

Transferable Royalty Credits

Overview:

Transferable royalty credits are **royalty and freehold production tax credits** that are awarded to a company who has successfully qualified for one of the following incentive programs:

- [Oil and Gas Processing Investment Incentive](#) (OGPII);
- [Saskatchewan Petroleum Innovation Incentive](#) (SPII); or,
- [Oil Infrastructure Investment Program](#) (OIIP).

In order to receive and utilize credits, a company must have a Business Associate Identification (BA ID) in the Integrated Resource Information System (IRIS). Each dollar of royalty credits can be used to pay one dollar towards the participant company's monthly royalty/tax invoice from the Government of Saskatchewan, or can be transferred, under contractual terms of their choosing, to another company who has a BA ID in IRIS.

What are royalty credits used for?

Royalty credits are used to pay the remission of any royalties and freehold production taxes in Saskatchewan. If there is outstanding royalty/tax debt owed to the Government of Saskatchewan, the royalty credits cannot be used towards the remission of past royalty/tax bills.

Highlights:

- The transferable nature of the royalty credits gives non-producers/non-royalty payers an opportunity to benefit from OGPII, SPII, and/or OIIP incentive programs, by transferring their earned royalty credits to a company who may pay royalty/tax to the Government of Saskatchewan.
- If the participant company who has earned the royalty/tax credits chooses to transfer them, the contractual terms between the transferor and transferee do not involve the Government of Saskatchewan.
- Royalty credits can be transferred any number of times, to any number of companies, as long as the transferee company has a BA ID in IRIS.

Example: A participant company (i.e. the company who has been approved to one of the above incentive programs) has earned royalty credits but does not pay royalties or freehold production taxes. They may choose to sell or give their credits to another company who has a monthly royalty/tax bill. The Government of Saskatchewan will not be involved with, or liable for, the contractual terms of the agreement between the two parties, when transferring the royalty credits. Royalty credits earned by a participant company or held by a transferee may be transferred only on approval by the Minister.

How it Works

STEP 1: APPLY

- ✓ **Submit** OGPII, SPII, or OIIP application
- ✓ **Define** project including expenditures
- ✓ **Meet** incentive criteria

STEP 2: EARN

Build project and verify expenditures to **earn** credits



\$600M to \$800M



in royalties paid
yearly in Saskatchewan

STEP 3: TRANSFER

Transfer = Sell credits by contract

Transferring credits is optional

Note: Credits can be re-sold, there is no transfer fee



STEP 4: REDEEM

Redeem royalty credits towards remission of oil and gas royalties in Saskatchewan



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Obtaining Royalty Credits

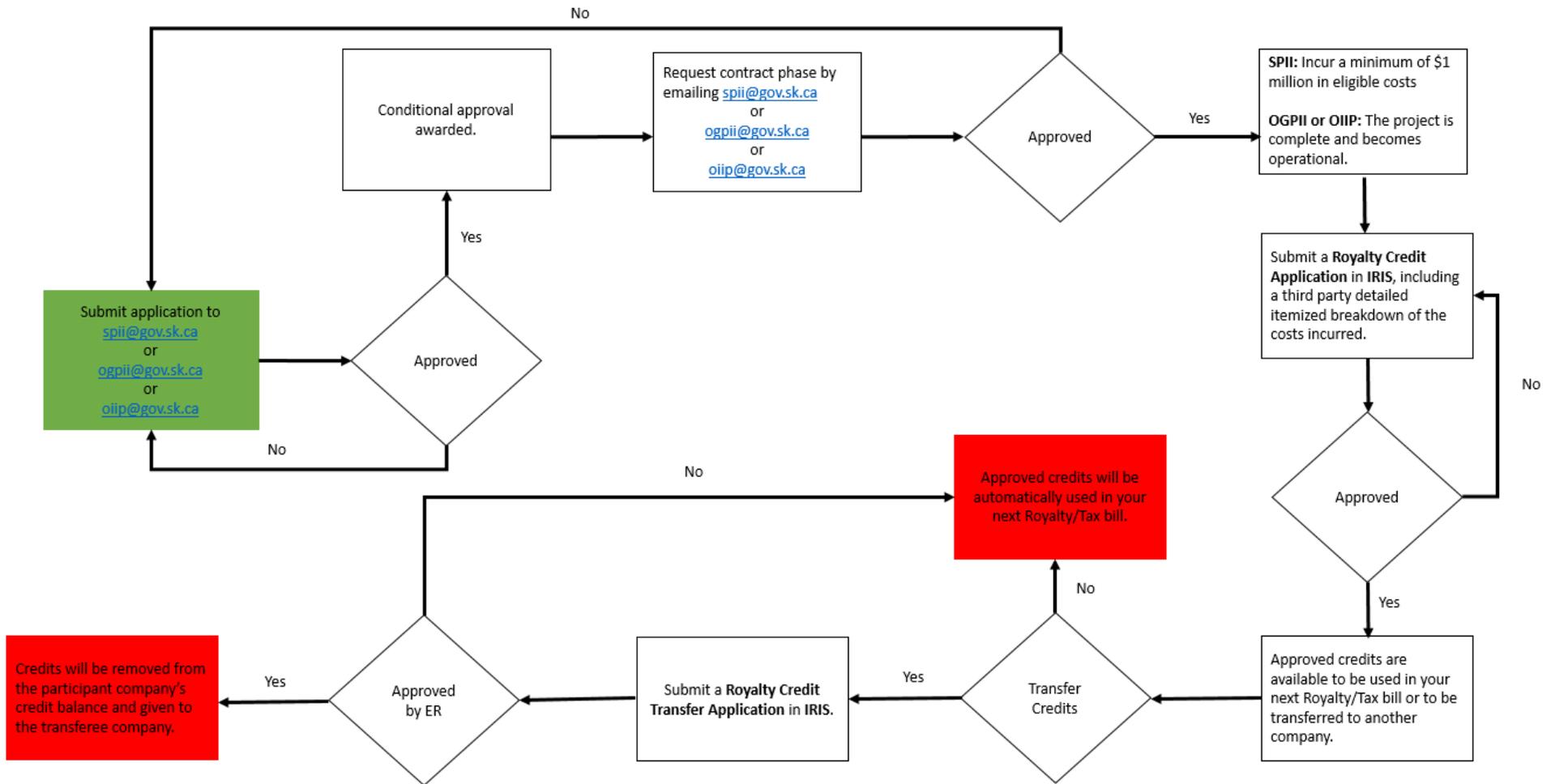
How do you obtain Royalty Credits?

Per the terms of the OGPII, SPII, or OIIP agreement with the Ministry of Energy and Resources (ER), the participant company must:

- Have their eligible costs reviewed by a third party Chartered Professional Accountant (CPA). The expert third party CPA must provide certification that the costs are deemed to be eligible, by including a limited assurance Compliance Report in accordance with the Canadian Standards for Assurance Engagement 3531.
- Submit a detailed itemized breakdown of all actual eligible costs incurred during the project's construction, via a Royalty Credit Application in IRIS.
 - These costs will be used to calculate the amount of earned royalty credits. Under OGPII and OIIP, royalty credits can be claimed at a rate of 20% of total approved credits in the first calendar year of operations, 30% in the second calendar year, and 50% in the third calendar year. Under SPII, all royalty credits are distributed once approved.
 - The amount of royalty credits awarded to the participant company will follow the structure outlined below:
 - OGPII 15% of total eligible project cost, up to a maximum of \$75 million
 - OIIP 20% of total eligible project cost, up to a maximum of \$40 million
 - SPII 25% of total eligible project cost, up to a maximum of \$5 million
 - The credit redemptions for SPII projects can occur during the construction and operational phases of a project to help improve the company's cash flow.
- ER will issue a Certificate of Approval, indicating that the actual eligible costs submitted via the Royalty Credit Application being approved, the royalty credits associated with OGPII, SPII, or OIIP projects, are considered as "Available Credits".
- The requested amount of credits is released and ER will automatically apply the earned credits toward the remission of any royalties and freehold production taxes owed in Saskatchewan in the next billing cycle (i.e. cannot be used to repay outstanding royalty/tax bills).
- If the participant company does not pay royalties or freehold production taxes, they can transfer the royalty credits to a company who has a BA ID in IRIS, through the Royalty Credit Transfer application in IRIS.
- If unused, the credits will expire on March 31, 2035.

Please refer to the Saskatchewan Royalty Credit Program Stages on the next page to view the application process for all incentive programs.

Saskatchewan Royalty Credit Program Stages



Transferring Royalty Credits

How do you transfer royalty credits?

The Royalty Credit Transfer Application in IRIS allows participant companies with approved OGPII, SPII, or OIIP projects to transfer their unused royalty credits to other companies who have a BA ID in IRIS. The credits must be available at the time the Royalty Credit Transfer request is submitted, and the amount of credits transferred must not exceed the amount available. Once the application is submitted in IRIS, an ER representative will either approve or deny the transfer of the royalty credits.

What happens when the Royalty Credit Transfer application is approved?

When an ER representative approves the Royalty Credit Transfer application, the credits transferred will come off of the transferor company's royalty credit balance and will be placed onto the transferee company's royalty credit balance. If the transferee company pays royalty/tax to the Government of Saskatchewan, ER will automatically apply the earned credits toward the remission of any royalties and freehold production taxes owed in Saskatchewan on their next royalty/tax invoice. The transaction associated with the Royalty Credit Transfer can be viewed by both parties within the Ledger Transaction Report or Ledger Balance Search in IRIS.

What happens when the Royalty Credit Transfer application is denied?

When an ER representative denies the Royalty Credit Transfer application, the royalty credits will remain with the transferor company's royalty credit balance. The balance associated with the Royalty Tax Credits can be viewed within the Ledger Balance Search in IRIS.

When would ER deny a Royalty Credit Transfer application?

ER's review of the Royalty Credit Transfer application is an administrative process, which in most circumstances, will be used for tracking purposes; therefore, only in rare circumstances will ER deny a Royalty Credit Transfer application. Some circumstances that may warrant application denial include:

- Either party is involved in a court case;
- The transferor owes debts to the Government of Saskatchewan which exceeds the amount of credits being transferred; or,
- The transferor is in receivership

How will I know when the credits have been transferred?

Once the Royalty Credit Transfer application has been approved in IRIS by an ER representative, both the transferor and transferee will receive notification through IRIS (if they subscribe to Notifications). In addition, the transactions associated with the Royalty Credit Transfer can be viewed by both parties within the Ledger Transaction Report or Ledger Balance Search in IRIS.

Who can you transfer royalty credits to?

Royalty credits can be transferred to any company who has a [BA ID](#) in IRIS. The amount of credits transferred can be divided between multiple companies in IRIS, and the transactions can occur in multiple stages.

What happens if the company who receives the transferred the royalty credits does not pay Royalty and Freehold Production Tax in Saskatchewan?

If the company who receives the transferred the royalty credits does not pay royalty and freehold production tax in Saskatchewan, they are able to transfer their royalty credits to another company who has a BA ID in IRIS.

Can I obtain Royalty Credits even if my company is not associated with an OGPII, SPII, or OIIP project?

Yes. Only participant companies of OGPII, SPII, or OIIP project can initially obtain royalty credits, however, they are able to transfer their earned royalty credits to other companies, as long as the transferee has a BA ID in IRIS. This means that the company who receives royalty credits through a Royalty Credit Transfer does not have to be associated with an approved OGPII, SPII, or OIIP project.

If I transfer credits, do I have to transfer them all at once?

No. The total amount of royalty credits transferred does not have to equal the total amount that you have. You are able to transfer royalty credits to companies on multiple occasions, in accordance with the agreement created between the two parties (i.e. transferor and transferee).

Are credit transfers subject to GST or are the credits considered intangible?

There are no taxes applied to credit transfers.

Is there a fee assessed with transferring credits?

There is no transaction fee applied to credit transfers.

Saskatchewan Royalties

How much is paid in Crown Royalties each year? How many companies pay royalty taxes?

The Crown collects anywhere from \$300-\$700 million in royalties each year and there are approximately 250 royalty tax payers in Saskatchewan.

When do credits get applied to my tax bill?

Once the Royalty Credit application is approved by ER, the requested amount of credits will be released. Once released, ER will automatically apply the earned credits toward the remission of any royalties and freehold production taxes owed on the next royalty/tax invoice. Any excess credits will be applied to subsequent royalty/tax invoices.

Can I decide how many credits get placed on a royalty tax bill?

No, all approved credits will be automatically used to pay for your next royalty tax bill issued by the Government of Saskatchewan or can be transferred to another company using the Royalty Credit Transfer application in IRIS.

When do the royalty credits expire?

If unused, the royalty credits will expire on March 31, 2035.

Appendix 1: Royalty Credit Programs Comparison

Oil and Gas Processing Investment Incentive (OGPII)

Saskatchewan Petroleum Innovation Incentive (SPII)

Oil Infrastructure Investment Project (OIIP)

Program Description	Oil and Gas Processing Investment Incentive (OGPII)	Saskatchewan Petroleum Innovation Incentive (SPII)	Oil Infrastructure Investment Project (OIIP)
Program Description	The program is open to value-added projects across all segments of Saskatchewan's oil and gas sector and result in significant increase to production capacity (for brownfield projects). Eligible projects can include new (greenfield) facilities or expansions (brownfield) of existing facilities. Enabling infrastructure directly linked and dedicated to an eligible project may be considered. Note: Primary production of oil and gas is not considered an eligible processing activity.	The program targets a broad range of pilot projects and commercial scaling projects capturing innovations deployed across all segments of Saskatchewan's oil and gas industry. The innovations focus on improving oil and gas recovery, managing adverse environmental impacts, increasing value-added processing capacity, or commercializing oil and gas production byproducts/waste.	The program is open to new or expanded transmission pipelines, feeder pipelines (including trunk and branch pipeline systems), pipeline terminals, and enabling infrastructure investments that are directly linked and dedicated to an eligible project. Projects must directly increase pipeline capacity in Saskatchewan. Note: Natural gas pipelines, crude-by-rail infrastructure and emulsion flowlines are not eligible under the program.
Program Application Submission Period	July 8, 2019 to March 31, 2024	July 8, 2019 to March 31, 2024	April 8, 2020 to March 31, 2025
Minimum Eligible Investment	\$10 million	\$1 million	\$10 million
Maximum Eligible Investment	\$500 million	\$20 million	\$200 million
Royalty Credits Earned (% of Eligible Investment)	15%	25%	20%
Maximum Royalty Credits Earned Per Eligible Project	\$75 million	\$5 million	\$40 million
Program Royalty Credit Cap	\$300 million	\$30 million	\$100 million
Credit Eligibility Schedule	After the project is complete and is in operation.	After \$1 million in eligible costs have been incurred.	After the project is complete and is in operation.
Credit Release Schedule	20% of total credits in the first calendar year 30% of total credits in the second calendar year 50% of credits in the third calendar year	N/A	20% of total credits in the first calendar year 30% of total credits in the second calendar year 50% of credits in the third calendar year
Credit Expiry	March 31, 2035	March 31, 2035	March 31, 2035

Disclaimer: The information in this document is accurate as of April 2020; however, the Government of Saskatchewan accepts no liability for any actions taken as a result of the information contained herein.