

November 10, 2006

FREEHOLD MINERAL TAX INFORMATION BULLETIN 2006-01

Subject: e-Freehold Mineral Tax Project

What is Freehold Mineral Tax? (FMT)

FMT is Alberta's tax on production from fee simple oil and gas mineral rights in Alberta. The Department of Energy (DOE) considers the following components when assessing the annual freehold mineral tax: freehold land tracts, mineral title, mineral substance, mineral owner, wells, production entities, production, product, tax rate and the netback value of a unit of wellhead production. The calculation provides for tax rate reductions for low productivity wells and includes an annual tax exemption of \$1,600 for each title owner. The DOE uses a default unit value for gas (based on 80 per cent of Alberta reference price) and for oil if a unit value is not filed by industry.

What is e-FMT?

The DOE is updating the way the Freehold Mineral Tax Branch does business with industry. The FMT will be changed to a web-based electronic Freehold Mineral Tax (e-FMT) system. e-FMT will replace the manual submission of information by industry to the Freehold Mineral Tax Branch. This new technology will improve the DOE's ability to share data, integrate processes and directly address business needs. FMT industry clients will see the conversion of the Lessee Linkage, Unit Value and Payments processes to a web-based electronic system located on the Electronic Transfer System.

The DOE will provide the freehold production entity (PE) and associated mineral titles and owners information through the web interface. Industry has the option to use the Crown default value or provide the net unit value. Industry will also provide the tax payment. Currently, there are approximately 36,000 titles related to 50,000 wells producing freehold minerals.

What is changing?

- Each freehold PE will now have a designated PE Administrator and Lessee for each freehold title.
- Each freehold mineral title will now have a designated Payor. This should minimize the millions of dollars of tax overpayments.
- The Electronic Transfer System will be enhanced to allow industry to update and view their title linkages. The PE Administrator, Lessee and Payor roles can be transferred to another corporation on-line (with concurrence).
- Paper-based manual processes will be replaced with a web-based system for:
 - Distributing corporate FMT statements, Lessee copies and Payor summaries (Individuals will continue to receive paper copies of the tax statement)
 - Confirming Lessee and Payor status
 - Transferring and concurrence of freehold title lessees (linkage)
 - Submitting PE Unit Value
 - Indicating payments on tax accounts
 - Tracking work in progress
 - Receiving automated amendments
 - Downloading and uploading of FMT information with industry in-house systems

What are the benefits of e-FMT?

- Easy, centralized industry access to accurate, comprehensive and timely information on freehold oil and gas properties that are subject to FMT
- Streamlined business processes for both the oil and gas industry and the DOE
- Reduced turn-around times and manual administration
- Increased data accuracy and reliability

Who is involved in e-FMT?

- The Department of Energy
- Canadian Association of Petroleum Production Accounting (CAPPA)
- Canadian Association of Petroleum Producers (CAPP)
- Canadian Association of Petroleum Landmen (CAPL)
- Canadian Association of Petroleum Land Administration (CAPLA)
- Small Explorers and Producers Association of Canada (SEPAC)
- Freehold Owners Association (FHOA)

How are they involved with the process?

- Industry representatives and associations are actively involved in a joint industry-department design working group to identify business requirements, specify business and processing rules, design the web interface and implement the new system.
- A communications committee distributes information about the e-FMT project implementation.

What is the time frame?

- February 2006 - industry and the DOE began working sessions to determine system design. These working sessions will continue through the end of the project.
- April 2007 – the DOE will contact companies to commence the conversion of lessee linkage and well licensee data to PE Administrator, Lessee, and Payor roles.
- September 2007 – planned implementation of the web-based platform. The DOE will provide demonstrations and hands-on training.
- February 2008 – anticipate the 2007 annual FMT will be run on a new system.

How should industry get ready for these changes?

1. Ensure that FMT lessee linkages are current on your freehold properties. De-link from properties where you no longer have an interest
2. Sign up for, or update your current access to, the Electronic Transfer System at <http://www.energy.gov.ab.ca> Electronic Transfer System → Apply for Access
3. Sign up for training when offered in 2007
4. Read articles available through the associations
5. Check the DOE's e-FMT website for articles and current information at <http://www.energy.gov.ab.ca> Our Business → Tenure → Freehold Mineral Tax → e-Freehold Mineral Tax → Learn More.

Who can I contact?

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