



Mineral Development and Strategic Resources
Tenure
Freehold Mineral Tax

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Telephone 780/427-7425
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File No.

November 8, 2004

TO: *Owners, Lessees, and Operators of Freehold Mineral Rights*

**RE: FREEHOLD MINERAL RIGHTS TAX ACT
PETROLEUM AND/OR NATURAL GAS RIGHTS
UNIT VALUES FOR 2004 TAXATION YEAR**

The Freehold Mineral Rights Tax Act (FMRTA) requires the annual submission of information for use in calculating tax payable with respect to the production of freehold petroleum and natural gas. Pursuant to Section 8 of the FMRTA, the Department of Energy requests the submission of unit values on or before **January 12, 2005**.

The [attached guidelines](#) have been updated to clarify revenue and allowable costs. We encourage you to refer to these when calculating your unit values.

In its continuing effort to standardize the unit value calculation, the department's preferred methodology includes the following components:

- Reporting period – use October 1, 2003 to September 30, 2004 (3 + 9)
- Revenue –
 - We are encouraging the use of the Crown Gas Invoice Valuation Prices (by product) - October 1, 2003 to September 30, 2004 (3+9)
- Costs – use:
 - Unit Operating Cost Rates (UOCR) – previous calendar year 2003
 - Capital costs – previous calendar year 2003
 - Custom fee costs – October 1, 2003 to September 30, 2004 (3 + 9)

Standardizing the unit value calculation will minimize any difficulties arising from the amalgamation of company information resulting from mergers, acquisitions and dispositions.

In the attached guidelines, the options for calculating unit values for gas and/or solution gas are listed in order of preference, with the department's preferred methodology shown first. Companies will still have the option of using alternate methods, but we request that you explain in writing why you choose not to go with a standardized methodology so we can deal with these on an exception basis.

To assist you in filing your unit values for 2004, a submission document is enclosed that shows single well and multiple well production entities associated with Freehold mineral titles in which, according to the department's records, you have a declared interest. Blank spaces have been provided to identify the products from each production entity for which a unit value is required.

In cases where the identified well status as at December 31 of the taxation year differs from that shown on the unit value submission document, the department reserves the right to make any necessary adjustments to match the unit value submitted to the product to be taxed.

This document may not include all your production entities; therefore, you may need to identify additional production entities and corresponding unit values on your document. To have your unit values recognized for these production entities, please fill out the attached "Lessee Linkage Form" requesting a linkage to the Title IDs covering the land associated with the additional production entities. If you do not establish a lessee linkage the department cannot recognize your submitted unit value and, as a result, the department will use a Default unit value.

Please note the following when completing your submission document:

- Unit values should be submitted only for those production entities in which you have a Freehold interest.
- If you have **no interest** in a production entity, write "no interest" in the "remarks" column.
- Zero values are acceptable in some situations (e.g. cost exceeds revenues, gas was flared or gas was used for lease fuel). In these cases please provide an explanation in the "remarks" column.
- If you wish to create your own submission document, the format must be identical to the department's to be accepted. Each well identifier must include the Location and Event.
- Identify the reporting period used for the unit value calculation on page one of the document. Please indicate the method used beside the reporting period using the corresponding letter in the Guidelines.
- In the spaces provided on page one please include a contact name and telephone number for a person we can call to discuss any concerns we might have about the information provided.
- For electronic submissions, please identify the reporting period and methodology used as well as a contact name and telephone number on your return email or covering letter.

The unit values that you submit are subject to audit by the department. You must, therefore, retain a copy of your unit value calculations with all supporting documentation and provide them to the department upon request.

Failure to submit the necessary unit values will result in the department issuing a 2004 tax statement using default values.

If you require further information, please contact Laura Cairns at (780) 422-9243, Cornelia McCoy at (780) 415-6592, or Celia Magana at (780) 644-7181.

Yours truly,

Brenda Curle
Manager
Freehold Mineral Tax