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# Royalty/Tax Regime Applicable to Enhanced Oil Recovery Projects (Excluding Waterflood Projects) Commencing Prior to April 1, 2005

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EOR Information Circular PR-IC11

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April 2021

Version 3.0

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Governing Legislation:

Acts:            *The Crown Minerals Act*  
                    *The Freehold Oil and Gas Production Tax Act, 2010*

Regulations: *The Crown Oil and Gas Royalty Regulations, 2012*  
                    *The Freehold Oil and Gas Production Tax Regulations,*  
                    *2012*

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### Record of Change

Revision	Date	Description
1.0	April 2013	Information Circular Approved
2.0	September 18, 2020	<p>New format</p> <p><b>Section 2</b> – SRC value was updated to 0.75% in section (d) of the Average SRC rate definition.</p> <p>Definition of Net Royalty Lease and Net Royalty Payment were updated to reflect the current legislation.</p> <p><b>Section 4.2.1</b> – Clarification was added for wells that were approved as part of an EOR project but never produced.</p> <p><b>Section 4.2.4</b> - Recognizing Output-Based Performance Standard as an eligible EOR cost.</p> <p><b>Section 6.4</b> – EOR Project Termination Date information was added.</p> <p><b>Section 7.2</b> – Monthly royalty installment and production tax installment formulas added.</p> <p><b>Section 7.4</b> – Foreign exchange rate was added.</p> <p><b>Section 7.5.2</b> – Explanation of how interest is calculated for an overpayment.</p> <p><b>Section 7.6</b> – Explanation of penalties on Audit Assessments.</p> <p><b>Section 8</b> – Updated to reflect EOR Operator's return are now submitted through IRIS.</p> <p><b>Appendix A</b> – Eligible/Ineligible Costs</p>
3.0	April 1, 2021	<p><b>Section 4.1.1</b> – Clarification was added for fuel gas usage.</p> <p><b>Section 4.2</b> – Introducing the deferred capital cost schedule for costs that cannot be claimed within the 4-year limitation. Clarification was added for the EOR escalation factor.</p> <p><b>Section 6.3</b> – Project termination is no longer an application, rather an obligation that must be fulfilled in IRIS.</p> <p><b>Appendix A</b> – Recognizing commissioning and startup costs as an eligible expenditure under Capital Costs. Recognizing well site programming and communication directly related to well automation as an eligible expenditure under Capital and Operating Costs.</p>

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## 1 Introduction

This Information Circular has been prepared by the Ministry of Energy and Resources to explain the policies and procedures which are used to administer the Crown royalty and freehold production tax (royalty/tax) system applicable to “Enhanced Oil Recovery (EOR) oil” produced from approved EOR projects that commenced operation prior to April 1, 2005. Reference should be made to Acts and Regulations for an exact statement of the law. In case of a conflict between this Information Circular and the provisions of the Acts and regulations, the Acts and regulations will govern. This Information Circular has no legal force or effect.

## 2 Definitions

**Average SRC Rate** of an EOR project for any royalty or taxation year is the average Saskatchewan Resource Credit rate, expressed as a percentage, determined by dividing the sum of (a) and (b) by the gross value of EOR oil produced from the project during the royalty or taxation year:

- a) 2.5% of the gross value of EOR oil produced prior to April 2013 during the royalty or taxation year that is produced within a new or expanded portion of an EOR project that commenced operation on or after February 9, 1998;
- b) 2.25% of the gross value of EOR oil produced on or after April 1, 2013, during the royalty taxation year that is produced within a new or expanded portion of an EOR project that commenced operation on or after February 9, 1998;
- c) 1% of the gross value of all other EOR oil (other than the EOR oil referred to in (a)) produced prior to April 2013 from the project during the royalty or taxation year.
- d) 0.75% of the gross value of all other EOR oil (other than EOR oil referred to in (a)) produced on or after April 1, 2013, from the project during the royalty or taxation year.

**Crown EOR Income Subject to Royalty** of an EOR project for any royalty year means the amount, if any, by which that portion of the EOR operating income of the project for the year that is allocated to the Crown lands respecting the project, exceeds that portion of the net royalty payments of the project for the year that is allocated to the Crown lands respecting the project;

**EOR Factor** is the EOR factor in respect to an EOR project, expressed as a percentage, determined in accordance with the following formula:

$$EOR\ Factor = \frac{AR}{TR} \times 100$$

Where:

**AR** is the additional recoverable reserves of oil, as determined by the minister from time to time, that are attributable to the EOR project during any period or periods that the minister may specify;

**TR** is the total remaining recoverable reserves of oil that is determined by the minister from time to time for a portion of the pool containing the EOR project and that is determined for any period or periods that the minister may specify;

**EOR Oil** means:

- a) the quantity of non-heavy oil determined by multiplying the total amount of non-heavy oil produced within an EOR project by the EOR factor applicable to that project;
- b) all heavy oil produced within an EOR project; or
- c) any oil that is approved by the minister as EOR oil for the purposes of these regulations.

**EOR Operating Income** of an EOR project for any royalty/taxation year means the amount, if any, by which the sum of the gross EOR revenues and the recovered investment exceeds the total EOR operating costs for the royalty/taxation year;

**EOR Project** means:

- a) any project, including a project in oil sands or oil shale, that is designed to enhance the recovery of oil through the use of thermal or other techniques, including recovery of oil by means other than through a wellbore, and that:
  - 1) has been approved pursuant to *The Oil and Gas Conservation Act*;
  - 2) commenced operation prior to April 1, 2005;
  - 3) is not a waterflood project; and
  - 4) is approved by the minister as an EOR project for the purposes of these regulations; or
- b) any other project or group of projects that may be approved by the minister as an EOR project for purposes of these regulations, for any period or periods specified by the minister.

**Freehold EOR Income Subject to Tax** of an EOR project for any taxation year means the amount, if any, by which that portion of the EOR operating income of the project for the year is allocated to the freehold lands, respecting the project, exceeds that aggregate of the royalties paid for the year to a person, other than the Crown, who is a beneficial owner of oil and gas rights within the meaning of section 13 of *The Freehold Oil and Gas Production Act, 2010*;

**Gross EOR Revenues** of a royalty/taxation year consists of the sum of the months within the royalty/taxation year. Gross EOR Revenues of an EOR project for any given month within the royalty/taxation year means an amount equal to the value obtained when the production of EOR oil, measured in cubic metres, produced from or allocated to the project, is multiplied by the well-head value. More information regarding the determination of the well-head value can be found in Information Circular PR-IC09: Well Head Value of Crude Oil for Royalty/Tax Purposes.

**Net Royalty Lease** means a lease mentioned in section 9-6 of The Oil and Gas Tenure Registry Regulations, and includes any other arrangement pursuant to which a person is required to pay to the Crown respecting oil that is produced from or allocated to Crown lands, an amount greater than the amount payable pursuant to *The Crown Oil and Gas Royalty Regulations, 2012*.

**Net Royalty Payment** means the amount by which the payments required to be made to the Crown under a net royalty lease respecting oil produced from or allocated to Crown lands exceeds the amount that would have been payable had the oil been produced under a lease.

**Royalty/Taxation Year** means the calendar year or any other period not exceeding 53 weeks that is approved by the minister;

### 3 EOR Royalty/Tax System

The EOR royalty and tax system is a cost sensitive system that was designed to recognize the higher investment and operating costs associated with implementing and operating EOR projects. Accordingly, the royalty and tax level is dependent on the profitability of each project.

The EOR royalty and tax system is applicable to “EOR oil” as defined in Section 2. Lower royalty/tax rates apply during payout of the EOR investments.

#### 3.1 Crown Royalty

A Crown royalty is payable on “EOR oil” produced from or allocated to “Crown” lands. The royalty rate calculation before payout of the investment is different from the calculation after payout.

- **Before Investment Payout**, the royalty, to a minimum of zero, equals:  
(intermediate amount of a, b and c) – e
- **After Investment Payout**, the royalty, to a minimum of zero, equals:  
(greater of c and d) – e

Where:

a = 1% of “gross EOR revenues” allocated to Crown lands;

b = 10% of “Crown EOR income subject to royalty”;

c = 5% of “gross EOR revenues” allocated to Crown lands;

d = 30% of “Crown EOR income subject to royalty”;

e = “average SRC rate” x “gross EOR revenues” allocated to Crown lands.

#### 3.2 Freehold Production Tax

A freehold production tax is payable on “EOR oil” produced from or allocated to freehold lands. As is the case with the Crown royalty rates, the production tax rate calculation before payout of the investment is different from the calculation after payout.

- **Before Investment Payout**, the production tax equals: Zero
- **After Investment Payout**, the production tax, to a minimum of zero, equals:  
g – e

Where:

$g$  = 23% of “freehold EOR income subject to tax”;

$e$  = “average SRC rate” x “gross EOR revenues” allocated to freehold lands.

### 3.3 Exceptions for Certain EOR Projects

Under special circumstances such as small scale field test of a new EOR process, the minister may simplify the EOR royalty/tax calculation and reporting requirements. The royalty/tax calculation is simplified by applying a fixed royalty/tax rate to the gross revenues from the EOR project for a specified time period. Under this system, EOR costs and investment reporting requirements are waived.

#### Crown Lands:

The royalty equals:

$(5\% - \text{“average SRC rate”}) \times \text{“gross EOR revenues”}$  allocated to Crown lands.

#### Freehold Lands:

The production tax equals: Zero

## 4 Eligible Project Costs and Investments

### 4.1 EOR Operating Costs

Eligible EOR operating costs include all operating costs that are directly related or attributable to the production of “EOR oil”. Examples of direct operating costs include lifting, injection, disposal and general maintenance costs associated with the project. A separate 10% allowance is provided in recognition of overhead and administrative expenses (refer to Section 4.3 and Appendix A for a list of costs covered by the administrative cost allowance).

In cases where both “EOR oil” and non-EOR oil is produced from an EOR project, the direct operating costs that are eligible as EOR operating costs are determined by subtracting the direct non-EOR operating costs from the total direct operating costs of the project. The non-EOR operating costs are determined by multiplying the volume of oil that is not “EOR oil” by the direct non-EOR operating costs factor that is established by order of the minister.

#### 4.1.1 Fuel Gas Usage

For the purpose of EOR Returns, the value of natural gas consumed by an EOR project is determined as follows:

- a) Where natural gas is purchased, the value is the purchase price.
- b) Where natural gas is produced and consumed by a producer, the value claimable shall be:
  - The deemed average production cost, including any approved transportation charges, that is calculated for a given month by multiplying the quantity (in GJ) by *The Provincial Average Field Gate Price* (PGP value (\$/GJ); or

- The actual cost of the natural gas determined from the producer's records, which value shall include operating expenditures, Crown and Freehold royalties, depreciation, depletion, and amortization.

## **4.2 EOR Investment**

In order for investments to qualify under the EOR royalty/tax regime:

- a) they must be incurred after project approval date unless otherwise approved by the minister;
- b) they must be directly related to the implementation and/or operation of an EOR project; and,
- c) they must be approved by the minister as EOR investments.

Expenses that may be categorized as either an investment or an operating cost will be considered an investment, including the cost of substances other than water, injected into EOR wells.

Only expenses that have incurred within 4 years of the date that the Ministry became aware of the costs can be claimed. In cases where costs are incurred and cannot be claimed within 4 years – for example costs of drilling a well have incurred but the well does not come onto production for 5 years; the Deferred Capital Cost Schedule should be used to ensure these types of costs are brought to the Ministry's attention. If required, the Deferred Capital Cost Schedule should be updated each year and submitted to [EOR.Selfservice@gov.sk.ca](mailto:EOR.Selfservice@gov.sk.ca).

Each year the opening investment balance is increased by the escalation factor. The EOR escalation factor for any royalty year is 10%, or any other percentage determined by the minister, and is prorated if the royalty year is less than 12 months or if the project ceases to operate for a portion of the royalty year.

Only a portion of certain investments may be eligible under the EOR regime. This portion is dependent on the type of investment as described below.

### **4.2.1 Investment specific to oil wells and service wells**

A portion of the investment related to drilling, equipping and completing an oil well, injection well or service well within an EOR project is eligible as an EOR investment. The investments must be made in conjunction with construction of the project or after the project has commenced operation. Observation wells must be approved by the minister as a requirement of the EOR project to be eligible as an EOR investment. The eligible portion of investment is determined by multiplying the total expenditure related to the well by the "EOR factor" for the project. An "EOR factor" of 100% (in the heavy oil area) means 100% of the well investments are eligible.

If an oil well is drilled as part of an EOR project, the investment will be deferred until the well commences production or, in the case where the well never produces, until the well is abandoned or reclassified as an approved observation well. Only costs that have incurred within 4 years of the date that the Ministry became aware of the costs can be deferred.



If any oil well is drilled on or after October 1, 2002, and becomes part of an EOR project while it has a remaining incentive volume, the incentive volume will be reduced by the minister in the same proportion that the eligible well investments will be granted. For example, if an eligible oil well becomes part of an EOR project with 10% of its incentive volume remaining, 10% of the well investments will be eligible as an EOR investment.

#### **4.2.2 Investment specific to water supply oil cleaning, injection and disposal facilities**

In order to simplify the accounting in cases where a facility is handling fluids produced for steam generation or from the oil wells within a specific EOR project as wells from other projects or oil wells that are not part of the project, a Facility Investment Fee (FIF) is determined. The fee provides a 5% depreciation component as well as a 15% return on average undepreciated new investments. This fee is reported as a direct EOR operating cost. Taxpayers are encouraged to maintain a separate FIF schedule for each battery, water disposal facility, and water supply facility within an EOR project. The fee is prorated for part years in cases where the underlying facility, does not facilitate the EOR project for the entire year.

While the FIF is normally used even in cases where a facility is handling only fluids produced from the oil wells within a specific EOR project, a portion of the facility investment may be approved by the minister as EOR investment. In this case, the operator will have to demonstrate to the minister that the facility does not have the capability to process non-EOR fluids.

#### **4.2.3 Investment specific to EOR recovery scheme**

There are certain investments that are required to be made that are specific to the project recovery scheme. Examples of these investments are large capacity steam generators or air compressors.

The total of these investments will qualify as EOR investment.

#### **4.2.4 Output-Based Performance Standard (OBPS)**

OBPS has four regulatory compliance options which are considered as eligible costs under the EOR Royalty Regime:

- a) A producer can make capital investments into a regulated facility to reduce the facility's greenhouse gas emissions intensity.
- b) A producer can make a payment into the Ministry of Environment's OBPS Technology Fund.
- c) A producer can use an OBPS best performance credit generated from exceeding OBPS regulatory compliance obligations in previous years or can purchase these credits from another regulated emitter.
- d) Non-regulated emitters (i.e. farmers) can generate greenhouse gas emission reduction 'offset credits' and then sell those credits to OBPS regulated emitters for the use in meeting their OBPS compliance obligations.

#### 4.3 Ineligible Costs

The following list describes the types of costs and expenses that are ineligible as direct EOR operating costs or EOR investment:

- costs incurred prior to the project approval date or after the EOR status of a project is terminated;
- costs related to wells or facilities that are not approved as part of the EOR project (including observation wells that are not approved and required by the Ministry);
- engineering, laboratory, research, and development costs not specific to the EOR project;
- seismic costs that are not specific to the EOR project area;
- feasibility study expenses;
- land acquisition expenses (including land title fees, title searching, and land access expenses);
- penalty, interest, or late payment charges;
- abandonment costs related to wells that were not initially drilled for purposes of the EOR project or that are incurred after the project is terminated.
- reclamation costs (including landscaping, seeding, spill cleanup, removal of contaminated soil, waste management, and environmental costs);
- non-arm's length expenses (other than approved fuel gas expenses);
- accrued costs;
- royalties paid to a freehold mineral owner, overriding royalties, income taxes, profit taxes, or other similar royalties and taxes (including crown mineral royalties and admin levies);
- transportation costs that are deductible in the calculation of the well-head value of oil;
- losses related to price hedging; and,
- costs considered to be covered by the administrative cost allowance such as:
  - office overhead, administration, maintenance, and capital costs;
  - general field office maintenance cost and safety supplies;
  - safety supplies and safety equipment (including eyewash stations, security, safety meetings, fences, signs, and decals);
  - office management and staff costs (includes training, books and tuition costs, salary and benefits related to management, accounting, computer and IT, purchasing, human resources, data processing staff, and fees in lieu of these or similar costs);
  - audit and legal fees;
  - contract cancellation or termination fees;
  - insurance premiums and related costs;
  - lease maintenance cost related to snowplowing, gravelling, and grading costs;
  - rodent and vegetation control costs (including mowing costs);
  - administration and management fees (including project management, quality assurance, and quality control costs);
  - communication costs including radios, telephones, and towers; and
  - computers, programming, and other data processing equipment costs.

Refer to the attached Appendix A for a detailed list of eligible and ineligible costs. This list shall be considered a guideline; all eligible costs are subject to audit and must be approved by the Ministry.

## **5 Royalty/Tax Rates for Non-EOR Production**

EOR projects in non-heavy oil areas may include oil wells that were producing oil prior to the project being implemented. The portion of oil produced from a well within an EOR project that is not classified as "EOR oil" will continue to be subject to the same royalty/tax regime that was applicable prior to the EOR project commencing operation.

Information Circulars PR - IC01 (basic structures), PR - IC03 (vertical oil well incentives) and PR - IC05 (horizontal oil well incentives) outline the royalty/tax regime for non-EOR oil.

## **6 Approval Process for EOR Projects**

### **6.1 EOR Factor Approval**

The "EOR factor" is determined and approved by the minister on the basis of the definition given in Section 2 of this circular. There is a provision stating that all oil produced from EOR projects in the Lloydminster and Kindersley-Kerrobert heavy oil areas will be classified as "EOR oil" (i.e. the "EOR factor" is set at 100%).

### **6.2 EOR Project Commencement Date**

Upon approval of an EOR project, the official commencement date for the project will be the first day of the first month in which the commencement conditions listed in the EOR approval letter are met. If a portion of the project starts after the official commencement date, the Petroleum Royalties group will require additional notification in order to grant "EOR oil" royalty status to newly affected producing oil wells. All costs are subject to audit and the Ministry will determine the eligibility of any costs incurred prior to and after the commencement date.

### **6.3 EOR Project Termination Date**

Effective December 16, 2020, the project obligation "Report Project Termination" in IRIS replaces the former email or mail submission of the project termination notice.

A "Report Project Termination" obligation is assigned to all EOR projects when approved via IRIS. When an operator decides to terminate a project this obligation must be fulfilled in IRIS, including submitting supporting documentation. A final project report may be required to fulfill the "Submit Final Project Report" obligation upon the ministry approving the project termination.

For an EOR project or a phase of an EOR project to be terminated from the EOR royalty/tax regime, the Project Termination Obligation must be fulfilled by the operator within IRIS and approved by the Resource Management Branch. The Project Termination Obligation shall be fulfilled within 14 days of the project wells no longer seeing the effects of the EOR project and technical justification should be provided as an

attachment (i.e. termination letter). Once the Project Termination Obligation is fulfilled by the operator and approved by the Resource Management Branch, the EOR royalty/tax regime will no longer apply to wells approved under the previously active project or phase, as of the first day of the month following the month in which the project or phase is terminated, unless otherwise approved. The new royalty/tax regime applicable to these wells will be determined based on the relevant legislation or as approved prior to the implementation of the EOR project.

Upon EOR project or phase termination, all applicable proceeds from the disposal of EOR assets will have to be included on the EOR return. For projects that fall under both the old EOR regime and the new EOR regime, the proceeds from the disposal of EOR assets will be prorated between old and new regimes on each EOR return. In addition, the Ministry may have to deem proceeds on disposal where the EOR assets are not sold or transferred into the taxpayer's inventory of capital assets or transferred to another EOR project. The proceeds of disposition from the disposal of EOR assets will be the greater of the actual proceeds received or receivable and the fair market value of the disposed project assets. The same rules apply for facility capital (battery, water supply, disposal, etc.) as well.

## **7 Payment and Collection of EOR Royalty/Tax**

### **7.1 Estimates**

One month prior to the beginning of each royalty or taxation year (typically a calendar year), the operator of an EOR project must file with The Ministry of Energy and Resources, estimates of production, revenues and costs associated with the project for the oncoming year. As of June, 2019 these returns are required to be filed using the Self-Service for EOR Royalty/Tax module found on the Ministry's Integrated Resource Information System (IRIS). All routine returns will be automatically approved and non-routine returns will be reviewed and approved (with possible revisions) within 30 days from the day it is filed in the EOR Self-Service. The approval will provide the operator with details of any revisions that were made to the estimate as well as the resulting royalty/tax instalment rates that will apply to the "EOR oil" produced from the EOR project during the royalty/taxation year.

### **7.2 Monthly Instalments**

The minister shall, on a monthly basis:

- a) determine the royalties and taxes required by these regulations with respect to all EOR oil produced in accordance with Part VI of these regulations; and
- b) provide to every operator and special operator an invoice that sets out the royalties and taxes mention in clause (a) applicable to that operator or special operator.

Every operator of an EOR project, unless otherwise approved, must remit a royalty instalment on account of the royalties to be calculated for the royalty year. The royalty instalment amount shall be calculated with the following formula:

$$\text{Royalty Instalment} = M \times \frac{R}{Y}$$

Where:

M is the amount of gross EOR Crown revenues associated with the “EOR oil” that was allocated to Crown lands during a month;

R is the amount of royalties in the estimate that has been approved by the Ministry.

Y is the amount of gross EOR Crown revenues in the estimate that has been approved by the Ministry.

Every operator of an EOR project, unless otherwise approved, must remit a production tax instalment on account of the production taxes to be calculated for the taxation year. The production tax instalment amount should be calculated with the following formula:

$$\text{Production Tax Instalment} = M_f \times \left( \frac{T_f}{Y_f} \right)$$

Where:

$M_f$  is the amount of gross EOR freehold revenues associated with the “EOR oil” that was allocated to freehold lands during a month;

$T_f$  is the amount of taxes in the estimate that has been approved by the Ministry.

$Y_f$  is the amount of gross EOR freehold revenues in the estimate that has been approved by the Ministry.

### **7.3 Actual Annual Royalty/Tax Payments**

No later than the end of the third month following the end of each royalty or taxation year, the operator of an EOR project must file an “Actual” return using the EOR Self-Service module in IRIS. Any adjustments to the total of the monthly instalment amounts paid during the year will be made and any overpayments or underpayments will be processed through The Ministry of Energy and Resources’ billing system.

### **7.4 Foreign Exchange Rates**

The exchange rate to be used when converting foreign currency transaction to Canadian Dollars is the Bank of Canada’s Daily Exchange Rate on the invoice date of the transaction, unless otherwise approved. If the invoice date lands on a weekend or bank holiday, the exchange rate from the previous business day should be used. All foreign currency transactions must be converted to Canadian Dollars when a return is filed.

### **7.5 Auditing and Interest Charges**

If through a further review or audit of the EOR project revenues, costs and investments, the royalty/tax amount is found by The Ministry of Energy and Resources to be other than the current amount paid, The Ministry of Energy and Resources will process the necessary adjustments through the billing system. In addition to these adjustments, interest charges will also be assessed in accordance with the regulations.

#### **7.5.1 In the Case of an Underpayment**

Interest is calculated from the last day the EOR return was required to be filed (i.e. the last day of the third month following the end of the royalty or taxation year) to the day The Ministry of Energy and Resources invoices the underpayment amount through the billing system.

The prescribed rate of interest per annum is the rate equal to the sum of:

- a) the prime lending rate of the bank holding the general revenue fund as determined and adjusted in accordance with this section; and
- b) 3%.

The interest rate prescribed by this section shall be determined on June 15 and December 15 in each year;

- a) the interest rate as determined on June 15 applies to unpaid royalty that is owing on or after July 1; and
- b) the interest rate as determined on December 15 applies to unpaid royalty that is owing on or after January 1 of the following year.

#### **7.5.2 In the Case of an Overpayment**

Interest is calculated from the later of the day on which the EOR return was required to be filed (i.e. the last day of the third month following the end of the royalty or taxation year) and the day on which the return was received by The Ministry of Energy and Resources to the day The Ministry of Energy and Resources credits the overpayment through the billing system.

The prescribed rate of interest per annum is the rate equal to the prime lending rate of the bank holding the general revenue fund.

The interest rate prescribed by this section shall be determined on June 15 and December 15 in each year and:

- a) the interest rate as determined on June 15 applies to any royalty that is overpaid on or after July 1; and
- b) the interest rate as determined on December 15 applies to any royalty that is overpaid on or after January 1 of the following year.

#### **7.6 Penalty on audit assessments**

If any amount with respect to the royalties and taxes imposed by an Act or regulations is not remitted by an operator or special operator to the minister as and when required by the regulations, the operator or special operator shall pay to the minister the amount outstanding plus an additional 10% penalty on that amount. The 10% penalty shall apply to all assessment or reassessments of royalties and taxes as a result of audits conducted by the Ministry.

#### **8 EOR Operator's Return Filing**

An "Actual" return is required to be filed by the operator within 3 months following the end of the royalty/taxation year. In addition, operators must file an "Estimate" return not later than one month prior

to the start of the royalty/taxation year. As of June 2019, these returns are required to be filed using the Self-Service for EOR Royalty/Tax module found on the Ministry's Integrated Resource Information System (IRIS). Operators are still required to file amendments to 2018 and prior years using the 692 form and accompanying Schedules which are available on the Government of Saskatchewan Publications website at <http://publications.saskatchewan.ca>.

## Appendix A: Eligible and Ineligible Costs

Cost Allowable Table	Eligible	Ineligible
Abandonment Expenses		
Abandonment costs for wells abandoned after termination of the project		X
Abandonment costs for wells initially approved, drilled, and included in the project	X	
Abandonment costs for wells not included in the EOR project at time of drilling		X
Capital Costs		
Acquisition, lease costs, rental and maintenance of capital assets offsite of the EOR project (including central warehouse facilities)		X
Additives, fuel, propane, and related materials	X	
Boilers and steam generators	X	
Capitalized fuel costs	X	
Commissioning and startup costs including startup labour and materials (excluding commissioning and startup fees charged by a third party)	X	
Compressors	X	
Direct capital costs beyond 4 years		X
Drilling waste construction equipment	X	
Equipment (surface, tubing, casing, drill string, well head, drill bits, mechanical)	X	
Injection fluids other than water (ex: polymer, CO <sub>2</sub> , solvents) including transportation, pipeline, and site storage costs	X	
Major workovers for materials, supplies, external contract labour, internal laboratory tests and analysis	X	
Material costs (cement, chemical, civil work, control instrumentation, corrosion, drilling mud and completion fluid, electrical, engines and motor, filters, fittings, mats, piping, retail and commercial materials, scraps, structural, valves, wireline and logging materials)	X	
Meter stations	X	
Output-Based Performance Standard (OBPS) regulatory compliance options	X	
Overhead capital		X
Pumps, rods and dispensers (surface and subsurface)	X	
Seismic specific to EOR project	X	



<b>Cost Allowable Table</b>	<b>Eligible</b>	<b>Ineligible</b>
Services (site preparation, construction, cement, completions, directional surveys, drilling, engineering, electrical, fishing, geological, inspections, piping, solvent trucking, stimulation and fracturing, structural and foundation, surveying and sampling, cathodic protection)	X	
Tangible non-operated capital costs	X	
Well site programming and communication directly related to well automation	X	
<b>Corporate Expenditures</b>		
Corporate relations, including association fees, advertising, public affairs, membership fees for corporation or employees		X
Donations (religious, charitable, educational, political contributions, sponsorships, etc.)		X
Feasibility studies and research and development costs		X
Foreign currency exchange gains or losses and cutbacks		X
Travel (general, business, and transportation expenses)		X
<b>Deferred Costs</b>		
Deferred costs on EOR wells and facilities that are not in production		X
Deferred costs on the design, development, and construction of new EOR wells and facilities once the production of EOR oil commences from those wells or once the wells are abandoned	X	
<b>Mineral Rights Expenses</b>		
Acquisition costs of land or mineral rights, or an interest in a joint venture		X
Any payment or royalty paid for purchase/acquisition of mineral rights		X
<b>Miscellaneous Fees and Taxes</b>		
Accrued costs		X
Audit fees and expenses		X
Business tax		X
Contract cancellation or termination fees		X
Credit card and ATM fees		X
Hedging gains and losses (prices, utilities, etc.)		X
Interest and late payment charges		X
Legal fees and expenses		X
Penalties (including 10% penalty on audit assessments)		X
Production accounting administration fees		X

<b>Cost Allowable Table</b>	<b>Eligible</b>	<b>Ineligible</b>
Property tax and PST	X	
Royalties and taxes		X
Observation Wells		
Observation wells approved and required under the project	X	
Observations wells not approved under the project		X
Operating Costs		
Bottom-hole pressure survey and fluid costs	X	
Contract operating income	X	
Direct operating costs beyond 4 years		X
Direct operating costs incurred before commencement of EOR project		X
Duplicated Costs (emulsion trucking services, load oil, transportation costs deducted in calculating oil price)		X
Equipment rental and services	X	
Flush-by	X	
Fuel	X	
Gas chart reading expenses	X	
Gas lubes, greases, and other materials	X	
General contract services	X	
General supplies	X	
Injection oil workover excluding load oil	X	
Internal and External sand handling and disposal	X	
Internal water disposal and emulsion treating		X
Lab data evaluation costs	X	
Maintenance material and contract services	X	
Mineral rental and royalties/taxes		X
Non operated expenses		X
Non-arm's length costs (other than approved fuel expenses)		X
Operating cost recovery and contract services	X	
Operating costs directly attributable to the production and processing of EOR oil from project wells and facilities in operation (excluding abandoned and suspended wells)	X	
Overtime, overtime meals, and other bonuses	X	
Packaging materials	X	

<b>Cost Allowable Table</b>	<b>Eligible</b>	<b>Ineligible</b>
Reclamation costs (top soil, landscaping and seeding, spill and contaminated soil cleanup, waste management services, catalyst reclamation)		X
Rig and Camp moving costs	X	
Rotating equipment and material costs	X	
Services specific to EOR project (engineering, control instrumentation, well, well loading, fluid hauling, surveying and sampling, wireline and logging)	X	
Site preparation, maintenance and monitoring costs excluding initial cleanup and lease maintenance cost related to snowplowing, gravelling, grading costs, mowing, vegetation control, and lighting	X	
Sludge/slop handling		X
Sulphur handling and pilling costs	X	
Surface Rentals (Crown and Freehold)	X	
Transportation costs for fuel gas and other field trucking, freight, and courier services	X	
Turnaround expenses	X	
Utilities	X	
Vehicles specific to the project and associated costs for eligible employees (vacuum trucks, lease costs, materials, fuel, service and maintenance)	X	
Warehouse allocations	X	
Well site programming and communication directly related to well automation	X	
<b>Overhead and Administration</b>		
Aboriginal and community relation services		X
Accounting, budgeting, recording, and invoice approvals		X
Accommodations and office costs (building, rent, trailers, furniture, supplies and materials, maintenance, and allocations from head office)		X
Admin and overhead allowance on capitalized chemicals		X
Administration and management expenses and fees (bank charges, directors expense, credit card fees, intercompany management fees, marketing, regulatory and government fees, service awards, subscriptions and publications, permits, approvals, licences, admin levy)		X
Advertising		X

<b>Cost Allowable Table</b>	<b>Eligible</b>	<b>Ineligible</b>
Amortization, depletion and depreciation (except depreciation for FIFO's)		X
Capital admin allocated		X
Communication costs (radios, telephones, and towers)		X
Computers, programing, IT, and other data processing equipment costs		X
Construction management, project management, and coordinating		X
Data purchases		X
Disaster recovery		X
Document control (labour costs related to contracts and documentation)		X
Financial services		X
Housing Costs		X
Human resource and staff costs including training, books and tuition, and recruiting costs		X
Insurance premiums and related costs (including vehicle insurance)		X
Land title searching and fees		X
Lease maintenance related to snowplowing, gravelling, grading, mowing, rodent and vegetation control, and lighting		X
Medical services		X
Purchasing services and allocations		x
Quality assurance and quality control		X
Selling, general and admin allocations		X
Sewage, trash pumps, garbage disposal and sump cleanout services		X
Water (excluding water security agency costs)		X
<b>Safety</b>		
Firefighting and fire protection equipment and personnel on site	X	
Permanent H2S monitoring equipment	X	
Safety meetings, awards, coordinators, security, inspections and inspectors		X
Safety supplies and safety equipment including eyewash stations, fences, personal protective equipment (including boots, coveralls, hats), monitors, SCBA, signs, and decals		X
<b>Salaries and Labour Costs</b>		

<b>Cost Allowable Table</b>	<b>Eligible</b>	<b>Ineligible</b>
Director Benefits and Corporate bonus included in burden rate for eligible employees (An eligible employee normally works at the site of an EOR project and whose work is directly related to the production of oil from the EOR project)	X	
Employee functions, development services, educational programs, and relocation costs		X
Janitorial Services		X
National salaries, wages, and employee benefits for eligible employees	X	
Salaries, wages, and vacation pay for employees and contractors who are performing a function in administration, management, human resources, training, planning, safety (coordinators and inspection), accounting, recording, data processing, computer programming, purchasing and buying, estimating, scheduling, coordinating, budgeting, approving invoices, timesheets and other documents, document control, employee and corporate functions, performing feasibility studies, attending meetings, or corporate and community relations including all field employees working in any related capacity at the field office located at the site and all other functions of an overhead and administrative nature		X
Salaries, wages, labour costs, and vacation pay of eligible employees including internal labour allocations	X	
Stock Options		X

**FOR FURTHER INFORMATION, PLEASE CONTACT:**

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