

March 1, 2002

Subject: Metallic And Industrial Minerals Royalty Regulation A.R. 350/93

The Department of Energy is making some adjustments to improve royalty reporting under the Metallic and Industrial Minerals Royalty Regulation A.R. 350/93. These changes will benefit clients by minimizing the number of royalty reports and ensuring royalty payments are credited to the correct account, while increasing the Department's assurance that no royalty is due because there has been no production or sale.

1.0 Activity Names for Royalty Reporting

The Department uses an "Activity I.D." for royalty filing and accounting purposes. Many existing Activity I.D.'s are based on the original client's name, which can be misleading when leases or operations change hands. In addition, a lack of links between Activity I.D.'s and leases may also cause royalty payments to be credited to the wrong account.

To address this situation, the Department requests lessees do the following:

(a) Confirm which leases are associated with one activity, and

(b) Give a descriptive name for each activity as the basis for an Activity I.D.

To assist clients, the Department is providing lists of those leases believed to be under a common project or operation. One or more Metallic and Industrial Mineral Leases may be associated with an activity. These leases should be contiguous or close together (at the discretion of the Department.) They should also be evaluated, developed and/or produced under a common mineral project or operation. In reviewing these lists, the client may add any leases related to the same project or operation, and/or strike out any leases that are not relevant and list them under a different descriptive name.

The descriptive name can be an existing project or mine, or a geographic name. The Activity I.D. will continue to be used even if associated leases and/or owners and operators change. Therefore, a personal or company name is not recommended. An Activity I.D. is cancelled when no associated leases remain.

The Department will notify the client once the Activity I.D.'s are set up. The Activity I.D. should be given on all future royalty reports. Listing the leases on royalty reports will no longer be necessary.

Example: A lessee may have one Metallic and Industrial Mineral Lease (e.g., 9489060001) with an active quarry known as the Gopher Quarry and three other leases in reserve for future development under that operation. Based on the descriptive name "Gopher Quarry", the Activity I.D. might be "QRR GOPHER." One quarterly royalty report for limestone production filed under the Activity I.D. QRR GOPHER will satisfy reporting on all four leases in that quarter.

At least annually, the Department will re-confirm all leases associated with each Activity I.D., to ensure the client and the Department have the same information. This will normally take place in January.

2.0 Declaration of No Production

The following change will enable the Department to confirm no royalty payment is due because there has been no production (or sale/disposition of placer minerals), while minimizing the number of royalty reports to be filed.

2.1 Metallic Minerals, Quarriable Minerals and Salt

Quarterly royalty filing is required, in accordance with the Metallic and Industrial Minerals Royalty Regulation. **If no production is anticipated in the upcoming year, lessees may provide the Department with a signed declaration of no anticipated production, normally due by January 31st at the**

beginning of the new production year. The Department will give a declaration deadline for any new Activity I.D.'s established later in the year.

March 30, 2002 is the deadline to declare no anticipated production in 2002. If the Department has not yet provided Activity I.D.'s, the descriptive name (above) or list of leases can be used for declaration purposes.

By the end of the filing year (January 31st of the following calendar year), the Department requires confirmation that no production in fact occurred. At that time the client can again declare no anticipated production in the new production year, if applicable. If annual nil production is filed but production occurs, royalty filing will be required quarterly for the remainder of the year.

The attached sample [Quarterly Royalty Report](#) may be used to declare no production for the year and/or for quarterly reporting of Quarriable Minerals and Salt royalty. This form will also be on the Department of Energy Web Site at <http://www.energy.gov.ab.ca/>.

2.2 Placer Minerals

Declaration of no production at the beginning of the new filing year is not required for placer minerals because the regulation requires royalty filing only for those quarters in which a mineral sale or disposition occurred.

To confirm placer mineral royalty filings are complete for the year, an annual placer royalty report will be required at year-end in addition to quarterly filings. The annual placer mineral royalty report is due by the end of the filing year, starting with January 31, 2003 for the 2002 production year.

The attached sample [Placer Minerals Royalty Report](#) may be used for quarterly royalty filings and annual reconciliation. This form will also be on the Department of Energy Web Site at www.energy.gov.ab.ca.

All metallic and industrial mineral lessees have until **March 30, 2002**, to provide a descriptive name for each mineral activity, confirm leases associated with each activity, and, if applicable, declare no anticipated production for 2002. If no response is received by this date, the Department will determine the Activity I.D., consider the associated leases correct, and require quarterly royalty reports in 2002 even if there is no production.

If you have any questions, please contact Kathy Duquette at (780) 427-9073.

Yours truly,

[Original signed]

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