



ZOMBIE OIL & GAS COMPANIES

The Anatomy of a Zombie Company

Something frightening is lurking in rural Alberta. Zombie oil and gas companies hide in the shadows, [ignoring their regulatory obligations such as municipal property taxes](#) and taking as much of Alberta's oil and gas resources as possible while they still can. What makes these companies

zombies? A lack of Alberta Energy Regulator (AER) action to ensure they operate accountably, and a lack of provincewide planning and resources to deal with the outcomes of shutting them down.

Zombie companies continue to operate with the absolute bare minimum, cutting corners everywhere they can: maintenance, safety, property taxes, and surface leases. Although zombie companies are usually uninterested or unable to grow by acquiring new wells, their failure would result in significant consequences for the public in the form of abandoned wells and environmental liabilities. If the AER were to immediately mandate that unpaid oil and gas taxes be paid to operate, dozens or even hundreds of companies would go under, leaving thousands of abandoned wells on the backs of the broader oil and gas industry, and potentially all Albertans. As a result,

these companies continue to operate as if they are not quite alive but are nearly impossible to kill. The AER's hands-off approach created this zombie infestation, now we need a strategy to deal with it.



Ignores property tax and surface lease obligations

Values shareholders over supporting communities

Leverages regulatory loopholes

Compounds municipal challenges

Barely stands on its own

Barely Stands on Its Own

Zombies aren't dead, but they can barely stay upright. The hands-off approach of the AER and their lack of response to zombie companies through their Liability Management Rating (LMR) system has resulted in over 400 companies barely standing with an LMR of less than 2.0.

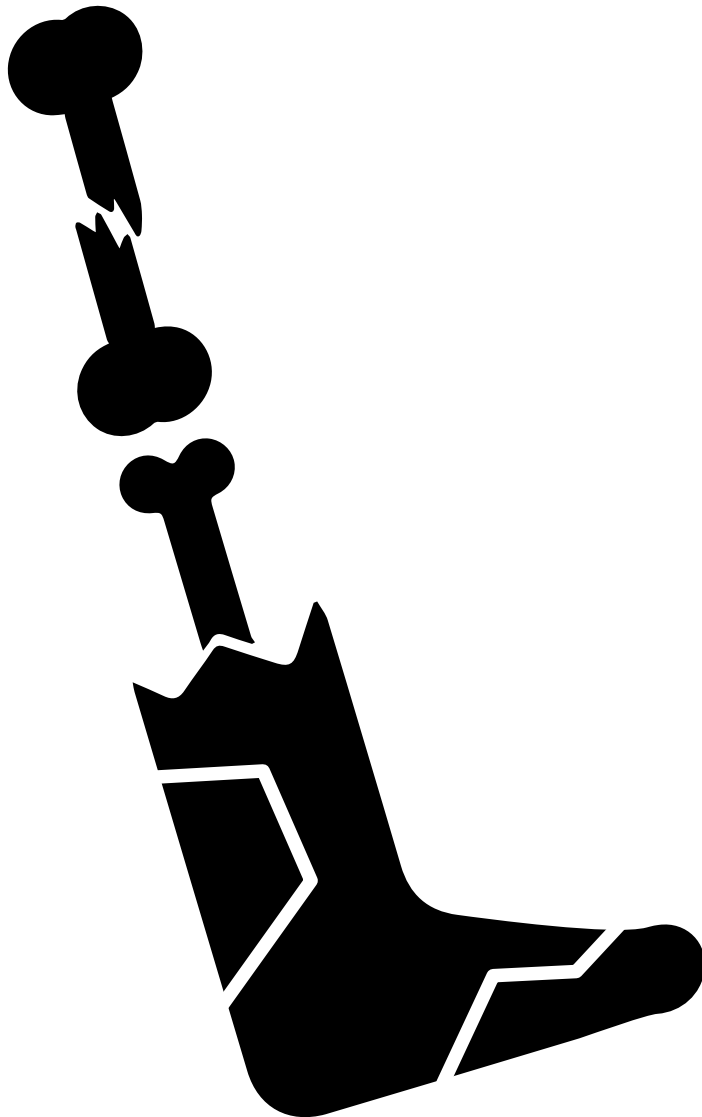
The purpose of the LMR is to monitor a company's risk in relation to its ability to fund its abandonment, remediation, and reclamation obligations. This is based on determining the ratio of a company's deemed asset to its deemed liabilities. The AER uses an LMR rating below 2.0 (a two-to-one asset to liability ratio) to identify a company that is operating at a high risk of not being able to meet its reclamation obligations.

While it is fair to ask whether a 2.0 LMR rating is an adequate risk threshold, an even bigger question is what action, if any, the AER takes to mitigate the risks associated with a company's LMR sinking below 2.0. While the LMR should act as a zombie outbreak warning system and the AER should be Alberta's zombie slayer, nothing much seems to happen when zombies are created.

We don't know which 400 companies have LMRs of less than 2.0, because the AER no longer makes that information publicly available. However, it is safe to assume that many of the companies on the hook for unpaid property taxes and surface leases are operating as zombies, and would simply enter into bankruptcy if they were required by the AER to immediately meet their property tax obligation.

If hundreds of zombie companies were to sink, thousands of wells would be abandoned and placed in the Orphan Well Association (OWA). The abandonment of so many wells at once would strain the OWA and create risks around liability management for the abandoned wells. As a result of the AER's inaction, despite having a zombie outbreak warning in place, zombies can continue to profit while not meeting their regulatory obligations.

The AER should be our main defence against zombie companies, but its current approach has put Albertans in a risky situation.



Ignores Property Tax and Surface Lease Obligations

Zombies may have brains, but many zombie companies don't use them to track and pay municipal taxes and surface lease obligations. For years, zombie companies have ignored property taxes and surface lease obligations, prioritizing shareholder profits over contributing to the municipal infrastructure and services they rely on. The RMA's most recent unpaid property tax member survey shows that this issue is not getting any better, as zombies continue to lurk out of reach of the AER's hands-off regulatory approach. While there is no way to know for sure because data is not publicly available, it is highly likely that zombie companies are responsible for most of the unpaid tax burden facing municipalities.

If zombies are not paying taxes, what other obligations are they ignoring?

The RMA's most recent member survey showed that, in 2023, municipalities faced \$43 million in new unpaid taxes. Because zombie companies are focused on maximizing profits while they can, many ignore their property tax responsibilities because they know there is minimal enforcement. 2023's survey results showed that a growing portion of unpaid taxes are the responsibility of operating companies, meaning that as taxes owed from bankrupt companies are gradually recovered or written off, zombie companies are a growing problem.

Because the AER allowed so many companies to reach a zombie state, it is unprepared for the impacts of enforcing tax payment obligations out of fear that it will result in a wave of well abandonments. However, the AER refuses to ask how much worse this problem will become if it continues to refuse to act. If zombies are not paying taxes, what other obligations or requirements are they ignoring?



Values Shareholders Over Supporting Communities



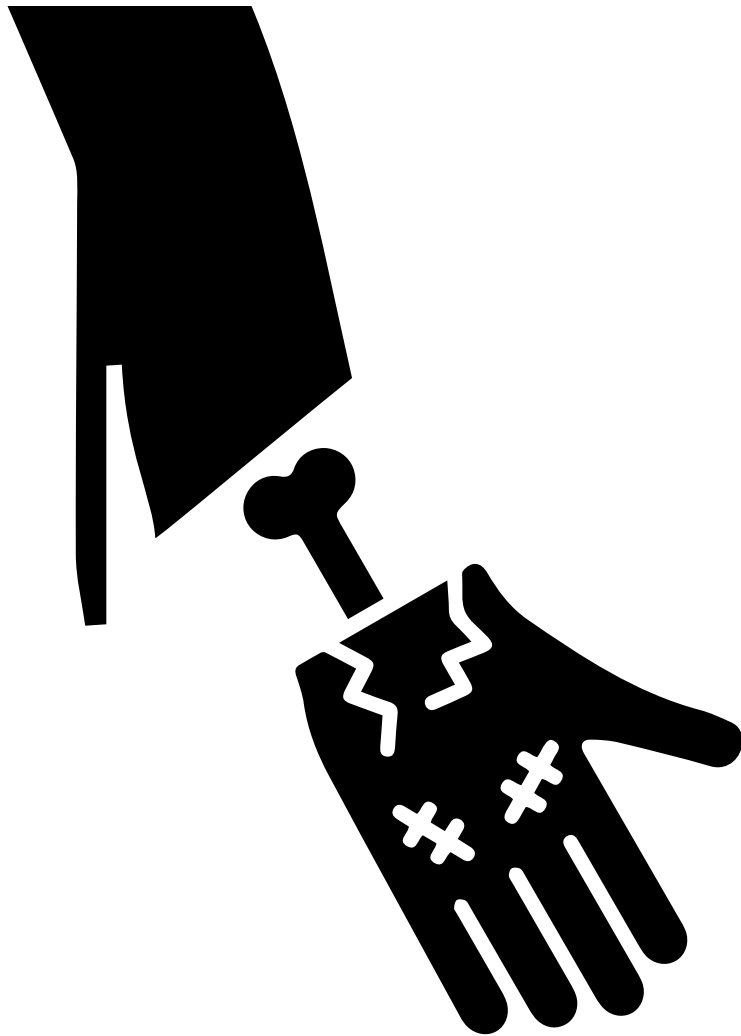
Like any industry, oil and gas companies exist to generate profits for their owners and shareholders. In many cases, oil and gas companies are foreign-owned, meaning that not only are revenues flowing out of Alberta, they are flowing out of Canada altogether. While private companies may invest directly in public infrastructure projects if it benefits them directly, provincial resource royalties and municipal property taxes exist to ensure that oil and gas companies are required to invest a portion of their revenues into the public infrastructure they use to access resources. As Alberta's rural municipalities manage over 173,000 km of road and over 8,000 bridge structures, many of which are heavily used by oil and gas companies, these funds play an essential role.

While data and information are limited on the identities and ownership structures of zombie companies, recent research shows that approximately 70% of the largest oil and gas companies operating in Alberta are foreign owned. While these large companies reliably pay property taxes, extending this proportion of foreign ownership to zombie companies suggests that not only are taxes and surface leases not being paid, but many of the revenues that should be directed to this purpose are being funnelled to zombie company owners and shareholders located outside of Canada.

Zombie companies do not consider the infrastructure and communities that support them.

The zombie value system exists only to generate profits for shareholders and does not consider the infrastructure and communities which sustain them. Instead, zombies feed off community support and add strain to the finances of municipalities. Less money for local infrastructure means more money for shareholders.

Leverages Regulatory Loopholes



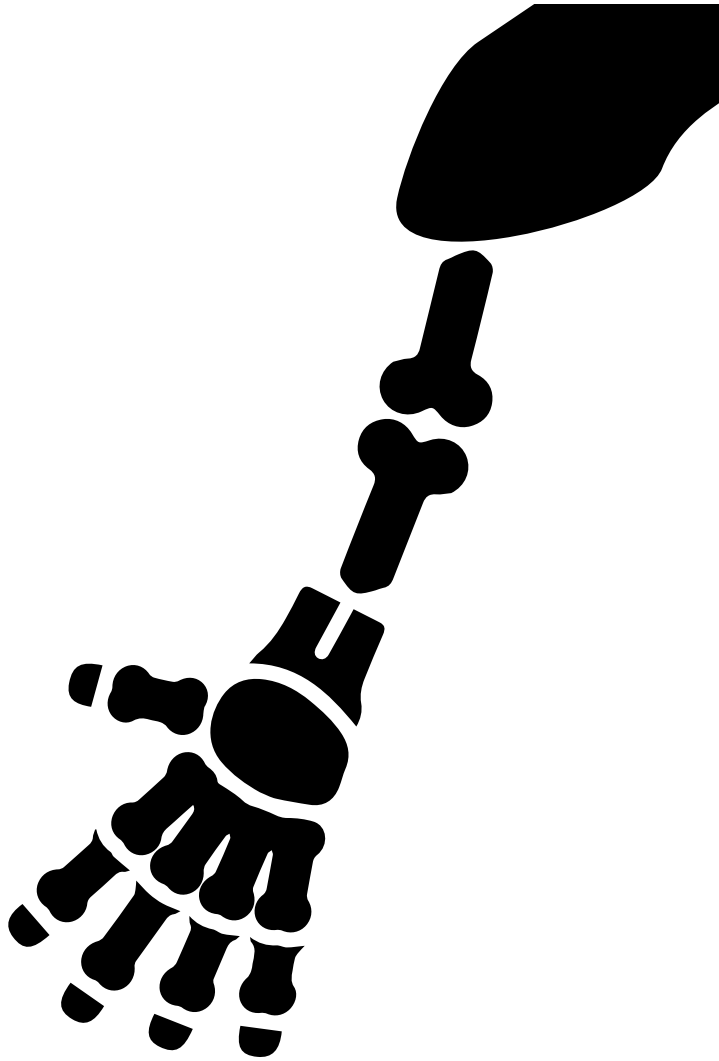
Zombies seem to show up when least expected and take advantage of difficult situations. Similarly, zombie companies are not responsible for creating the regulatory loopholes that do exist, but if they can take advantage, why wouldn't they? The AER has enabled zombie companies to ignore property tax obligations by not considering unpaid taxes when assessing a company's level of risk in not meeting its liability management obligations. Even though Directive 067 allows the AER to do just that, the regulator seems content to simply allow zombies to roam free.

The Government of Alberta has made recent policy changes to address the unpaid oil and gas situation, but none of these changes impacted zombie companies. In 2020, the *Municipal Government Act* was amended to give municipalities special lien powers on oil and gas properties. While this was a positive development, it only helps in collecting taxes from companies that are insolvent and no longer operating; it does not help with zombies. The RMA's 2024 member survey on unpaid oil and gas taxes showed that only 10% of RMA members have been able to utilize the special lien powers.

If zombie companies had the opportunity to take advantage of difficult situations, why wouldn't they?

In 2023, the Government of Alberta took further action by issuing a Ministerial Order requiring the AER to prevent any companies with tax arrears in excess of \$20,000 from acquiring or transferring licences. While this also helped a little, it missed the mark on snagging zombies. Because the Ministerial Order is focused on licence acquisitions and transfers, it impacts growing companies much more than zombies, which are typically not interested in expanding, as long as they are making profits in the short term with their existing assets. Clearly, the changes made recently include loopholes that zombie companies have been allowed to slink through. Until the AER gets tough on zombies, this will continue.

Compounds Municipal Challenges



Not only do zombie companies ignore their regulatory requirements, they are also happy to utilize municipal infrastructure to their benefit without paying their fair share.

Rural municipalities manage over 75% of roads and 60% of bridges in the province. Many of these roads and bridges are built and maintained by rural municipalities for the sole purpose of providing industry with access to natural resources. Despite their massive infrastructure responsibilities, rural municipalities have limited revenue streams, and are heavily reliant on the property taxes that industrial users of infrastructure are supposed to pay. Between stagnant or decreased provincial infrastructure funding and downloading of responsibility in areas such as policing and social service delivery, municipalities are expected to do more with less.

Zombie companies use municipal infrastructure for their business without paying their share of the taxes, leaving everyone else to deal with the consequences.

While most oil and gas companies contribute to the municipal infrastructure they rely on by paying property taxes, zombie companies do not. Instead, they add strain to roads and bridges by using them to access their sites and profit from the land while ignoring their property tax obligations. This often leaves municipalities with no choice but to increase tax rates for other property owners or reduce services. While zombies ignore the rules, everyone else suffers the consequences.

The average municipality is currently owed nearly \$4 million in unpaid taxes from zombie companies. This money would go a long way to contributing to infrastructure construction and maintenance, enhanced service delivery, lower tax rates, or other actions that support more sustainable communities. Instead, zombies take those opportunities away from rural residents and other businesses. No surprise there, as these companies only look out for themselves.