Restall, Analise MNGD:EX

From:	Brian Hansen s.22
Sent:	Thursday, August 7, 2014 5:20 PM
To:	sgardner@wespac.com
Cc:	Roe, Sue MNGD:EX; Manahan, Suzanne MNGD:EX; Gareth Jones
Subject:	LNG in BC

Hi Scott, trust you found the meeting helpful. Just to reconfirm, suggest we work to an early date in September for you to meet the cross government team that will support advancement of your project. Suzanne can work on a date that works for our respective schedules.

You will also need to meet with our LNG tax team so you understand how the tax works and to whom it applies. We can align this meeting with your visit to meet with our cross government team.

Was a pleasure to meet you and look forward to working with you and your team.
Regards,
Brian

Sent from my iPhone

Overview

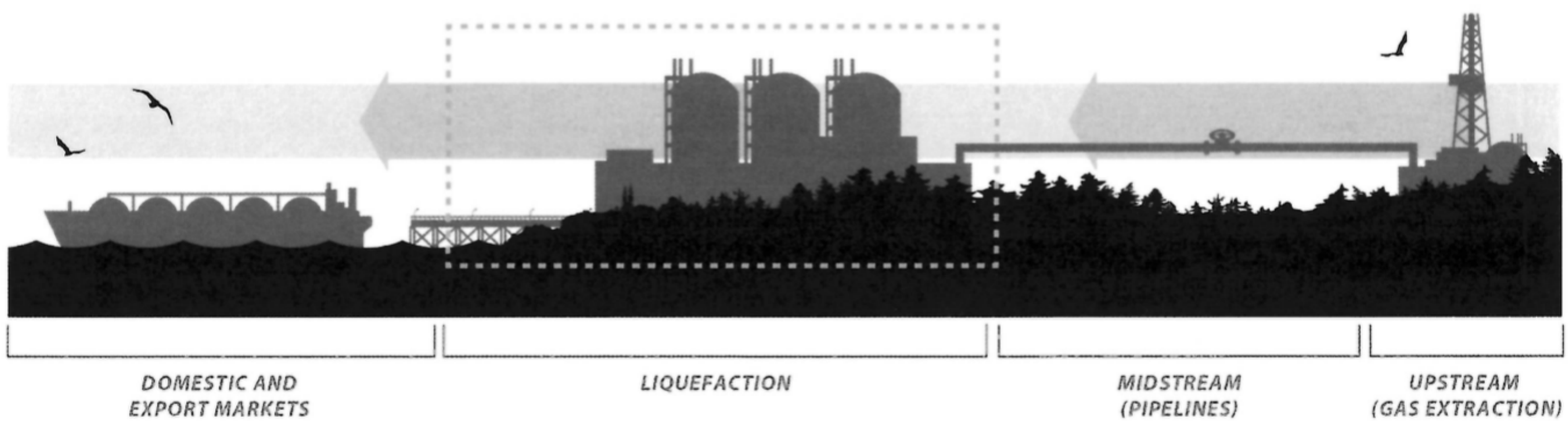
LNG TAXATION FRAMEWORK DESIGN PRINCIPLES

1. **Fair** Return for British Columbians
2. **Competitive** Jurisdiction
3. **Predictability** for Proponents
4. **Consistent** Treatment of Proponents

LNG Income Tax

The LNG Income Tax is a new income tax on taxpayers that have income derived from liquefaction activities at an LNG facility located in British Columbia.

The LNG Income Tax is effective for taxation years starting on or after January 1, 2017.



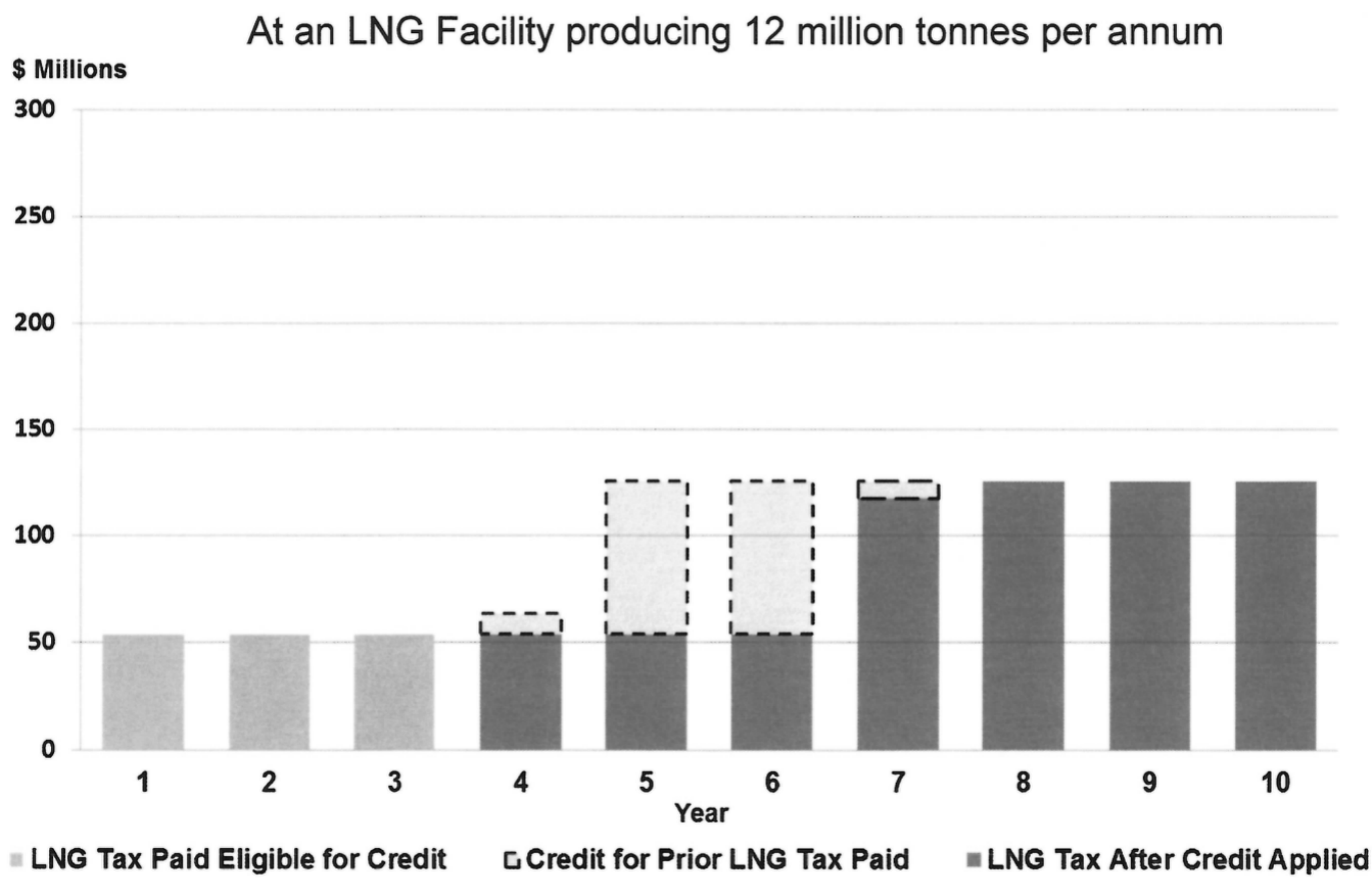
LNG Income Tax Features

Feature	Description
Income Tax	The tax is an income tax on Net Income (Net Operating Income less the Capital Investment Account and the Net Operating Loss Account) from liquefaction activities at an LNG Facility in BC.
3.5% Tax on Net Income	A tax of 3.5 per cent of LNG Net Income (5 per cent from 2037 onwards).
1.5% Minimum Tax	1.5% of Net Operating Income (revenue less expenses). Minimum tax is payable while Net Operating Losses and Capital Investment Account balances are being deducted.
Credit for 1.5% Minimum Tax	The 1.5% tax is accumulated in a tax pool. The 1.5% tax pool is deductible against the 3.5% tax.
The LNG Facility	The taxpayer calculates its tax on a facility by facility basis.

LNG Income Tax Concepts

Concept	Description
Revenue	Includes amounts derived from liquefaction activities at an LNG facility in B.C. and includes sale of LNG, NGL's, natural gas, tolling fees and rental income in respect of the LNG facility.
Expenses	Amounts incurred to earn Revenues excluding amounts included in the Capital Investment Account. (Excludes amounts such as interest expense and hedging)
Investment Allowance	An amount determined annually equal to 3% of 75% of the tangible capital investment in an LNG Facility.
Net Operating Income	Revenue less Expenses less Investment Allowance.
Capital Investment Account	Capital Cost of the LNG Facility less any dispositions.
Net Operating Loss Account	Operating losses are accumulated in a Net Operating Loss Account and used to reduce Net Income in future taxation years.
Net Income	Net Operating Income less Capital Investment Account and Net Operating Loss Account. The deductions are limited to the amount of Net Operating Income.

Application of LNG Income Tax to an LNG plant



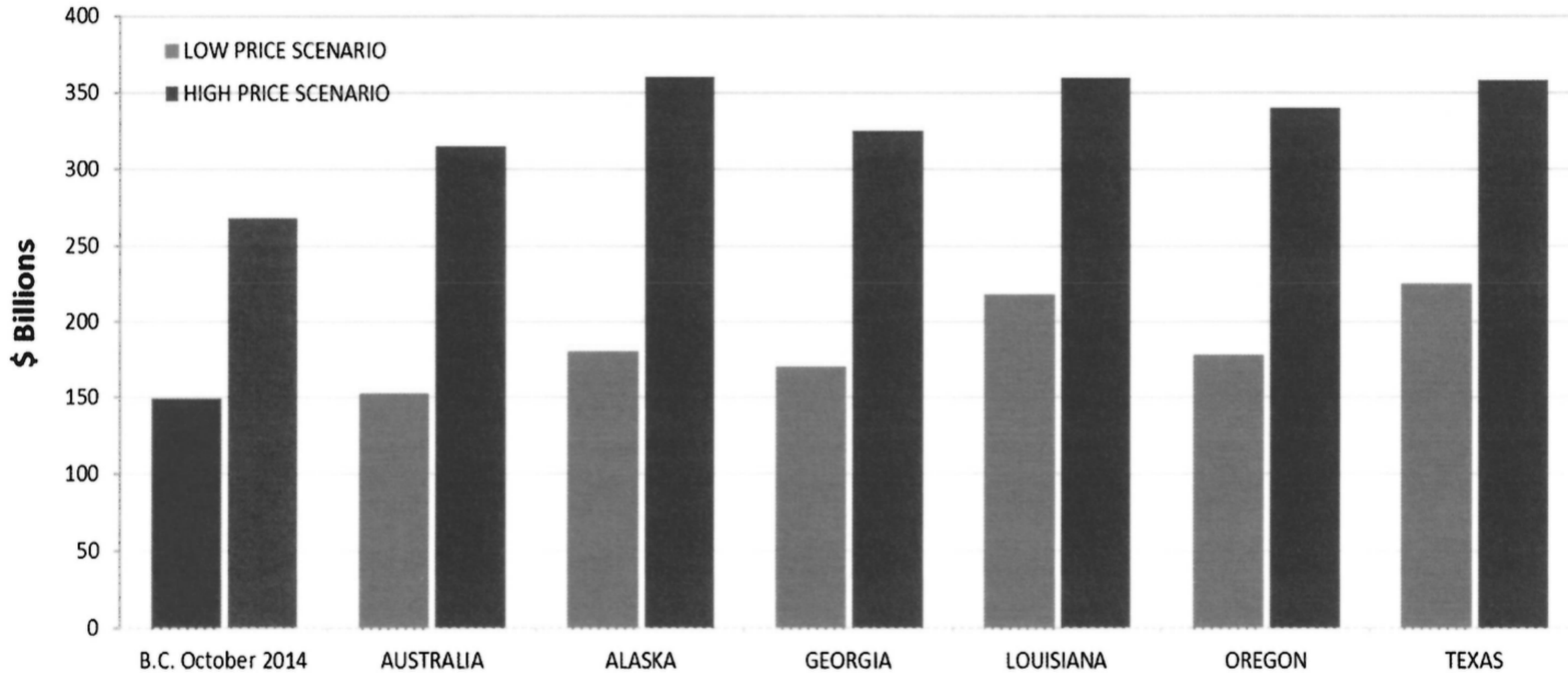
Model only.

Other Taxes and Royalty Revenues from LNG

Tax	Rate / Calculation - Illustrative
Corporate Income Tax	• Federal rate of 15 per cent; Provincial rate of eleven per cent • Natural Gas Tax Credit could reduce effective Provincial rate to 8 per cent.
Royalties	• Variable depending on royalty regime and geography.
Consumption & Other taxes	• Federal GST rate of five per cent on applicable goods and services. • Provincial sales tax rate of seven per cent on capital goods and certain services (Example: Materials used in the construction of plants). • Motor fuel tax and property taxes apply.
Carbon Tax	• $30 per tonne of CO2 from combustion • Example: natural gas consumed to liquefy the Natural Gas

Competitiveness

Aggregate Taxes and Royalties* (Real $2012; 82 MTPA Production; 20 Years of Operations)



*TAXES AND ROYALTIES FROM THE FISCAL FRAMEWORK IN EACH JURISDICTION ACROSS FEDERAL, PROVINCIAL/STATE, AND LOCAL/MUNICIPAL GOVERNMENT.
SOURCE FOR ALL EXCEPT B.C. OCTOBER: ERNST & YOUNG 2014 REPORT, POTENTIAL TAX REVENUES FROM APPLYING SELECTED U.S. FEDERAL, STATE AND LOCAL TAXES TO LNG DEVELOPMENT IN B.C.
B.C. OCTOBER 2014 NUMBERS CALCULATED USING ERNST & YOUNG ASSUMPTIONS FROM FEBRUARY 2014.

B.C. October 2014 reflects tax rates as presented to the legislature on Oct. 21, 2014 and other jurisdictions are as published in Budget 2014. B.C from February 2014.
Model only. Not intended as a revenue forecast.

LNG Taxation Framework Design

1. Provides for a fair return to British Columbians.
2. B.C. is a competitive jurisdiction.
3. Legislative framework for the tax now in place to provide certainty.
4. Tax design took into consideration the results of consultations with proponents.

Appendix – Illustrative Example

Tax Calculation for a Hypothetical LNG Income Tax Taxpayer (before 2037)
in $'000s

	Year 1	Year 2	Year 3	Year 4	Year 5
Net operating income					
Net operating income	-	*4,500*	*4,500*	*4,500*	*4,500*
Loss	*100*	-	-	-	-
Tax rate on net operating income	*1.5%*	*1.5%*	*1.5%*	*1.5%*	*1.5%*
Minimum amount of tax	-	67.5	67.5	n/a	n/a
Net operating loss account					
Opening net operating loss account balance	*0*	100	-	-	-
Current Net Operating Loss	100	-	-	-	-
Drawdown of net operating loss account	-	100	-	-	-
Closing net operating loss account balance	100	-	-	-	-
Capital investment account					
Opening capital investment account balance	*7,000*	7,000	2,600	-	-
Drawdown of capital investment account	-	4,400	2,600	-	-
Closing capital investment account balance	7,000	2,600	-	-	-
Net income					
Net income	-	-	1,900	4,500	4,500
Tax rate on net income	*3.5%*	*3.5%*	*3.5%*	*3.5%*	*3.5%*
Tax on net income before credits	-	-	66.5	157.5	157.5
Tax credits					
Opening balance for tax pool	*0*	-	67.5	68.5	-
Tax pool additions	-	67.5	67.5	-	-
Tax pool drawdown	-	-	66.5	68.5	-
Closing balance for tax pool	-	67.5	68.5	-	-
Tax on net income after credits	-	-	-	89.0	157.5
Total LNG income tax	**-**	**67.5**	**67.5**	**89.0**	**157.5**

Page 11

Withheld pursuant to/removed as

s.21