

# **Saskatchewan Petroleum Innovation Incentive Program**

## Program Overview and Application Instructions

The *Saskatchewan Petroleum Innovation Incentive* (SPII) program is a transferable royalty/freehold production tax credit program available to qualifying companies that demonstrate eligible innovations in Saskatchewan's oil and gas sector.

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## **Program Overview**

The *Saskatchewan Petroleum Innovation Incentive* (SPII) program is a transferable royalty/freehold production tax credit program available to qualifying companies that demonstrate eligible innovations in Saskatchewan's oil and gas sector. Launched in June 2019, SPII is open to innovative projects at both the pilot/demonstration level and at the commercial scaling level, with an additional requirement that projects must be related to one of the eligible activities defined in [The Petroleum Innovation Incentive Regulations](#). Applicants may either directly own the innovation or have a recognized license for the innovation. Furthermore, an innovation's research and development do not need to take place within Saskatchewan in order to be eligible to SPII. Applications to the program will be accepted from 8:00 a.m. (SK Time) July 8, 2019, until March 31, 2024.

Applicants that successfully meet all SPII requirements will receive a transferable royalty/freehold production tax credits equal to 25 per cent of approved eligible costs, as outlined in an agreement between the applicant and the Ministry of Energy and Resources. To be considered as an eligible project, the eligible costs must be at least \$1 million. Once an applicant has successfully completed the application process, has entered into an agreement with the Ministry of Energy and Resources, and has incurred at least \$1 million in eligible costs, the SPII-eligible corporation will be eligible for the follow:

- Earn credits by providing the Ministry of Energy and Resources with documentation showing that eligible costs have been incurred as well as an expert third-party verification of incurred costs; then
- Transfer earned credits to other corporate entities with an *Integrated Resource Information System* (IRIS) Business Associate Identification (BAID) number; and/or
- The Ministry of Energy and Resources will automatically apply the earned credits toward the remission of any royalties and freehold production taxes owed in Saskatchewan; and
- Claim other eligible royalty/tax credits or grants the Government of Saskatchewan may offer.

## **Qualifying Criteria**

Before making an application to the SPII program, the applicant must thoroughly review:

- [The Financial Administration Act, 1993](#) – section 24
- [The Petroleum Innovation Incentive Regulations](#); and
- All materials contained on the SPII program's [webpage](#).

**Note:** All information and forms pertaining to SPII can be accessed on the program's [webpage](#).

To qualify for the SPII program, an applicant must submit a complete application form demonstrating that the company's proposed project meets all of the following eligibility requirements. Additional details regarding each of the eligibility requirements can be found in the [SPII Policy Guidelines](#).

**a) Is an eligible innovation that:**

- i. is new to Saskatchewan's oil and gas industry and does not have an equivalent in the Saskatchewan market; or
- ii. has an equivalent in Saskatchewan's oil and gas industry, but is being demonstrated on a significantly different scale or under significantly different conditions that add a degree of novelty or new technical challenges;

Additionally, in order for an innovation to be considered as eligible, it must be confirmed to be at a "Technology Readiness Level" of at least Level 7, with respect to the following chart:

Level of Readiness	Description of Level of Readiness
<b>Level 1:</b> Basic principles of concept observed and reported	Scientific research begins to be translated into applied research and development. Activities might include paper studies of a technology's basic properties
<b>Level 2:</b> Technology concept and/or application formulated	Invention begins. Once basic principles are observed, practical applications can be invented. Activities are limited to analytic studies.
<b>Level 3:</b> Analytical and experimental critical function and/or proof of concept	Active research and development is initiated. This includes analytical studies and/or laboratory studies. Activities might include components that are not yet integrated or representative.
<b>Level 4:</b> Component and/or validation in a laboratory environment	Basic technological components are integrated to establish that they will work together. Activities include integration of "ad hoc" hardware in the laboratory.
<b>Level 5:</b> Component and/or validation in a simulated environment	The basic technological components are integrated for testing in a simulated environment. Activities include laboratory integration of components.
<b>Level 6:</b> System/subsystem model or prototype demonstration in a simulated environment	A model or prototype that represents a near desired configuration. Activities include testing in a simulated operational environment or laboratory.
<b>Level 7:</b> Prototype ready for demonstration in an appropriate operational environment	A prototype at the planned operational level that is ready for demonstration in an operational environment. Activities include prototype field testing.
<b>Level 8:</b> Actual technology completed and qualified through tests and demonstrations	Technology has been proven to work in its final form and under expected conditions. Activities include developmental testing and evaluation of whether it will meet operational requirements.
<b>Level 9:</b> Actual technology proven through successful deployment in an operational setting	Actual application of the technology in its final form and under real-life conditions, such as those encountered in operational tests and evaluations. Activities include using the innovation under operational conditions.

- b) **Concerns an activity the aim of which is:**
  - i. To improve oil and gas recovery;
  - ii. To manage adverse environmental impacts;
  - iii. To increase value-added processing capacity; or
  - iv. To commercialize oil and gas production byproducts or waste.
- c) **Involves a minimum investment of \$1 million in eligible costs; and,**
- d) **Has not become operational, as determined by the minister, before the eligible project application is submitted.**

## Application Steps

1. The applicant downloads the [SPII Application Form](#) from the SPII [webpage](#).
2. Once the applicant is prepared to submit the application form, they e-mail the completed form and any supporting documents to the Ministry of Energy and Resources at [spii@gov.sk.ca](mailto:spii@gov.sk.ca).
3. The Ministry of Energy and Resources will confirm receipt of the completed application form or indicate the form as being incomplete by e-mailing the address provided in the Application Form's Section 1: Contact Person Information.
4. The Ministry of Energy and Resources will process the completed application form and assess the proposed project against the eligibility requirements established in [The Petroleum Innovation Incentive Regulations](#).
5. Once the application assessment has concluded, successful applicants will receive a *Letter of Conditional Approval* to the SPII program via e-mail to the address provided in the Application Form's Section 1: Contact Person Information.
6. Following conditional approval, the applicant and the Ministry of Energy and Resources will enter into a formal agreement. The agreement will detail the proposed project's description and operational plan, an itemized listing of eligible costs, construction/operational timelines, other relevant parties participating in the project, and other similar information. For the purposes of improving a third-party's ability to verify eligible costs, it is recommended that the applicant's auditor be engaged during the agreement drafting phase.
7. After an agreement is finalized, the applicant will execute the proposed project in accordance with the parameters outlined in the agreement.

For the SPII program process overview flow chart, see page 7.

### Application Review

An applicant may submit an application form to the OGPII program any time between July 8, 2019, and March 31, 2024. Applications may be submitted prior to an applicant's final decision to construct/execute the innovative project. Upon receiving Conditional Approval and entering into a formal agreement with the Ministry of Energy and Resources, the applicant may begin executing the eligible project knowing that the project, as proposed, meets the SPII requirements and is eligible to earn credits (assuming that the conditions outlined within the agreement accurately reflect the initial proposal and comply with [The Petroleum Innovation Incentive Regulations](#)).

The Ministry of Energy and Resources will assess the application to ensure that the proposed project meets all eligibility requirements.

- a. If it is found that the applicant's proposed investment project does not meet the eligibility requirements, the applicant will be advised via e-mail, detailing which criteria was not met.
- b. Where an applicant's proposed project does meet the eligibility requirements, they will be issued a *Letter of Conditional Approval* via e-mail.

Upon receiving a *Letter of Conditional Approval*, the applicant will be advised of the steps required to be fully admitted into the SPII program; the *Letter of Conditional Approval* will also outline steps necessary to earn credits.

### **Final Eligibility Review**

Once the applicant has entered into an agreement with the Minister of Energy and Resources, and reaches \$1 million in eligible costs, the applicant may submit an *Eligible Cost Submission Form*, along with all required supporting documentation (including a Compliance Report issued by a third-party Chartered Professional Accountant), to verify that eligible costs were incurred in accordance with the agreement.

- a. This form and the supporting documentation will be assessed to ensure that the project and eligible costs meet the conditions of approval (eligibility requirements). If ineligible, in whole or in part, the applicant will receive a letter detailing the Ministry of Energy and Resource's rationale.
- b. If eligible, the applicant will receive a *Certificate of Approval*, and the earned credits will be automatically applied against royalties or production taxes owed in Saskatchewan. Successful participants will be given an opportunity to transfer the incentive at any point in time after receiving a *Certificate of Approval*.

Attachments that must be submitted with the *Eligible Cost Submission Form* include:

- Compliance Report, providing limited assurance in accordance with the Canadian Standards on Assurance Engagements 3531, issued by a third-party Chartered Professional Accountant.

Attachments that may be required to be submitted with the *Eligible Cost Submission Form* include:

- If requested, an Efficiency/Productivity Analysis Summary, issued by a licensed engineer, and
- If requested, an Appraisal, issued by a licensed real estate appraiser.

### **Earning Credit**

The SPII is a transferable royalty/freehold production tax credit program, where credits will be automatically applied against the owner's royalty/freehold production taxes in Saskatchewan or, if requested, will be transferred to any other corporate entity with a BAID in Saskatchewan. All unused credits will expire on March 31, 2035. Once a *Certificate of Approval* is issued, the applicant will have earned credits in association with the eligible costs recognized.

Following the receipt of a *Certificate of Approval*, the applicant may submit a *SPII Credit Transfer Form* to the Ministry of Energy and Resources in order to transfer their credits.

## Definitions

**Applicant** – The corporate entity that submits an application to the SPII program.

**Application Form** – An applicant submits this form as the first step of the SPII qualification process. This contains contact person information, company information, details of the planned project and the applicant's declaration. If eligible, an applicant will receive a *Letter of Conditional Approval* for their project.

**Certificate of Approval** – A participant may receive this certificate once they have incurred at least \$1 million in eligible costs associated with the eligible project and once they have submitted a complete *Eligible Cost Submission Form* to the Ministry of Energy and Resources. This certificate will identify the amount of eligible costs recognized by the Ministry of Energy and Resources, and entitles the participant to transferable royalty credits valued at 25 per cent of eligible costs.

**Eligible Costs** – Please refer to *The Saskatchewan Petroleum Innovation Incentive's supporting SPII Policy Guidelines* on the SPII website.

**Eligible Cost Submission Form** – A participant submits this form to earn credits. This form contains information that will confirm that the applicant incurred costs in compliance with the agreement, and has incurred at least \$1 million in eligible costs associated with the eligible project. At this point in time, the Ministry of Energy and Resources will review the submissions and, if confirmed, provide the applicant with a Certificate of Approval that allows them to claim their royalty credits.

**Letter of Conditional Approval** - This letter will be issued if a *SPII Application Form* is considered successful. After an applicant receives a *Letter of Conditional Approval*, they must enter into a formal agreement with the Ministry of Energy and Resources to confirm their approval into the SPII program.

**Participant** – The corporate entity that has entered into a SPII agreement with the Ministry of Energy and Resources.

**Qualified Third-Party** - An auditor, engineer, or real estate appraiser who is a member in good standing of a professional association recognized by the Ministry of Energy and Resources. The qualified person must be arm's-length from the applicant/participant. Details regarding this can be found in the *SPII Policy Guidelines*.

**Real Estate Appraisal** – A common report issued by an Accredited Appraiser Canadian Institute (AACI™), which for the purpose of this program, will assess and document the land purchased, if any, and confirm that the entire lot of land purchased – or portion thereof – that is being used for the purpose of the new or expanded value-added agriculture facility. This report will also verify the fair market value of the purchased land.

## Frequently Asked Questions

### **Can our company apply for this program, even if we are receiving royalty credits or tax rebates from other provincial programs?**

Yes. SPII eligibility is not affected by eligibility for any other existing provincial programs.

### **What are some examples of Improving Oil and Gas Recovery activities?**

Examples would include activities that increase oil and gas production or increase hydrocarbon recovery rates, with accelerating reservoir depletion. This includes, but is not limited to, activities that generate production efficiencies, optimize recovery processes, reduce downtime, and improve secondary and tertiary recovery.

### **What are some examples of Managing Environmental Impact activities?**

Examples would include activities that reduce adverse environmental impacts. This includes, but is not limited to, activities that directly lower an applicant's emissions or provide businesses with the necessary tools to lower emissions (like leak detection sensors or air quality monitors), manage land reclamation, protect and manage water, and better manage chemicals or hazardous waste.

### **What are some examples of Increasing Value-Added Processing activities?**

Examples would include things that enhance processing capacity for oil, gas, or other products related to the industry, like produced water or fluid tailings. This would not include gas gathering infrastructure or other infrastructure build with the sole purpose of providing support to processing operations.

### **What are some examples of Oil and Gas Production Byproduct/Waste Product commercialization activities?**

Examples would include anything that commercializes or monetizes the oil and gas industry's production byproducts. This includes, but is not limited to, innovative projects to commercialize associated gas commercialization projects and all other production byproducts – such as fluid tailings, produced/waste water, asphaltenes, sediments, chemicals, and other hydrocarbons.

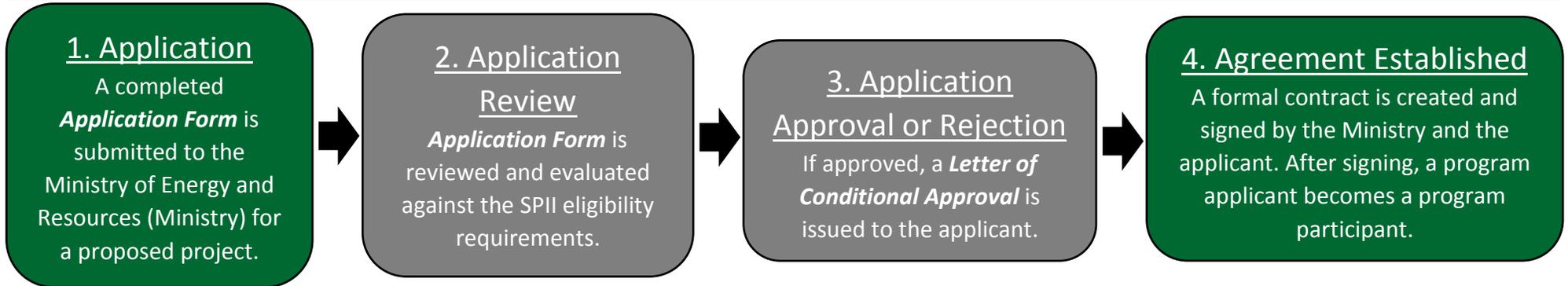
### **What are some examples of Increasing Digitization activities?**

Examples would include activities involving the deployment of cutting edge information and computer technologies that have a goal to improve economics and reduce operational and administrative costs. Eligible digitization activities must clearly demonstrate direct or incidental effects in one of the other four categories outlined (1. Improving Oil and Gas Recovery 2. Managing Environmental Impacts 3. Increasing Value-Added Processing and 4. Commercializing Oil and Gas Production Byproducts).

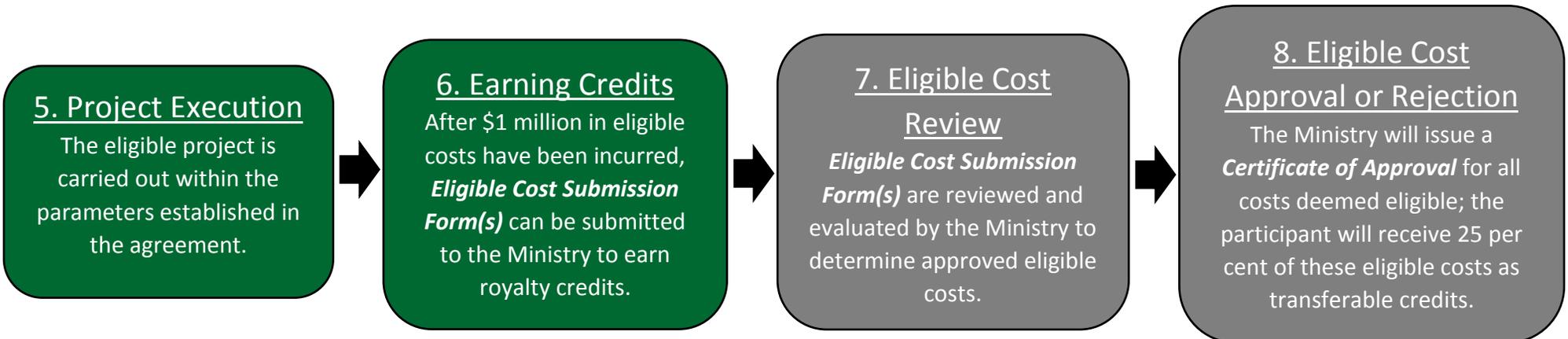
### **Who can I contact with questions in respect to this program?**

You may send any questions via email to [SPII@gov.sk.ca](mailto:SPII@gov.sk.ca). A program administrator will respond, to discuss your inquiry.

## Stage 1: Application and Approval to the SPII Program



## Stage 2: Executing the Project, Incurring Costs, and Earning Credits



## Stage 3: Using Earned Credits

