

November 2006



# Royalty Redesigned VII

*Indian Oil and Gas Canada  
Attachment to Information Letter of November 2006*

## New Developments at IOGC

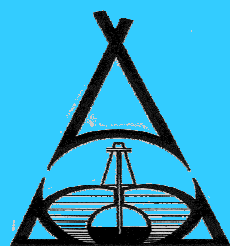
### Changes to Royalty Entity Creation Process

IOGC has introduced changes to the royalty entity creation process which take effect November 15, 2006. The new process ensures that the grantee retains control over which royalty payers have a working interest ownership in the wells on their lease(s).

Going forward, the grantee will be responsible for the completion of the New or Change Royalty Entity Request Form. This one page form provides IOGC with the names and contact information for all royalty payors associated to a particular well. Until recently, this form was completed by each royalty payor, potentially leaving the grantee with little knowledge of who was paying royalties under the terms of its lease. The grantee has final responsibility for unpaid royalties, thus IOGC is providing a way for grantees to control this potential risk.

The New or Change Royalty Entity Request Form is required when a new royalty entity is created, or when working interest ownership changes for an existing royalty entity. The form will be sent to the grantee when a new production entity is created, or when the grantee informs IOGC of a change in working interest ownership. The form must be completed and returned to IOGC within 10 days of receipt. Should the grantee fail to complete and return the form, a royalty entity with 100% of the working interest ownership will be assigned to the grantee.

Changes to working interest ownership can be submitted at any time, however they will only take effect on a go forward basis. Retroactive changes to working interest ownership are not permitted.



### Who to Contact

For more information on the royalty entity process changes, contact **Myrna Matthews** (403) 292-6009 or email at [royalty@inac-ainc.gc.ca](mailto:royalty@inac-ainc.gc.ca)

## New Developments at IOGC Cont'd



### ***IOGC on the web!***

Please visit us at  
[www.iogc.gc.ca](http://www.iogc.gc.ca).

*This site provides information and updates to royalty payors as well as being the platform for electronic royalty data submissions.*

### **Redevelopment of Website**

To provide Grantees, Royalty Payors and other interested parties with up to date information, IOGC has begun an extensive redevelopment of its website ([www.iogc.gc.ca](http://www.iogc.gc.ca)).

The intention is to align the structure of the information provided with major business processes, clarify the presentation of the material and provide extensive linkages to other online resources. IOGC also plans to make it easier to interact with industry by providing online forms and other materials. This will be an evolving development, with frequent updates to the information on the website as changes become available.

### **Changes to Gas Cost Allowance**

IOGC has introduced a new submission format to replace the multiple forms that in prior years comprised the Gas Cost Allowance (GCA) submission package. The intention of the new format is to simplify the reporting process and to reduce the number of submission errors by minimizing the amount of data required.

IOGC's process of reviewing 2005 actual GCA rates is complete. Royalty Payors will receive notification of the approved rate, which IOGC will use to recalculate royalty obligation for 2005. Approval letters should be received by November 30, 2006.

For additional information, please see the Gas Cost Allowance User Guide.

### **Changes to Submission Requirements**

Effective the November submission, it is no longer necessary to submit statements for royalty entities related to a production entity that has no production volume. These royalty entities will be automatically assessed to have a royalty obligation of zero.



### ***Don't Forget ...***

Royalty payments continue to be due by the 25<sup>th</sup> of the month following production and **must** be accompanied by a remittance advice, unless otherwise specified within the terms and conditions of the lease.

Submission of actual royalty data must take place on or before the 25<sup>th</sup> day of the third month after production. This has been done to enable Royalty Payors to finalize their **actual** numbers prior to submission.

## IOGC Compliance Activity

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One of IOGC's significant challenges in the administration of First Nation royalties is to ensure it receives all of the data that is necessary to accurately calculate Royalty Payors' obligations. The introduction of electronic submissions was a major step in overcoming this challenge, as it provided a secure mechanism for companies to more easily submit accurate information. However, IOGC continues to find active royalty entities for which no data has been received for particular production months. IOGC takes these examples of non-compliance very seriously and has developed an enforcement ladder to address the issue using a standard process. The general steps that will be followed are:

- If data is not received by the 25th day of the third month after production, IOGC will first issue a Direction to Comply letter to the relevant lessees;
- If the required data is not received within the time line specified in the letter (typically 30 days), IOGC will issue a Second Notice consequent to which a structured remedy will be found between IOGC and that industry partner via the associated lease holders;
- If the non-compliance situation continues, IOGC will issue a final Third Notice which, at the discretion of IOGC's Executive Director, would revoke the applicable lease.

IOGC has already begun to implement this enforcement ladder and has seen a favourable reduction in the level of non-compliance. We will continue to work with Royalty Payors and Lessees to ensure their obligations are clearly understood and fully satisfied.

### Who to Contact

For more information on the changes IOGC is making to improve our relationship with industry and First Nations, contact **Dennis Olson**

(403) 292-5886 or email at  
contactiogc@inac-ainc.gc.ca



## Electronic Submission: History Table

The implementation of electronic data submission has been very positive for IOGC and Royalty Payors alike. Industry's response to this submission method has been favourable, with over 52,000 statements accepted since implementation.

Please note that each royalty payor has the responsibility to review their Submission History, identify "REJECTED" files and resubmit the corrected data.

For each submitted file, a detailed report is provided in the Submission History. This report contains the status of the file, as well as the reasons for any rejected data. The report is designed to provide as much information as possible, to enable royalty payors to diagnose and correct their submissions.

*After each submission, you must check the **Submission History** to determine if your data was accepted or rejected.*

*If your submission was rejected, you must correct the errors and resubmit the data.*