



ACTS:	<i>The Crown Minerals Act</i> <i>The Freehold Oil and Gas Production Tax Act</i>
REGULATIONS:	<i>The Crown Oil and Gas Royalty Regulations</i> <i>The Freehold Oil and Gas Production Tax Regulations, 1995</i>
TOPIC:	INSTRUCTIONS FOR COMPLETING THE EOR Operator's Return – ER 692 Including: Schedule A - Total Oil Production and EOR Royalty/Tax Instalments Paid Schedule B - Operating Costs, Current Investment and Proceeds of Disposition Schedule C - EOR Facility Investment Fee

This Instruction Directive has been prepared by the Saskatchewan Ministry of Energy and Resources (ER) to provide instructions for completing the "EOR Operator's Return". Instruction Directives are intended to have no legal force or effect and reference should be made to the Acts and Regulations for an exact statement of the law. In case of a conflict between this Instruction Directive and the provisions of the Acts and Regulations, the Acts and Regulations will govern.

A copy of the IR 692 form and accompanying schedules for an EOR project is available for downloading from ER's web site:

REPORTING DATES

The purpose of the EOR Operator's Return and accompanying schedules A, B, and C (the schedules are optional) is to determine the Crown royalty and freehold production tax payable on EOR oil produced from an EOR project in Saskatchewan. The return and optional schedules are completed for a royalty/taxation year (calendar year, unless otherwise approved by the Minister of ER) and submitted by the operator of the EOR project. The regulations provide for two reporting requirements:

- (i) An "estimated" EOR Operator's Return is to be filed with ER one month prior to the beginning of each royalty/taxation year. Its purpose is to determine the rates to be used in calculating the monthly royalty/tax instalments during the royalty/taxation year. Filing of schedules A, B and C is optional.
- (ii) An "actual" EOR Operator's Return is to be filed with ER no later than three months subsequent to the end of each royalty/taxation year. The return determines the actual royalty/tax liability for the royalty/taxation year. Filing of schedules A, B and C is also optional with the "actual" EOR Operator's Return.

Note: This instruction directive replaces EM98ID01, EM99ID01, EM02ID01 and PNG06ID01 and is available on ER's web site at www.er.gov.sk.ca/royaltytaxforms

COMPLETION INSTRUCTIONS

Operators that file electronically using the downloaded IR 692 form, are only required to enter the data elements contained in the "COVER SHEET" box found on the first page of the downloaded form. The remaining elements of the EOR Operator's Return are calculated automatically. Operators that complete the optional schedules A, B, or C are required to transfer the totals to the appropriate box contained within the "COVER SHEET".

The following are the instructions for operators that manually prepare the return:

PROJECT IDENTIFICATION

Royalty/Taxation Year - enter the starting and ending dates of the royalty/taxation year.

Operator Name - enter the name of the operator of the EOR project.

Operator Code - enter the 5-digit operator code assigned by ER.

EOR Project Name - enter the name commonly used to identify the project.

Project Code - enter the project code assigned by ER.

A. EOR OIL AND REVENUE DATA / CUMULATIVE BALANCES

A1 Total Production Volume

- enter the cubic metres of oil estimated to be produced (if filing the "estimate" return), or actually produced (if filing the "actual" return) by the project for the royalty/taxation year; or
- enter the Total (1) from optional schedule A.

A2 Total Value of Production

- enter the value of the oil production reported in A1; or
- enter the Total (2) from optional schedule A.

A3 EOR Factor

- enter the fixed EOR Factor percentage approved by the Minister based on the estimated additional recoverable reserves due to the EOR project.
NOTE: For projects in the Lloydminster and Kindersley heavy oil areas, the EOR Factor is 100%.

A4 Gross EOR Revenues

- enter the result of multiplying the Total Value of Production by the EOR Factor ($A4 = A2 \times A3$).

A5 Cumulative Investment Allowance

- enter the sum of Cumulative Investment Allowance (A5) from the previous year's return and Investment Allowance (E7) from the previous year's return.

A6 Cumulative Recovered Investment

- enter the sum of Cumulative Recovered Investment (A6) from the previous year's return and Recovered Investment (C2) from the previous year's return.

B. CURRENT EOR OPERATING COSTS

B1 Total Direct Operating Costs

- enter the total amount of direct operating costs estimated to be incurred (if filing the "estimate" return), or actually incurred (if filing the "actual" return) by the project for the royalty/taxation year; or
- enter the Total (1) from optional schedule B.

B2 Direct Non-EOR Operating Costs

- enter the amount of direct operating costs attributable to the non-EOR portion of total oil production. This amount is determined by multiplying the volume of non-EOR production by the direct non-EOR operating cost factor prescribed in the Regulations;
($B2 = A1 \times (100\% - A3) \times \text{direct non-EOR operating cost factor}$).

B3 Direct EOR Operating Costs

- enter the amount of direct operating costs attributable to the EOR portion of total oil production. This amount is determined by subtracting the Direct Non-EOR Operating Costs from the Total Direct Operating Costs ($B3 = B1 - B2$).

B4 Administrative Cost Allowance

- enter the result of multiplying the Direct EOR Operating Costs by the Administrative Cost Allowance percentage prescribed in the Regulations ($B4 = B3 \times \text{Administrative Cost Allowance \%}$).

B5 Total EOR Operating Costs

- enter the sum of the Direct EOR Operating Costs and the Administrative Cost Allowance ($B5 = B3 + B4$).

NOTE: Now do procedures E1 through E6.

C. CURRENT EOR OPERATING PROFIT (LOSS)

C1 Gross EOR Revenues

- enter the amount from A4.

C2 Recovered Investment

- enter the lesser of:
 - the amount by which Proceeds of Disposition exceeds the sum of Escalated Investment Balance and Current Investment ($E5 - (E3 + E4)$). If negative, equals zero; and
 - the amount by which Cumulative Investment Allowance exceeds Cumulative Recovered Investment ($A5 - A6$).

C3 Total EOR Operating Costs

- enter the value from B5.

C4 EOR Operating Income

- enter the result of subtracting Total EOR Operating Costs from the sum of Recovered Investment and Gross EOR Revenues, then ($C4 = (C1 + C2) - C3$). If negative, enter 0.

NOTE: Now do procedures G1 through H4 and J3.

C5 Royalty Deduction

- enter the sum of:

- the amount by which the intermediate amount of the amounts entered at H2, H3 and H4 exceeds J3 for Crown oil; and
- the Total amount entered at G5 or the sum of Total (5) and Total (6) from optional schedule A; or

C6 Current EOR Operating Profit (Loss)

- enter the result of subtracting the sum of Recovered Investment and Gross EOR Revenues from the sum of the Total EOR Operating Costs and the Royalty Deduction ($C6 = (C1 + C2) - (C3 + C5)$). If C6 is a profit (positive), it is entered at F1; if a loss (negative), it is entered at D4.

D. OPERATING LOSS BALANCE

D1 Opening Operating Loss Balance

- enter the value of Closing Operating Loss Balance (D7) from the previous year. At project start-up, this amount is zero.

D2 Escalation Factor

- enter the Escalation Factor (percentage) as prescribed by the Regulations.

D3 Escalated Operating Loss Balance

- enter the result of multiplying the Opening Operating Loss Balance by the sum of 100% and the Escalation Factor ($D3 = D1 \times (100\% + D2)$).

D4 Current EOR Operating Loss

- enter the value from C6, if a loss (negative). If C6 is a profit (positive), enter 0.

D5 Total Operating Loss Balance

- enter the sum of the Escalated Operating Loss Balance and Current EOR Operating Loss ($D5 = D3 + D4$).

D6 Operating Loss Allowance

- enter the lesser of Total Operating Loss Balance and Current EOR Operating Profit ($D6 = \text{lesser of } D5 \text{ and } F1$). Enter the same value at F2.

D7 Closing Operating Loss Balance

- enter the result of subtracting the Operating Loss Allowance from the Total Operating Loss Balance ($D7 = D5 - D6$).

NOTE: Now do procedures F1 through F3.

E. INVESTMENT BALANCE

E1 Opening Investment Balance

- at project start-up, this value is equal to zero. For subsequent years, enter the value of the Closing Investment Balance (E8) from the previous taxation year.

E2 Escalation Factor

- enter the Escalation Factor (percentage) as prescribed by the Regulations.

E3 Escalated Investment Balance

- enter the result of multiplying the Opening Investment Balance by the sum of 100% and the Escalation Factor ($E3 = E1 \times (100\% + E2)$).

E4 Current Investment

- enter the amount of current investment estimated to be incurred (if filing the "estimate" return), or actually incurred (if filing the "actual" return) by the project for the royalty/taxation year; or
- enter the Total (2) from optional schedule B.

E5 Proceeds of Disposition

- enter the amount of proceeds of disposition estimated to be received (if filing the "estimate" return), or actually received (if filing the "actual" return) by the project for the royalty/taxation year; or
- enter the Total (3) from optional schedule B.

E6 Total Investment Balance

- enter the result of subtracting the Proceeds of Disposition from the sum of the Escalated Investment Balance and Current Investment ($E6 = (E3 + E4) - E5$). If negative, enter zero.

NOTE: Now do procedures C1 through C4.

E7 Investment Allowance

- enter the lesser of Total Investment Balance and Net EOR Operating Profit ($E7 = \text{lesser of } E6 \text{ and } F3$). Enter the same value at F4.

E8 Closing Investment Balance

- enter the result of subtracting the Investment Allowance from the Total Investment Balance ($E8 = E6 - E7$).

NOTE: Now do procedures F4 through F6.

F. PAYOUT DETERMINATION

F1 Current EOR Operating Profit

- enter the value from C6, if a profit. If C6 is a loss, enter 0.

F2 Operating Loss Allowance

- enter the value from D6.

F3 Net EOR Operating Profits

- enter the result of subtracting the Operating Loss Allowance from Current EOR Operating Profits ($F3 = F1 - F2$).

NOTE: Now do procedures E7 and E8.

F4 Investment Allowance

- enter the value from E7.

F5 Pre-Payout Ratio

- enter the result of dividing the Investment Allowance by the Net EOR Operating Profits. If the amount of Net EOR Operating Profits is nil, the Pre-Payout Ratio shall be 1.0 ($F5 = F4 / F3$, to 3 decimal places).

F6 Post-Payout Ratio

- enter the amount by which 1.0 exceeds the Pre-Payout Ratio ($F6 = 1.0 - F5$, to 3 decimal places).

NOTE: Now do procedures H5 through J4.

G. EOR INCOME SUBJECT TO ROYALTY/TAX

G1 Mineral Ownership

- two types of mineral ownership are recognized, namely:

- Crown - lands held under a Crown Petroleum and Natural Gas Lease, lands acquired by the Province under The Oil and Gas Conservation, Stabilization and Development Act or lands held under any other mineral disposition pursuant to The Crown Minerals Act.
- Freehold - lands that are not Crown.

G2 % of Mineral Ownership

- enter the percentage of the two mineral types, as approved by ER.

G3 Gross EOR Revenues

- enter the result of multiplying A4 by G2.

G4 EOR Operating Income

- enter the result of multiplying C4 by G2.

G5 Net Royalty and Freehold Royalty Deductions

- enter the estimated net royalty payments respecting EOR oil produced from or allocated to the Crown lands and the estimated freehold royalties to be paid to mineral owners respecting EOR oil produced from or allocated to freehold lands (if filing the "estimate" return), or the sum of the actual payments (if filing the "actual" return) respecting the project for the royalty/taxation year; or

- enter the sum of the Total (5) for the Crown mineral ownership and Total (6) for the Freehold mineral ownership from optional schedule A; and

G6 EOR Income Subject to Royalty/Tax

- enter the result of subtracting G5 from G4 ($G6 = G4 - G5$). If negative, enter 0.

H. PRE-PAYOUT ROYALTY/TAX

H1 Mineral Ownership

- same as G1.

H2 Minimum Pre-Payout Royalty/Tax

- enter the result of multiplying % x G3; and

H3 Maximum Pre-Payout Royalty/Tax

- enter the result of multiplying % x G3.

H4 Profit Sensitive Pre-Payout Royalty/Tax

- enter the result of multiplying % x G6.

NOTE: Now do procedures C5 through D7.

H5 Pre-Payout Royalty/Tax

- enter the result of multiplying the intermediate amount of the amounts entered at H2, H3 and H4 by F5.

I. POST-PAYOUT ROYALTY/TAX

I1 Mineral Ownership

- same as G1.

I2 Minimum Post-Payout Royalty/Tax

- enter the result of multiplying % x G3.

I3 Profit Sensitive Post-Payout Royalty/Tax

- enter the result of multiplying % x G6.

I4 Post-Payout Royalty/Tax

- enter the result of multiplying the greater of I2 and I3 by F6.

J. ROYALTY/TAX PAYABLE (REFUNDABLE)

J1 Mineral Ownership

- same as G1.

J2 Total EOR Royalty/Tax

- enter the result of adding H5 and I4.

J3 Saskatchewan Resource Credit

- enter the result of multiplying the average SRC rate of the project by G3.

J4 Net EOR Royalty/Tax

- enter the amount by which Total EOR Royalty/Tax exceeds the Saskatchewan Resource Credit ($J4 = J2 - J3$). If negative, enter 0.

J5 Instalments Remitted

- enter the royalty/tax payments made during the year in respect of each mineral ownership type. ($J5 = \text{sum of Totals (3) and (4) if using optional schedule A}$).

J6 Royalty/Tax Payable (Refund)

- enter the result of subtracting Instalments Remitted from Net EOR Royalty/Tax ($J6 = J4 - J5$).