening balance and the current period amounts affect the project's return allowances, the auditor must acknowledge that the opening amounts were not examined.

All end of period statements—whether they were independently audited or not—are subject to financial audits conducted by the Department. (see 6.8, "Financial Audits")

6.1.2.1.2 Project Payout Status (PRE-2)

This reporting form summarizes the cumulative cost and cumulative revenue for prior periods, adds the allowed costs (including the cost of diluent), project revenue and other net proceeds for the current period, and determines the net cumulative balance of the project.

The project operator must also provide an estimated payout date for the project and identify the assumptions that underlie the estimate. The assumptions pertain to

- sales price
- price differential
- production volumes

- Canadian exchange rate

6.1.2.1.3 Allowed Costs Summary (PRE-3, PRE-3a and PRE-3b)

These reporting forms report the allowed costs incurred in the following categories:

- operating costs
- capital costs
- diluent costs
- royalty paid
- return allowance earned

Project operators must also provide cost details—using the formats provided in supplementary forms PRE-3a and PRE-3b or equivalent in-house reporting forms. Cost detail reports must include the following information

- costs per month
- costs per category (as listed at the start of this section) and subcategory
 - Project operators may define their own subcategories to reflect the nature of their particular operations. For example, operating costs may include staff costs, repairs and maintenance, fuel costs and other subcategories that reflect the project's operations.

6.1.2.1.4 Return Allowance (PRE-4)

The monthly return allowance earned (see 4.2.1, "The Return Allowance") is an allowed cost. Together with other allowed costs and royalty paid for that month, it is added to the previous month's cumulative cost to get the current cumulative cost for the project.

6.1.2.1.5 Revenue Summary (PRE-5)

This reporting form summarizes the total revenue generated for each month of the period. Sales revenue less all handling charges and less the cost of diluent determines the project's gross revenue. Other net proceeds are added to the gross revenue to determine the project's cumulative revenue.

Details for each number within PRE-5 are required to be reported on forms PRE-6a through PRE-6d. A revenue detail form is required for each leased oil sands product sold or disposed of by the project operator.

6.1.2.1.6 Royalty Summary (PRE-6)

This reporting form summarizes the Crown's royalty share payable for each leased oil sands product delivered to the royalty calculation point. The total royalty payable for the period should equal the total royalty actually paid by the operator. Penalties and interest may apply.

Details about the royalty share payable for each leased oil sands product are reported on forms PRE-6a through PRE-6d.

6.1.2.1.7 Royalty Detail (PRE-6a to PRE-6d)

These reporting forms provide details to support the royalty-related figures reported on the revenue and royalty reporting forms (PRE-5 and PRE-6). A royalty detail form is required for each leased oil sands product sold, used or disposed of by the project operator. This is because each product has a different unit price.

- Blended bitumen sales are reported on form PRE-6a.
- Bitumen sales are reported on form PRE-6b.
- Sales of synthetic crude oil are reported on form PRE-6c.
- Sales of other oil sand products are reported on form PRE-6d.

These forms include details about sales volume, sales revenue and handling charges in order to calculate the unit price for each product.

6.1.2.2 Amendments

The production, revenue and royalty figures reported on an end of period statement must match those submitted on the pre-payout project's monthly reports. Project operators can file amendments to the monthly royalty reports after the end of period report has been filed within the eligible period (within 4 years of the end of the period). However, the end of period statement must also be amended (2 signed copies – see 6.4.1.1 Required Information) to agree with the amended monthly royalty report.

6.1.2.3 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 29

End of period statements must be submitted within three months of the end of each period. For example, if the period ends on December 31, the end of period statement must be submitted by March 31 of the following year. Penalties and interest may be levied if end of period statements are submitted late. (see 6.6, "Penalties" and 6.7, "Interest")

6.2 Reporting Requirements for Post-Payout Projects

Monthly royalty calculations are submitted to the Department on a good faith estimate* (GFE) form. The financial information required on a GFE is more detailed than the information reported on the monthly royalty calculation form (MRC) submitted for pre-payout projects. Actual figures for past months and estimates for future months must be included.

Both pre-payout and post-payout projects must submit an operator's forecast each year. (see 6.3, "The Operator's Forecast")

Each reporting form is described below and a sample is provided in the Appendix. All reporting forms are available for download on the Departments website.

6.2.1 Monthly Good Faith Estimates Reporting Forms (GFEs)

For post-payout projects, good faith estimates (form GFE-1) are submitted each month. Like the monthly reports submitted for pre-payout projects, good faith estimates provide project identification, contact and royalty calculation information. The latter information is more comprehensive than that required for pre-payout reports.

The GFE provides financial details for each month during the period. This includes actual figures for the current and past months and estimated figures for future months.

Accurate estimates must be provided: the estimates directly affect the amount of royalty estimated and remitted for the period.

Monthly good faith estimates include the following details:

- project identification, as itemized in the table in 6.4.1.1, "Required Information"
- the actual or estimated production of crude bitumen and a calculation of its net price
 - The crude bitumen net price is realized revenue* less the cost of diluent over the quantity of crude bitumen, blended bitumen (less diluent volume) and synthetic crude oil disposed of.
- the sales volume and sales revenue for each oil sands product disposed of
- the unit price for each leased oil sands product
 - All handling charges must be reported in order to calculate the unit price. (see 4.2.4, "Unit Price")
- the project revenue
 - The project revenue is the sum of all leased oil sands products less their respective handling charges. This amount is used to calculate the net revenue. The project revenue less the cost of diluent determines the gross revenue.
- allowed costs
 - Allowed costs are categorized as
 - *plant operations*
 - *diluent (The weighted average cost of diluent included with blended bitumen is deducted from the Crown's royalty share.)*
 - *capital*
 - *net loss carried forward*
- other net proceeds
 - Allowed costs can be reduced by the total amount of other net proceeds earned by the project, but the reduction claimed cannot exceed the original amount of the allowed costs.

- If other net proceeds exceed allowed costs, the allowed costs are reduced to zero and the unused portion of the other net proceeds is carried forward to the next period as an allowed cost. The excess is carried forward until it is depleted.
- the project's net revenue or net loss
 - If a net loss occurs, it is carried forward to the next period as an allowed cost.

The project operator who completes the GFE must ensure to include contact information such as; name, e-mail address, telephone number and date prepared.

6.2.1.1 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 28

Good faith estimates must be submitted by the last day of the month following the production month. For example, production and royalty payable for April would be reported by May 31. Penalties and interest may be levied if pre-payout monthly reports are submitted late.

If the due date falls on a non-business day, the next business day will apply as a due date

Exceptions

Newly approved or amended projects normally have retroactive effective dates. For example, a project approved in March might have an effective date of January. In this case, monthly reports for January, February and March would be due by April 30th. Due dates for subsequent monthly reports would follow the regular schedule.

6.2.2 End of Period Statements Reporting Forms (Post-Payout)

End of period statements detail project operations from both a financial and a production perspective. These statements are a comprehensive package which must be signed by an authorized officer and include project identification information, as itemized in the table in 6.4.1.1, "Required Information". The Department would appreciate an electronic copy of the EOP statement as well.

Each reporting form contained in the package is described below and a sample is provided in the Appendix. All reporting forms are available for download on the Departments website.

6.2.2.1 Contents of Post-Payout Reporting Package

6.2.2.1.1 Auditor's Letter Requirement (PST-1)

A letter from an independent auditor is required if the project's crude bitumen sales average more than 1,590 m³ per day (i.e., 10,000 bpd) during the period. If sales are less than the 1,590 m³ per day threshold, statements prepared by project operators are sufficient.

If an independent audit is required, the auditing firm must provide a signed letter verifying that, in the firm's opinion, the project operator has complied with the requirements of the Regulation.

All end of period statements—whether they were independently audited or not—are subject to financial audits conducted by the Department. (see 6.8, "Financial Audits")

6.2.2.1.2 Royalty Payable (PST-2)

This reporting form identifies the royalty payable and the royalty rate used to calculate this amount. (Royalty payable is the greater of 1% of the project's gross revenue or 25% of the net revenue.)

The total royalty payable for the period is reconciled to the total royalty actually paid by the operator. Any difference must be paid by the operator or refunded by the Department by the last day of the 4th month following the end of the period.

6.2.2.1.3 Royalty Calculations (PST-3)

This reporting form calculates royalty based on 1% of the project's gross revenue and on 25% of the net revenue. The greater of these amounts is the payable royalty, which is entered on form PST-2. If gross revenue royalty exceeds net revenue royalty, the excess is carried forward as an allowed cost for the next period.

The components used in the royalty calculation (project revenue, the cost of diluent, allowed costs and the allowable portion of other net proceeds) are derived from forms PST-4, PST-5 and PST-7.

6.2.2.1.4 Allowed Cost Summary (PST-4, PST-4a and PST-4b)

These reporting forms summarize the allowed costs incurred by the project. The costs are broken down into subsidiary categories. The following categories are mandatory:

- operating costs
- capital costs
- the cost of diluent
- the return allowance on the previous period's net loss
- the net loss carried forward from the previous period
- the excess gross revenue royalty paid in the previous period

Project operators must also provide cost details—using the sample formats in forms PST-4a and PST-4b or an in-house reporting format. Cost detail reports must include the following information

- costs per month
- costs per category (operating, capital and diluent) and subcategory
 - Project operators may define their own subcategories to reflect the nature of their particular operations. For example, operating costs may include

staff costs, repairs and maintenance, fuel costs and other subcategories that reflect the project's operations.

6.2.2.1.5 Other Net Proceeds (PST-5)

This reporting form identifies other net proceeds generated by the project. The categories listed on the form are intended as examples: project operators may use categories that reflect their particular operations.

In a post-payout period, the amount of other net proceeds that can be used to reduce allowed costs cannot exceed the total amount of allowed costs. Any excess of other net proceeds over allowed costs is carried forward as a deduction against the allowed costs for the next period.

6.2.2.1.6 Return Allowance (PST-6)

This reporting form calculates the return allowance for the period. A return allowance is provided only when the project has a net loss at the end of a period. (see 4.2.1, "The Return Allowance")

6.2.2.1.7 Project Revenue (PST-7)

This reporting form summarizes the total revenue generated for each month of the period. Project revenue less the cost of diluent determines the gross revenue of the project.

Details for each number on this schedule are reported on forms PST-7a through PST-7d. A revenue detail schedule (similar to pre-payout form PRE-6a through PRE-6d) is required for each oil sands product sold or disposed of by the project operator.

6.2.2.1.8 Carry Forward Amounts (PST-8)

This reporting form identifies four cost and revenue amounts that can be carried forward to the next period as allowed costs:

- the net loss during the period
- the return allowance for current period's net loss
- the excess of gross revenue royalty over net revenue royalty
- the excess of other net proceeds over total allowed costs (carried forward to the next period's other net proceeds)

6.2.2.2 Amendments

The Department will accept amendments to the end of period statement for a post payout project within the eligible period (within 4 years of the end of the period).

6.2.2.3 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 29

End of period statements must be submitted within three months of the end of each period. For example, if the period ends on December 31, the end of period statement

must be submitted by March 31 of the following year. Penalties and interest may be levied if end of period statements are submitted late.

6.3 The Operator's Forecast

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 27

Operators' forecasts are required for both pre-payout and post-payout projects and should include written explanations to interpret and clarify the figures submitted. They are used to estimate oil sands royalty revenues that could be expected by the Crown for the current calendar year plus the next four years. Forecasts should be submitted to the Director, Evaluations, Oil Sands Development. (See Appendix J, "Contact Information")

The Department recognizes that operators' forecasts are "best guesses" at the time they are submitted, and can vary significantly in the coming years. If a forecast has changed by more than $\pm 20\%$ during the course of a year, the operators must notify the Department.

Operator's forecasts must identify the opening balances for the current year and the project as a whole, and provide estimates of projected

- *sales volumes*
- *quality differentials*
- *handling charges*
- *other project revenues*
- *natural gas volumes used*
- *diluent volumes used*
- *allowed costs*
- *other net proceeds*

They must also forecast the expected payout date of any pre-payout project.

6.3.1 Explanatory Notes

The numbers in the following text refer to numbers identified on the Department of Energy's "Sample Format for Operator's Forecast Report." (see the appendix for a sample copy.)

1. Units
 - All monetary values are reported in current year Canadian dollars.
 - Volumes are reported in cubic metres (m³).
2. Current Year
 - **For projects with an effective date before October 31** of the current calendar year, current year information combines actual and projected revenues and expenditures:
 - *actual figures are used for the period from the project's effective date to October 31 of the current calendar year*
 - *forecasted figures are used for the period from November 1 to December 31 of the current calendar year*
 - **For projects with an effective date between October 31 and December 31** of the current calendar year, current year information includes forecasted information from the effective date to December 31 of the current calendar year.

Where actual values for current-year quality differentials and handling charges are unknown, estimates will be accepted.

3. Net Cumulative Balance
 - The following rules apply for projects with an effective date before January 1 of the current calendar year:
 - ***If the project did not reach payout by December 31*** of the year prior to the current calendar year, the net cumulative balance is as reported on the previous year's end of period statement.
 - ***If the project reached payout by December 31*** of the year prior to the current calendar year, the net cumulative balance is, if applicable, the net loss carried forward from the period prior to January 1 of the current calendar year.
 - *For projects whose effective date falls within the current calendar year, the net cumulative balance is the prior net cumulative balance.*

- 4. *Sales Volumes*
 - Forecasts of sales volumes are required for each of the project's oil sands product streams, which may include crude bitumen, blended bitumen, synthetic crude oil or partially upgraded bitumen.
 - *Oil sands products such as sulphur and coke are excluded from this section of the forecast: revenue from these products is recorded as "other product revenues."*
 - Products of reasonably similar quality may be combined into one product stream.
 - *To provide the Department with an understanding of the product quality, the operator must provide an estimate of the average or range of API gravity* and the percentage of sulphur content for each forecasted product stream.*

If more than 20% of the project's sales volumes are sold at a fixed price under a long-term contract (longer than 6 months), this portion is reported in terms of revenues rather than sales volumes.

5. Quality Differential

- A forecasted quality differential is required for each reported product stream.
- The quality differential—measured in dollars per m³—compares the price of an oil sands product with the price of an appropriate benchmark crude oil. Either Edmonton Light Par or Hardisty Heavy is appropriate benchmarks for this purpose. The price of the benchmark crude must be reported as well as the quality differential.

$$\text{Quality Differential} = \text{Benchmark Price} - \text{Product Price}$$

- In calculating the quality differential, products of reasonably similar quality may be combined into one product stream. In this case, a weighted average is used to determine the quality differential.

6. Handling Charges

- Handling charges must be reported—as dollars per m³—for each reported product stream. Handling charges include export terminal charges and transportation from the royalty calculation point to the point of sale or to the export terminal (Edmonton, Hardisty and Lloydminster) closest to the project.
- The point of sale or export terminal must be identified. Transportation costs must be broken down into pipeline or trucking costs, as appropriate.

7. Other Product Revenues
 - Other product revenues include the operator's forecast of revenues from oil sands by-products such as sulphur and coke.
 - "Other product revenues" and "other net proceeds" are mutually exclusive.
8. Natural Gas Volumes Used
 - Projects that use natural gas must report the volume used **unless** the natural gas is purchased under a long-term contract at a fixed price. In the latter case, the natural gas costs are captured as allowed costs and the volumes used do not need to be reported.
 - When natural gas volumes are reported, operating costs figures (reported as allowed costs) must exclude natural gas costs.
9. Diluent Volumes Used
 - If blended bitumen is reported, the volumes of diluent used in blending the bitumen must also be reported.
10. Allowed Costs
 - Forecasts of both capital costs and operating costs are required.
 - **Capital costs** must be classified as sustaining or strategic. Alternatively, total capital expenditures can be broken down by major capital projects, phases of expansions or some other appropriate division. (For the purpose of the report, strategic capital is generally defined as capital expenditures that are required to expand production capacity above the previous year's level. Sustaining capital would be all remaining capital expenditures.)
 - **Operating costs** exclude the cost of diluent. They also exclude natural gas costs unless natural gas volumes are not reported.
11. Other Net Proceeds
 - Other net proceeds include revenues from custom processing, cogeneration and other sources that are not related to the disposition of oil sands products.
12. Forecast of the Project Payout Date
 - Projects that have not yet reached payout must provide a forecast of the expected project payout date.

6.3.2 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 27

Operators' forecasts must be submitted by December 15 of each year.

6.4 Reporting Formats and Timing

6.4.1 Forms

Royalty reporting forms can be downloaded from the Department website as PDF or Excel files. The latter included pre-programmed formulae so that the required calculations are done automatically once monthly volumes have been entered.

Sample reporting forms are included in the Appendix.

6.4.1.1 Required Information

The following table provides an at-a-glance-look at the project identification and signatures required on royalty reporting forms:

PREPAYOUT		POSTPAYOUT	
Monthly Royalty Calculation (MRC)	End of Period Statement	Monthly Good Faith Estimate (GFE)	End of Period Statement
the project name	the project name	the project name	the project name
the oil sands project approval order number (OSRxxx)	the oil sands project approval order number (OSRxxx)	the oil sands project approval order number (OSRxxx)	the oil sands project approval order number (OSRxxx)
the production year and month	the period start and end dates	the production year and month	the period start and end dates
relevant EUB scheme numbers			
the name and contact information for the person who completed the report		the name and contact information for the person who completed the report	
Contact Person	Signature of an authorized officer		the signature of an authorized officer
due by the last day of the month following the production month	due within three months of the end of each period	due by the last day of the month following the production month	due within three months of the end of each period
Electronic copy	Electronic and 2 signed hard-copies	Electronic copy	Electronic and 2 signed hard-copies
	auditor's letter required if crude bitumen sales average more than 1,590 m ³ /day		auditor's letter required if crude bitumen sales average more than 1,590 m ³ /day

6.4.1.2 Reporting Standards

All royalty-related reports submitted to the Department must comply with the following standards.

6.4.1.2.1 Volumetric Reporting

Volumes of bitumen, diluent and synthetic crude oil are expressed in cubic metres (m³) to the nearest tenth of a cubic metre. For example: 66.9 m³.

Quantities of sulphur are expressed in tonnes to the nearest tenth of a tonne. For example: 34.9 t.

6.4.1.2.2 Monetary Values

Monetary values are reported in Canadian dollars. The mathematical accuracy required for reporting monetary values is as follows:

- The unit price of oil sands products and diluent is expressed in dollar and cents to the nearest cent per unit. For example: \$123.45 per unit.
- Dollar amounts (except unit prices) reported on good faith estimates and end-of-period forms are expressed to the nearest dollar. For example: \$123.
- Dollar amount on pre-payout monthly royalty calculation forms shall be expressed in dollar and cents to the nearest cent. For example: \$1,235.45.

6.4.1.2.3 Negative Values

Negative values, whether monetary or volumetric, are indicated with a leading negative sign. For example: -\$132.50.

6.4.1.3 Submissions

Project operators may submit MRC or GFE reports to the Department in hard copy format or electronically. However, the Department prefers the MRC and GFE submissions electronically.

If reporting is done electronically, the following rules apply:

- Reports must be submitted in the format prescribed in the Excel-format forms on the Department website.
- The date and time when the report was sent must be indicated on the submission.
- The software used to must be compatible with the version of Excel used by the Department. As of printing, this is Microsoft Excel 2003.
- Project operators must provide 2 appropriately signed paper copies of the end of period (EOP) statements. An electronic copy would also be appreciated.

NOTE

The Department is not liable for report submissions that are lost in transit. It is the responsibility of the project operator to ensure that project reports reach the Department by the specified due dates. Penalties and interest may be imposed if required reports are late. (see 6.6, "Penalties" and 6.7, "Interest".)

6.4.2 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 27, 28 and 29

Monthly royalty reports—including pre-payout MRCs (monthly royalty calculations) and post-payout GFEs (good faith estimates)—are due by the last day of the month following the production month. For example, production and royalty for April would be reported by May 31. Also, if the due date falls on a non-business day, the next business day will apply as a due date.

For newly approved or amended oil sands royalty projects that have retroactive effective dates, the first monthly report is due by the last day of the month following the month in which the project was approved. For example, a project approved in March might have an effective date of January. In this case, monthly reports for January, February and March would be due by the end of April. Due dates for subsequent monthly reports would follow the regular schedule.

End of period statements (for both pre- and post-payout projects) are due within three months of the end of each period.

Operators' forecasts are due by December 15 of each year.

Penalties and interest may be levied if the required reports are submitted late.

6.5 Royalty Payment

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 24, 25 and 31

6.5.1 Methods of Payment

All remittances of Crown royalty payment must be payable to the Minister of Finance, Province of Alberta.

Crown royalty can be remitted in four ways:

- by **cheque** through the mail or by courier
- by **electronic funds transfer** to the account of the Minister of Finance, Canadian Imperial Bank of Commerce 10102 Jasper AV, Edmonton Alberta, Bank No. 010, Transit 00059, Account No. 00-54305.
- by automatic debit
- by **direct deposit**, using a RapidTrans deposit slip

- RapidTrans deposit slips are available from the Calgary Information Centre.
at

Alberta Department of Energy
 Calgary Information Centre
 300, 801 - 6 Avenue SW
 Calgary, Alberta Canada T2P 3W2

Telephone (403) 297-8955
 Fax (403) 297-8954

Figure 10: The information required for oil sands royalty payments.

ALBERTA ENERGY RAPIDTRANS DEPOSIT SLIP		CLIENT ACCOUNT NUMBERS AND IDs	PAYMENT TYPE	LIST CHEQUE & AMOUNT (\$)	
For deposit to the Provincial Treasury at CANADIAN IMPERIAL BANK OF COMMERCE		GW 123456 Client ID 0ZZ4	G94	1,000	00
BRANCH		OS4 (4)			
DATE		OTHER (PLEASE IDENTIFY): Gas 93 ZZ4	GAS	549	50
ACCOUNT # 09-00000		PCR ZZ4	PC1	236	23
PAYER NAME/PHONE NO. JANE DOE 555-4321					
NOTE: PLEASE FAX COPY OF YOUR RAPID TRANS TO: 403-422-4281 - ATTN: CASHIERS					

CLIENT ACCOUNT NUMBERS AND ID(S)	PAYMENT TYPE	LIST CHEQUE & AMOUNT (\$)
G94 ← Only applicable if reporting gas royalty		
G94		
G94		
OTHER (PLEASE IDENTIFY): PSR AssignedName OSR 123	PSR OSR	10,000 .00 1,123,456 .00
↑ Oil Sands Royalty Payments are reported under "OTHER"		
TOTAL DEPOSIT		\$ 1,133,456 .00

6.5.2 Required Information

Oil sands royalty payments must include the following information:

- *the payment date*
- *the name of the payer*
- *the activity ID that identifies the name or number assigned to the project*
- *the dollar amount for each activity ID, if the payment is for more than one project*
- *the payment total*

If the payment is made by direct deposit, the required information must be entered directly on the RapidTrans slip.

If the payment is by mail or electronic transfer of funds, the required information can be faxed to the Cashiers Financial Services Group at 780-422-4281.

If the above information is not provided, the payment may be rejected and penalties and interest would be assessed.

6.5.3 Timing

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 31(1), 31(2) and 31(5)

For pre-payout projects, Crown royalty payments must be submitted by the last day of the month following the month in which the Crown's royalty share was disposed of, consumed or used. For example, if 300 m³ of crude bitumen are produced in January but not sold until June 15, royalty is payable on or by July 31.

For post-payout projects, Crown royalty payments must be submitted by the last day of the month following the month in which the Crown's royalty share was disposed of, consumed or used. For example, if 300 m³ of crude bitumen are produced in January but not sold until June 15, royalty is payable on or by July 31.

Interest is charged if monthly royalty payments are late.

6.5.4 Information and Assistance

For assistance in completing RapidTrans slips for oil sands royalty payments, contact the "Oil Sands Royalty Account Inquiries" team.

For information about signing up for RapidTrans payments, contact the Department's Financial Services Branch. (See Appendix J, "Contact Information")

6.6 Penalties

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 32

Penalties may be assessed against project operators who fail to provide the required operating forecast, monthly reports and end of period statements with complete and in the proper format by the prescribed due dates. (see 6.4.2, "Timing")

A \$1,000 penalty may be imposed for each month or partial month a report is late. Penalties must be paid within 30 days of receiving notice of the penalty.

Penalties may also be assessed against project operators who do not comply with the regulatory requirements specified in the Regulation. If a financial audit (see 6.8, "Financial Audits") conducted by the Department identifies a royalty underpayment, and if the auditor determines that the underpayment occurred as a result of improper record keeping, lax reporting procedures or non-compliance with the Regulation, the operator would be notified that the cause of the deficiency must be corrected.

If the same deficiency arises in a subsequent period, a penalty may be assessed. The penalty amount for the second instance is 10% of the resulting royalty deficiency. For any subsequent instance, the penalty would be 50% of the royalty deficiency. No penalty would be levied if the penalty amount is less than \$1,000.

Penalties must be paid within 30 days of receiving notice of the penalty.

Penalty Waivers

The Minister may waive a penalty assessed for non-compliance or for late reporting caused by circumstances agreed to be beyond the operator's control.

6.7 Interest

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 33

6.7.1 Interest Charged by the Crown

Oil Sands Royalty Regulation, 1997 (AR 185/97), sections 33(1), 33(2) and 33(3)

Interest may be charged to project operators who fail to remit royalty or other payments to the Crown by the dates prescribed in the Regulation. The Crown may charge interest if the following payments are late:

- a monthly royalty payment
 - Interest on the outstanding amount is calculated from the day *following* the last day of the month following the production month.
- a royalty underpayment in respect of any month
 - Interest on the outstanding amount is calculated from the day *following* the last day of the month following the production month.
- a royalty underpayment identified in an end of period statement
 - Interest on the outstanding amount is calculated from the day *following* the end of the fourth month following the end of a period.
- royalty due as a result of a recalculation made as part of a financial audit conducted on behalf of the Crown
 - Interest is calculated from the date the royalty was initially due.

- penalties
- outstanding interest

Interest is calculated from the day following the due date until the day the outstanding amount is paid to the Crown.

6.7.2 Interest Paid by the Crown

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 33(4)

The Crown pays interest on the following balances payable to a project operator:

- for post-payout projects, a royalty overpayment that results when the royalty paid by a project operator exceeds the royalty estimate recorded on a GFE—if the Crown does not refund the overpayment by the last day of the month following the month in which the GFE was submitted
- a royalty overpayment identified in an end of period statement—if the Crown does not refund the overpayment by the last day of the fourth month following the end of the period
 - Periods follow a calendar year. If the Crown does not refund the overpayment by April 30, interest is payable as of May 1.
- a royalty overpayment that results from a Crown audit recalculation
 - Interest on the overpayment is calculated from the day after the last day of the fourth month following the end of a period. That is, interest is payable as of May 1.

Note

The Crown does not pay interest on royalty overpayments unless refunds are not issued within the time limits prescribed by the Regulation. As a result, it is in a project operator's best interest to submit accurate royalty reports and ensure that monthly good faith estimates (for post-payout projects) are as accurate as possible.

Under the provisions of section 33(4) of the Regulation, royalty overpayments may be remitted to the operator by cheque or deducted from amounts owed to the Crown.

6.7.3 The Rate of Interest Charged or Paid

The rate of interest charged or paid is the yearly rate that is 1% higher than the interest rate established by the Alberta Treasury Branch as its prime lending rate for loans payable in Canadian dollars. This interest rate is in effect as of the first day of the month in which it is posted.

6.8 Financial Audits

All financial information submitted regarding an oil sands royalty project is subject to a financial audit conducted by the Department. The audit ensures that claimed expenditures are

- reasonable
- have specific, practical application for the project
- reflect an actual financial transaction that is supported by appropriate documentation

Financial audits must be conducted within four years of the date when information is filed. If an audit is initiated in the fourth year and is not completed, it can be extended into the next calendar year.

Project Records

Oil Sands Royalty Regulation, 1997 (AR 185/97), section 30

Oil sands royalty project owners and operators must keep all records and maintain all records related to applications, reports or statements required under the Regulation.

Purchasers of oil sands projects should be aware that, should they take over as operator of a project, they will be responsible for providing or arranging for access to any financial information requested by the Department, including information relating to any period before they were operator.