
COAL ROYALTY GUIDELINES



ALBERTA ENERGY
MINERAL REVENUES DIVISION
FEBRUARY 1993

1. THE COAL ROYALTY REGIME

The coal royalty regime is the culmination of a review that began in 1990. The review identified a need for a royalty regime that would be simpler in terms of administration and compliance, and that would be more consistent with the current coal industry business environment. Developed in consultation with industry, the new coal royalty became effective September 17, 1992 with transition from the old regime to the new regime taking place between July 1, 1992 and September 30, 1992. Crown royalty is assessed on all production from Crown leases, although no royalty is assessed on coal consumed in the operation of the mine or project from which it is produced.

1.1 ROYALTY PRINCIPLES

The Crown's right to royalty is based on its ownership of mineral deposits, (each of which has an inherent value). A royalty can be collected in a variety of ways, but is fundamentally a portion of total production, although it may be collected as the monetary value of such production.

The value placed on the Crown royalty share of production is generally the amount for which that portion of the mineral is sold. However, where there is no arm's length sale, there is no market-based value to apply to the resource, which makes valuation difficult. As well, some mines must make large initial capital investments in their production facilities, which must be recovered before the operation can be deemed to be profitable. For these mines, it is desirable to link the royalty to its profits. The new coal royalty regime successfully resolves both these valuation issues.

1.2 DEFINITION OF SUBBITUMINOUS AND BITUMINOUS COAL

The most noteworthy feature of the new coal royalty regime is the introduction of separate royalties for subbituminous and bituminous coal. These two types of coal are differentiated on the basis of quality attributes. To simplify administration they are defined on a geographic basis. For Crown royalty purposes, **subbituminous coal** means coal recovered or obtained from a coal mine located in the Plains Region of Alberta; **bituminous coal** means coal recovered or obtained from a coal mine located in the Foothills or the Mountain Region of Alberta. These regions are shown on the map (**Opposite**). For a more detailed description, please refer to the maps accompanying the ERCB publication Reserves of Coal, Province of Alberta (ERCB ST 92-31.)

Subbituminous Coal

Subbituminous coal is mainly used to generate electrical power; mines are generally located next to the utility they serve. Because most subbituminous coal is transferred at cost from the mine to the utility, it is very difficult to ascribe a market-based value to this coal.

Previous attempts to derive revenue-based values under the former royalty regime were very complicated, and the results unsatisfactory. Consequently, the new royalty for subbituminous coal is a fee per tonne. The fee per tonne prescribed for each subbituminous coal mine to the end of 1993 will approximate 1991 royalty levels. Effective January 1, 1994 one fee will be applied to all mines. The fee is a portion of \$2.00 as determined by a Crown Royalty Adjustment Factor (CRAF) for each mine.

Bituminous Coal

Bituminous coal is sold into world markets for use in electrical power generation and steel-making. This coal is located in the Foothills and Mountain Regions of Alberta, where more complex geological structures make mining more difficult than is the case in the Plains Region. These mines are large operations, requiring large capital investment for both production and processing facilities.

Consequently, the new royalty for bituminous coal, like that for oil sands and metallic minerals, is linked to a mine's profitability over its life, as determined by initial and ongoing capital investment, operating costs and revenues. The royalty is set at a minimum (first-tier) level prior to recovering capital investment. Subsequently, an additional (second-tier) royalty is applied. This royalty is a function of the annual net revenues earned by the mine.

The point at which the initial capital investment is fully recovered is the point of payback. An example payback calculation is provided on **Page 3**. A coal mine achieves payback only once in its life. A new payback calculation is not performed if the mine changes ownership.

In the early stages of a mine's life (pre-payback), or in any month in which the mine operates at a loss, only the first-tier, minimum royalty is collected, based on product revenue. The royalty is determined by multiplying the volume of coal sold by the minemouth price. Subsequent to payback, and provided the mine is earning a profit, the second-tier royalty will also apply.

Example Payback Calculation

Month	(1) Opening Balance	(2) Minemouth Revenue	(3) Operating Costs + Allowance	(4) Capital Costs	(5) Minimum Royalty	(6) Addition (2-3-4-5)	(7) Net Mid- balance (1 + 6)	(8) Return Allowanc e	(9) Closing Balance (7 + 8)
Jan.	(200.0)	10.0	2.5	1.5	0.1	5.9	(194.1)	(1.5)	(195.6)
Feb.	(195.6)	12.0	5.0	0.0	0.1	6.9	(188.8)	(1.5)	(190.3)
Mar.	(190.3)	11.0	3.0	0.8	0.1	7.1	(183.2)	(1.5)	(184.6)
...etc.									

- (1) Opening Balance For the first month, the unrecovered capital balance is determined by the department based on information submitted by industry. For succeeding months, the opening balance is the previous month's closing balance (9).
- (2) Minemouth Revenue Product revenue, plus other net proceeds and recoveries. Product revenue is the value of marketable coal, FOB point of sale, less costs of transportation from the mine.
- (3) Operating Costs + Allowance Allowed operating costs x 1.10.
- (4) Capital Costs Allowed capital costs.
- (5) Minimum Royalty 1 % of product revenue.
- (6) Net Addition Minemouth revenue less all costs.
- (7) Mid-balance Opening balance plus the net addition. The mid-balance figure represents the degree to which the month's revenues have offset the unrecovered capital.
- (8) Return Allowance Mid-balance x 0.007974, which is the monthly factor equivalent to a 10% annual allowance.
- (9) Closing Balance Mid-balance plus the return allowance. The closing balance for this month becomes the opening balance for the next month.
- PAYBACK Occurs when mid-balance is zero.

1.3 ROYALTY RATES

During the transition period between July 1, 1992 and September 30, 1992, the royalty payable will be the lesser of: the royalty calculated under the old regulation (AR 193/76) or the royalty calculated under A.R. 295/92, as amended.

Commencing October 1, 1992, the royalty payable is as determined under the new regulation.

Subbituminous Coal

The royalty on subbituminous coal will be \$2.00 x the annual CRAF as established by the Department of Energy. Individual mines will be advised of the Crown Royalty Adjustment Factor before each calendar year begins.

Bituminous Coal

Prior to project payback, the royalty on bituminous coal will be 1% of the product revenue derived from Crown leases. Subsequent to project payback, the royalty will be 1% of the project revenue plus 13% of the net revenue derived from Crown leases. If a mine's costs exceed its revenue in a production year, only the minimum royalty will apply; this loss will be carried forward to subsequent year(s).

1.4 NET REVENUE CALCULATION (BITUMINOUS COAL)

The net revenue calculation is as follows:

Minemouth Revenue

Less:

- Allowed Direct Operating Costs
 - Allowance For Indirect Costs
 - First-Tier Crown Royalty
 - Allowed Capital Costs
 - Previous Year's Net Loss (if any)
-

= Net Revenue

2. REPORTING INFORMATION

The following standards are required when completing coal royalty reports.

REPORTING STANDARDS	
Units	
Coal Volumes	Tonnes
Decimals	
Coal Volumes	No decimals
Dollar Values in Canadian Funds	No decimals
Royalty Payable	Two decimals
Minemouth Price	Two decimals
Price/Tonne	Two decimals
Crown Portion % (6¼ % is recorded as 6.25%)	Two decimals
Negative Values	
Enclose negative values in brackets	
Rounding	
Round numbers only when a chain of calculations has been completed.	

2.1 EXTERNAL AUDIT REQUIREMENTS (Bituminous Coal Only)

To clarify the intent of section 8(1) of the Coal Royalty Regulation, the following outline of External Audit Requirements is provided. Under section 8 (1), a lessee is required to submit an audit report satisfactory to the Minister and prepared by an independent firm of chartered accountants.

"Satisfactory to the Minister" means that the Crown requires a summary of the audit as described below. The audit summary is intended to focus the Crown's and Internal Auditor's attention on areas of royalty risk. The Auditor may consult with the Revenue Audit Group, Mineral Revenues Division as to the format and content of the summary. The Audit Summary is consistent with generally accepted auditing standards, audit planning and normal working paper preparation. In addition, the Auditor will allow the Crown to examine working papers that document test results and other evidence.

Audit Summary

1. Assertions Tested.

These should be identified and include the following:

- **Existence/Occurrence.** All costs must have been incurred, and supported by documentation; all revenues must have been received.
- **Valuation.**
- **Expenditure classification.** As either allowed operating costs or allowed capital costs.
- **Cost Eligibility.** Allowed costs are those that satisfy the eligibility rules described in sections 3.1, 3.2 and 3.4 of these guidelines.
- **Completeness.** Summarize over- and under- statement procedures.

2. Nature, Extent and Results of Tests.

Specific tests that were undertaken should be described, including sample sizes, results and sources of assurance.

3. Materiality and Assurance Obtained.

The dollar materiality level and the overall assurance obtained (confidence, percentages if calculated) should be described. Any reliance placed on internal audit, joint-venture audit or other sources of audit activity should also be described, as well as any other evidence used or assumptions made by the Auditor.

4. Other Information Requirements.

- **100 % test procedures.** These should be itemized.
- **Incorrect statements or errors.** A summary should be provided of adjusted and unadjusted errors, systematic errors, extended procedures and conclusions, most likely error projections, closing unadjusted known errors and an explanation of why unadjusted errors remain.

2.2 COAL ROYALTY REPORTING

Reporting Requirements

Alberta coal royalty is to be reported in monthly and annual reports filed at designated times. Estimate reports describe forecast production, costs and revenues. Estimates are required on an annual basis and must be filed before the beginning of the production year. The royalty reports describe actual production costs and revenues. They are filed at different times of the year, depending on royalty requirements.

Given today's technology, it is likely that many royalty payers will automate their reporting process. In this case, the department does not require that the Crown issued royalty reports be completed for reporting purposes; computer generated internal reports are acceptable, provided that the prescribed information is submitted in the prescribed level of detail. Instructions for completing the royalty forms are provided in Section 4 of these guidelines.

Interest

Interest is charged on late payment of royalty on a daily basis at a rate determined by the department. The rate is based on a specific Alberta Treasury Branch prime rate plus 1 per cent. Similarly, in the instances where the Crown pays interest on royalty overpayments, the same rate is employed.

Royalty Reports

1. Subbituminous Coal

- Monthly Royalty Report (Coal 1)
- Estimated Annual Production Report (Coal 2)

2. Bituminous Coal

- Monthly Royalty Report (Coal 3)
- Estimated Annual Royalty Report (Coal 4)
- Annual Royalty Report and Schedules (Coal 5, 5a, 5b)


2.3 DIRECT DEPOSIT OF COAL ROYALTIES

Monthly royalty payments can be made by mail, personal delivery or direct deposit to the Canadian Imperial Bank of Commerce (CIBC). Direct deposits to the Mineral Revenues account (account number 09-35603) can be made at many branches of the CIBC using a pre-printed deposit slip. A supply of deposit slips can be obtained by contacting the Planning and Financial Control Group of the Mineral Revenues Division at (403) 427-6937.

Completing Direct-Deposit Slips for Payment of Coal Royalty

Lessees or their agents who pay royalty in any month that is \$5,000 or more are urged to make a deposit to the credit of the Provincial Treasurer, Account No. 09-35603, Canadian Imperial Bank of Commerce, at one of the following CIBC branches. The lessee or agent should complete the deposit slip by entering in bank branch, date, payer name and payment details as shown in the example below. The bank will distribute the copies of the deposit slip as follows:

- white - retained with payment instrument by the bank
- yellow - forwarded to Edmonton Main Branch
- pink - returned to payer

 <p>603 RAPIDTRANS DEPOSIT SLIP</p> <p>ENERGY Mineral Revenues Division</p> <p>For deposit to the credit of the Provincial Treasurer at CANADIAN IMPERIAL BANK OF COMMERCE</p> <p>BRANCH CO-OP SHOPPING MALL LEDUC</p> <p>DATE August 31, 19XX</p> <p>ACCOUNT NUMBER 09-35603</p> <p>PAYER NAME FOOTHILLS COAL</p> <p>WHITE - BANK YELLOW - Forward immediately to CIBC Jasper Ave and 100 Street Branch, ATTN ALTA ENERGY, REV CONTROL PINK - PAYER</p>	CLIENT NAME(S) AND I.D. OR INVOICE NUMBERS	PAYMENT TYPE	LIST CHEQUE \$ AMOUNT(S)
	FOOTHILLS COAL X13	COL	100,000.00
TOTAL DEPOSIT			\$ 100,000.00

Canadian Imperial Bank of Commerce Direct Deposit Locations

Brooks

P.O. Box 610

Calgary

410 - 16th Avenue N.E.

1632 - 14th Avenue N.W.

1912 - 37th Street S.W.

3619 - 17th Avenue S.E. (Forest Lawn)

2318 Centre Street N.

355 Heritage Dr. S.E.

1800 - 4th Street S.W. (Academy Place)

717 - 7th Avenue S.W. (Elveden House)

Sunridge Mall

200 - 52nd Street N.E. (Eastport Centre)

Dalhousie Co-op Shopping Centre

#22 Southcentre

2580 Southland Dr. S.W.

309 - 8th Avenue S.W.

Edmonton

Jasper Avenue and 100th Street

Edson

P.O. Box 6360

Fort McMurray

9903 Franklin Avenue

Leduc

Co-op Shopping Mall

Medicine Hat

501 - 3rd Street S.E.

Red Deer

#403, 4406 Gaetz Avenue

4902 - 50th Street

Regina

12th Avenue and Hamilton Street

3. BITUMINOUS COAL ROYALTY: ALLOWED COST POLICY

3.1 DEFINITION OF ALLOWED COSTS

The Coal Royalty Regulation (A.R. 295/92) specifies in Schedule 2, section 2(1) that the Minister shall determine the allowed capital costs and allowed direct operating costs of a coal project. Wherever possible, Canadian Generally Accepted Accounting Principles (GAAP) will be followed. However, in certain cases the Minister may determine the accounting principles and those principles may differ from GAAP.

In order to determine if a cost is allowable, all of the following conditions must be met:

- The cost must fall within a category of allowed direct operating costs or allowed capital costs as specified below.
- The cost must be directly attributable to the operations or activities of the coal project.
- The cost must be reasonable, both in nature and amount, in relation to the circumstances under which it is incurred.
- The cost must be incurred by or on behalf of the lessees of the project.
- The cost must be incurred in connection with production, processing or delivery of marketable coal from the coal project, or with reclamation activities necessitated by the production of marketable coal from the coal project.
- The cost must have been paid, not accrued. Accounts payable and accrued liabilities as of December 31 may be claimed as allowed costs only if paid before the following March 1.

In addition, costs that are claimed must be net of any credits or discounts that are received. The only exception is that no reduction of cost need be made in the case of a reduction of income tax payable.

3.2 ALLOWED DIRECT OPERATING COSTS

The following categories of operating costs are considered to be allowed costs (AR 295/92, Schedule 2, Section 5):

1. Costs of salaries, wages, benefits, training, travel and relocation of employees whose work is wholly and directly attributable to the production, processing or delivery of marketable coal from the specific coal project.
2. Costs of salaries, wages, benefits, training, travel and relocation of employees whose work is wholly and directly attributable to reclamation activities necessitated by the production of coal from the specific coal project. Costs of such routine reclamation are allowed provided they have been paid, and do not represent accrued costs.
3. Costs of safety equipment and training.
4. Costs of contract labour, material, supplies and services.
5. Costs of rent or other lease payments for equipment, plant or buildings. When an item is rented or leased instead of being purchased, the maximum amount allowed will be limited to the cost of the item had it been purchased. This limitation does not include any provision for financing charges.
6. Costs of telecommunications, power, water, sewage disposal and utility construction.
7. Cost of an asset that qualifies as an allowed capital cost, but is less than \$1000.
8. Cost of Crown lease rentals and municipal taxes.
9. Costs of insurance.
10. Costs of incidental expenses, as paid, for items such as trees and foliage used in routine reclamation activities.
11. Cost of purchased fuel.
12. Cost of maintenance and repair of an asset if this cost is less than 50% of an equivalent new asset. An equivalent new asset is:
 - the identical item; or
 - a similar item if an identical one is no longer available. It must perform at a very similar capacity, quality and cost of operation, and have a similar life expectancy to the original item.

3.3 ALLOWANCE FOR INDIRECT COSTS

The Allowance for Indirect Costs is 10% of Allowed Direct Operating Costs. It is intended to compensate for costs that are not considered allowed costs for purposes of calculating net revenues. Such costs are not directly attributable to the minesite operations, and would include (but are not limited to): head office costs, internal audit costs, accounting fees, legal fees, and marketing costs.

3.4 ALLOWED CAPITAL COSTS

The following categories of capital costs are considered to be allowed costs (AR 295/92, Schedule 2, Section 4):

1. Costs of exploratory drilling. Costs of exploratory drilling may be claimed as paid, if incurred on, or in close proximity to an existing coal project. For a new project, accumulated exploratory drilling costs (excluding any return on capital) may be included in the unrecovered capital as of the commencement date of the project. These costs must be directly associated with defining the reserves of coal included in the permit, issued by the Energy Resources Conservation Board, which authorizes the development of the new mine.
2. Costs to construct production and processing facilities, including costs of:
 - equipment, materials and supplies,
 - purchasing land and buildings,
 - employee salaries, wages, benefits, training and travel if the work of these employees is wholly and directly attributable to the construction/assembly of plant facilities, and installing equipment, and
 - contract labour related to the construction/assembly of the plant and facilities, and installing equipment.
3. Repair and maintenance costs of an asset if these costs equal or exceed 50% of the cost of acquiring an equivalent new asset.
4. Employee salaries, wages, benefits, training and travel if the work of these employees is wholly and directly attributable to the production, processing, handling and storage facilities of the coal project. This category only includes the portion of these costs that are attributable to capital programs.
5. Costs of municipal and regional improvements required by a government agency.

Asset Disposal

The proceeds of asset disposal are subtracted from allowed capital costs in the year of disposal. Since the entire cost of the asset was deducted from project revenues in the year of acquisition, there is no recognition of loss on disposal.

3.5 COSTS NOT ALLOWED

Administrative Expenses, Overhead Expenses, and Marketing Costs

Administrative expenses; overhead expenses and marketing costs of the lessees of a coal project, or any party controlled by or affiliated with the lessees, are neither allowed capital costs nor allowed direct operating costs. This exclusion refers to costs typically incurred at sites other than the specific coal project, and that are not directly attributable to coal production and processing. Examples of marketing related costs include (but are not limited to): commissions, selling fees, entertainment, travel and gifts.

Shared Costs

Wages, salaries and related costs of staff whose functions are shared among more than one mine or corporate undertaking are not allowed costs. To be an allowed cost, the function served by the staff person must be wholly and directly attributable to the operation of the coal project for which royalty is being calculated.

3.6 TRANSPORTATION COSTS

These are costs incurred beyond the minemouth. Typically, they would include freight charges, locomotive and rolling stock rental, frozen coal recovery costs, appropriate rentals, demurrage, terminaling and loading costs. These costs are deducted from the contract price of the coal, FOB point of sale, to determine the minemouth value of the coal.

4. ROYALTY REPORTING PROCESS

The Crown's royalty share is a portion of the monthly production from a lease. At the direction of the Minister of Energy, the Crown does not take its royalty share in kind. Rather, the money value of the royalty share of subbituminous coal produced or bituminous coal sold is remitted on a monthly basis.

Where noted, certification by a senior Financial Officer is required to attest to the accuracy of the information provided.

4.1 SUBBITUMINOUS COAL

Any retroactive adjustments that occur with respect to subbituminous coal are to be reported during the month of identification.

Monthly Royalty Report (COAL 1)

Each month, the royalty payer for each mine will forward a report to the department detailing production and royalty calculations. The report and the royalty payment are to be received by the department on or before the last day of the month following the month of production.

Estimated Annual Production Report (COAL 2)

On or before December 31, the royalty payer for each mine will forward to the department an estimate of the coal production for the upcoming calendar year.

4.2 BITUMINOUS COAL

Monthly Royalty Report (COAL 3)

Each month, the royalty payer for each mine will forward to the department a report of sales and estimated royalty. The report and the royalty payment are to be received by the department on or before the last day of the month following the month of production. The department will monitor inventory change and the disposition of production via pages 2 and 3 of the Statistics Canada Coal Monthly Survey.

Estimated Annual Royalty Report (COAL 4)

On or before December 31, the royalty payer for each mine will forward to the department a report of estimated coal sales, capital and operating costs, and royalty payable for the upcoming calendar year.

During a year, a royalty payer may become aware of changes in costs or revenues that change the estimated annual royalty by more than 10%. Royalty payers are required to submit an amended report COAL 4, and to revise year-to-date royalties paid within a reasonable time period. By so doing, the incidence and impact of interest charges will be minimized.

Annual Royalty Report and Schedules (COAL 5, 5a and 5b)

On or before March 31, the royalty payer for each mine will forward to the department the schedules of actual coal sales, capital and operating costs and the report of royalty payable for the previous year. In the case of bituminous coal, the second-tier, profit-based royalty is not calculated on a volumetric basis as specified in the regulation. To simplify reporting, the second-tier royalty is calculated as 13% of the net revenue for the mine.

4.3 COMPLETING SUBBITUMINOUS COAL ROYALTY REPORTS

COAL 1

1. Total Net Production

This is the amount that is found on line 1.5 of page 2 of the Statistics Canada Coal Monthly Survey.

2. CRAF

The Crown Royalty Adjustment Factor (CRAF) is determined by the Minister. For the period July 1, 1992 to December 31, 1993, each mine will be assigned a CRAF that results in royalties approximately equal to 1991 levels.

Effective January 1, 1994 the Crown royalty on all of Alberta's subbituminous coal will be calculated using one CRAF.

The Minister will publish the revised CRAF prior to the beginning of each production year.

COAL 2

1. Net Production

This report requires identification of the volumes of coal produced in a production year that are attributable to Crown and freehold leases.



SUBBITUMINOUS COAL
MONTHLY ROYALTY REPORT
COAL 1

ENERGY

ROYALTY PAYER _____	
NAME OF COAL MINE _____	
PRODUCING LEASES _____	
PRODUCTION MONTH _____	PRODUCTION YEAR _____

TOTAL NET PRODUCTION _____	Tonnes
FREEHOLD NET PRODUCTION _____	Tonnes
CROWN NET PRODUCTION _____	Tonnes
CROWN ROYALTY PAYABLE (Crown Net Production x \$2.00 x CRAF)	\$ _____

CERTIFICATION

I certify that the information provided above and on the attached Coal Monthly Survey (p. 2) is complete and correct.

NAME (Please print) _____

OFFICE HELD (Please print) _____

SIGNATURE _____

DATE _____ TELEPHONE NUMBER _____

FAX NUMBER _____



SUBBITUMINOUS COAL
ESTIMATED ANNUAL PRODUCTION REPORT
COAL 2

ENERGY

ROYALTY PAYER _____
NAME OF COAL MINE _____
PRODUCING LEASES _____
PRODUCTION YEAR _____

	NET PRODUCTION (Tonnes)		
	TOTAL MINE PRODUCTION	FREEHOLD PRODUCTION	CROWN PRODUCTION
JANUARY			
FEBRUARY			
MARCH			
APRIL			
MAY			
JUNE			
JULY			
AUGUST			
SEPTEMBER			
OCTOBER			
NOVEMBER			
DECEMBER			
TOTAL			

CONTACT PERSON:

NAME (Please print) _____

OFFICE HELD (Please print) _____

DATE _____ TELEPHONE NUMBER _____

FAX NUMBER _____

4.4 COMPLETING BITUMINOUS COAL ROYALTY REPORTS

COAL 3

This report summarizes the monthly royalty payable for a bituminous mine. Mines that have not attained payback complete only part A; mines that have attained payback complete parts A, B and C.

1. Part A: First-Tier Royalty

The intent of this part is to summarize the calculation of the first-tier royalty payable on the sales from Crown leases. Product revenue is defined as the minemouth price of the marketable coal multiplied by the volume sold. To simplify the calculation, aggregate transportation costs for the volumes sold are deducted from aggregate revenue at the point of sale to provide the mine's product revenue figure. Royalty payable is 1% of the Crown portion of product revenue.

2. Part B: Second-Tier Royalty

The intent of this part is to report, each month, 1/12th of the estimated annual second-tier royalty. The calculation of estimated annual and monthly second-tier royalty is done in detail on report COAL 4.

3. Part C: Monthly Royalty Payable

The monthly royalty payable is the sum of first-tier royalty plus second-tier royalty.



ENERGY

BITUMINOUS COAL

MONTHLY ROYALTY REPORT
COAL 3

ROYALTY PAYER	
NAME OF COAL MINE	
PRODUCING LEASES	
PRODUCTION MONTH	PRODUCTION YEAR

MINES THAT HAVE NOT ATTAINED PAYBACK, COMPLETE ONLY PART A.
MINES THAT HAVE ATTAINED PAYBACK, COMPLETE PARTS A, B, AND C.

A. FIRST-TIER ROYALTY	TOTAL SALES	CROWN PORTION
MARKETABLE COAL SALES (Tonnes)		
REVENUE AT POINT OF SALE	\$ _____	\$ _____
TRANSPORTATION COSTS	(_____)	(_____)
PRODUCT REVENUE	\$ _____	\$ _____
ROYALTY PAYABLE (Product Revenue x .01)		\$ _____

B. SECOND-TIER ROYALTY	
ESTIMATED MONTHLY INSTALMENT (From COAL 4)	\$ _____

C. MONTHLY ROYALTY PAYABLE	
ROYALTY PAYABLE UNDER PART A	\$ _____
ROYALTY PAYABLE UNDER PART B	_____
MONTHLY ROYALTY PAYABLE	\$ _____

CERTIFICATION	
I certify that the information provided above and on the attached Coal Monthly Survey (p. 2 and 3) is complete and correct.	
NAME (Please print) _____	
OFFICE HELD (Please print) _____	
SIGNATURE _____	
DATE _____	TELEPHONE NUMBER _____
	FAX NUMBER _____

COAL 4

Mines that have not attained payback will complete only Part A. Mines that have attained payback, or will attain payback during the coming year will complete Parts A and B.

1. Part A: First-Tier Royalty

This part summarizes the calculation of the first-tier royalty payable on the sales from Crown leases. Product revenue is defined as the minemouth price of the marketable coal multiplied by the volume sold. To simplify the calculation, aggregate transportation costs for the volumes sold are deducted from aggregate revenue at the point of sale to provide the mine's product revenue figure. Royalty payable is 1% of the Crown portion of product revenue.

2. Part B: Second-Tier Royalty

This part estimates the monthly second-tier royalty payable on net revenue earned by a mine. The net revenue is calculated based on total mine sales, which is then multiplied by the percentage of sales attributable to Crown leases to produce the Crown share of net revenue. The annual royalty payable is 13% of the Crown share of net revenue, which is divided by 12 to calculate the estimated monthly royalty payable.

The Net Revenue is calculated by first adding product revenue for the mine (under Part A) to other net proceeds and recoveries (as identified on Schedule COAL 5a) to derive minemouth revenue. Allowed direct operating costs, allowance for indirect costs, allowed capital costs, the first-tier Crown royalty and any net loss from the previous year are deducted from the minemouth revenue to calculate net revenue.

If the second-tier royalty calculation produces a net loss instead of net revenue, then the remainder of Part B need not be completed. The royalty payable is simply the first-tier royalty as calculated under Part A. The amount of the net loss would be entered as a deduction in the net revenue calculation for the next production year.

Example: If net revenue is \$1,000,000 and the Crown share of mine production is 75%, then the Crown share of net revenue is \$750,000 ($= .75 \times \$1,000,000$). The annual royalty payable (at 13%) on the Crown share of net revenue is \$97,500 ($= .13 \times \$750,000$). The estimated monthly second-tier royalty would be \$8,125 ($= \$97,500 \div 12$). This amount is recorded under Part B of COAL 3.



ENERGY

BITUMINOUS COAL

ESTIMATED ANNUAL ROYALTY REPORT
COAL 4

ROYALTY PAYER
NAME OF COAL MINE
PRODUCING LEASES
PRODUCTION YEAR

MINES THAT HAVE NOT ATTAINED PAYBACK, COMPLETE ONLY PART A.
MINES THAT HAVE ATTAINED PAYBACK OR WILL ATTAIN PAYBACK THIS YEAR, COMPLETE PARTS A AND B.

A. FIRST-TIER ROYALTY	TOTAL SALES	CROWN PORTION
MARKETABLE COAL SALES (Tonnes)		
REVENUE AT POINT OF SALE	\$ _____	\$ _____
TRANSPORTATION COSTS	(_____)	(_____)
PRODUCT REVENUE	\$ _____	\$ _____
ROYALTY PAYABLE (Product Revenue x .01)		\$ _____

B. SECOND-TIER ROYALTY	
PRODUCT REVENUE FOR MINE	\$ _____
OTHER NET PROCEEDS AND RECOVERIES	_____
MINEMOUTH REVENUE	\$ _____
DEDUCTIONS:	
ALLOWED DIRECT OPERATING COSTS	(_____)
ALLOWANCE FOR INDIRECT COSTS (Allowed Direct Operating Costs x .1)	(_____)
ALLOWED CAPITAL COSTS	(_____)
FIRST-TIER CROWN ROYALTY	(_____)
PREVIOUS YEAR'S NET LOSS, IF ANY	(_____)
NET REVENUE OR (NET LOSS) FOR MINE	\$ _____
CROWN SHARE OF MINE PRODUCTION SOLD	_____ %
CROWN SHARE OF NET REVENUE (Net Revenue x Crown Share of Production Sold)	\$ _____
ANNUAL ROYALTY PAYABLE (Crown Share of Net Revenue x .13)	\$ _____
MONTHLY ROYALTY PAYABLE (Annual Royalty Payable ÷ 12)	\$ _____

CONTACT PERSON:	
NAME (Please print)	_____
OFFICE HELD (Please print)	_____
DATE _____	TELEPHONE NUMBER _____
	FAX NUMBER _____

COAL 5

Mines that have not attained payback will complete only Part A. Mines that have attained payback will complete Parts A, B and C.

With the exception of Part C, this report is completed exactly as COAL 4, except that actual numbers for the relevant production year are used instead of estimates.

1. Part C: Total Royalty Payable

To compute total royalty, it is first necessary to determine the second-tier royalty payable, and then add it to the amount payable under the first tier royalty. The amount paid during the year is deducted from the total royalty payable to determine whether royalty has been underpaid or overpaid.

The second-tier royalty payable depends on whether or not the mine has already attained payback prior to the current production year:

- For mines that attained payback prior to the current production year, the annual royalty payable on the Crown share of net revenue as calculated under Part B should be entered under **Total**.
- For mines that attained payback during the current production year, the monthly royalty as calculated under part B should be multiplied by the number of months subsequent to the payback date, and this amount should be entered under **Portion**. For example, if a mine attained payback in March, and the monthly royalty is \$10,000, then the amount entered under **Portion** would be \$90,000 (= \$10,000 x 9).



BITUMINOUS COAL
ANNUAL ROYALTY REPORT
COAL 5

ROYALTY PAYER
NAME OF COAL MINE
PRODUCING LEASES
PRODUCTION YEAR

MINES THAT HAVE NOT ATTAINED PAYBACK, COMPLETE ONLY PART A.
MINES THAT HAVE ATTAINED PAYBACK, COMPLETE PARTS A, B AND C.

A. FIRST-TIER ROYALTY	TOTAL SALES	CROWN PORTION
MARKETABLE COAL SALES (Tonnes)		
REVENUE AT POINT OF SALE	\$ _____	\$ _____
TRANSPORTATION COSTS	(_____)	(_____)
PRODUCT REVENUE	\$ _____	\$ _____
ROYALTY PAYABLE (Product Revenue x .01)		\$ _____

B. SECOND-TIER ROYALTY	
PRODUCT REVENUE FOR MINE	\$ _____
OTHER NET PROCEEDS AND RECOVERIES	_____
MINEMOUTH REVENUE	\$ _____
DEDUCTIONS:	
ALLOWED DIRECT OPERATING COSTS	(_____)
ALLOWANCE FOR INDIRECT COSTS (Allowed Direct Operating Costs x .1)	(_____)
ALLOWED CAPITAL COSTS	(_____)
FIRST-TIER CROWN ROYALTY	(_____)
PREVIOUS YEAR'S NET LOSS, IF ANY	(_____)
NET REVENUE OR (NET LOSS) FOR MINE	\$ _____
CROWN SHARE OF PRODUCTION SOLD	_____ %
CROWN SHARE OF NET REVENUE (Net Revenue x Crown Share of Production Sold)	\$ _____
ANNUAL ROYALTY PAYABLE (Crown Share of Net Revenue x .13)	\$ _____
MONTHLY ROYALTY PAYABLE (Royalty Payable ÷ 12)	\$ _____

C. TOTAL ROYALTY PAYABLE	
FIRST-TIER ROYALTY PAYABLE	\$ _____
SECOND-TIER ROYALTY PAYABLE:	
TOTAL (Mines that attained payback prior to this year)	_____
PORTION (Mines that attained payback this year)	_____
TOTAL ROYALTY PAYABLE	\$ _____
DEDUCT: ROYALTY PAID	(_____)
(OVER) OR UNDER PAYMENT	\$ _____

CERTIFICATION: I certify that the information provided above and on the attached schedules 5a and 5b is complete and correct.			
NAME (Please print)	_____		
OFFICE HELD (Please print)	_____		
SIGNATURE	_____		
DATE	TELEPHONE NUMBER	FAX NUMBER	_____

COAL 5a

This schedule is used to specifically identify revenues at point of sale, transportation costs and other net proceeds and recoveries for the mine.

COAL 5b

This schedule is used to specifically identify allowed direct operating costs and allowed capital costs for the mine based on the policies identified in section 3 of the guidelines.



BITUMINOUS COAL
ENERGY
SCHEDULE OF REVENUES AND TRANSPORTATION COSTS
COAL 5a

ROYALTY PAYER
NAME OF COAL MINE
PRODUCING LEASES
PRODUCTION YEAR

TOTAL REVENUE AT POINT OF SALE		
PURCHASER	SALES (Tonnes)	PRICE (\$/Tonne)
		SALES REVENUE (\$)
TOTAL		

ITEMIZED TRANSPORTATION COSTS	
DESCRIPTION OF COST	AMOUNT (\$)
FREIGHT CHARGES	
LOCOMOTIVE/ROLLING STOCK RENTAL	
FROZEN COAL RECOVERY	
TERMINAL AND PORT CHARGES	
OTHER (Specify)	
OTHER (Specify)	
OTHER (Specify)	
TOTAL	

OTHER NET PROCEEDS AND RECOVERIES	
DESCRIPTION OF REVENUE	AMOUNT (\$)
PROCESSING OF OUTSIDE SUBSTANCES	
SALE OF PROPERTY OR RIGHTS	
PROCEEDS OF LITIGATION OR INSURANCE RECOVERIES	
OTHER (Specify)	
OTHER (Specify)	
TOTAL	



BITUMINOUS COAL
ENERGY
SCHEDULE OF ALLOWED COSTS
COAL 5b

ROYALTY PAYER
NAME OF COAL MINE
PRODUCING LEASES
PRODUCTION YEAR

ALLOWED DIRECT OPERATING COSTS FOR MINE	
MINE EMPLOYEE SALARIES, WAGES AND WAGE BENEFITS	\$
CONTRACT LABOUR UTILITIES	
PURCHASED FUEL	
MINE EMPLOYEE TRAVEL AND RELOCATION	
SAFETY EQUIPMENT AND TRAINING	
MATERIALS AND SUPPLIES	
RENT OR LEASE PAYMENTS	
INSURANCE:	
PROPERTY	
OTHER	
MUNICIPAL TAXES	
MINERAL RIGHTS/SURFACE LEASE RENTALS	
ALLOWED CAPITAL COSTS LESS THAN \$1,000	
REPAIRS AND MAINTENANCE	
RECLAMATION EXPENDITURES	
TOTAL ALLOWED DIRECT OPERATING COSTS	\$

ALLOWED CAPITAL COSTS FOR MINE	
PROPERTY, PLANT AND EQUIPMENT	\$
CONSTRUCTION, ASSEMBLY AND INSTALLATION	
LAND	
BUILDINGS	
THIRD PARTY CONSTRUCTION	
REPAIRS AND MAINTENANCE	
REQUIRED MUNICIPAL/REGIONAL IMPROVEMENTS	
EXPLORATORY DRILLING	
SALARIES, WAGES AND WAGE BENEFITS FOR CAPITAL PROJECTS	
TOTAL CAPITAL COSTS	\$
DEDUCTIONS:	
CREDITS/DISCOUNTS RECEIVED	(
ECONOMIC ASSISTANCE	(
CAPITAL ASSET DISPOSAL PROCEEDS	(
TOTAL ALLOWED DIRECT CAPITAL COSTS	\$

