

***Saskatchewan Petroleum Research Incentive
(SPRI)***

Information for Applicants

Effective Nov 20, 2015

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OBJECTIVES

The Saskatchewan Petroleum Research Incentive (SPRI) is intended to encourage research, development, and demonstration of new technologies that facilitate the expanded production of Saskatchewan's oil and natural gas resources. Enhanced oil recovery (EOR) pilots and research, development and demonstration projects involving new technologies related to oil and natural gas exploration, production, treatment, transportation, upgrading, processing, refining, and/or waste disposal from, or environmental impact of oil and natural gas activity will be eligible to receive the Incentive.

The objectives of the SPRI are:

- To encourage new EOR projects
- To research, develop, and demonstrate promising new technologies that will lead to the expanded development and production of Saskatchewan's oil and natural gas resource.
- To develop Saskatchewan's oil and natural gas research expertise and facilities.
- To improve the efficiency and cost-effectiveness of oil and natural gas technologies.
- To reduce the environmental impact of oil and natural gas production.
- To transfer the technology developed through the Incentive so that a broad awareness is developed in the oil and natural gas industry of the knowledge and information generated through the Incentive.

CONDITIONS APPLYING TO THE INCENTIVE

A number of conditions apply to the Incentive:

- Technology transfer will be a condition of receiving support for a research project.
- Final technical reports must be submitted to Saskatchewan Ministry of the Economy and will be publicly available, along with other project data.
- Except for information regarding patentable technology, project confidentiality will be limited to a maximum period of one year.
- Failure to complete the project or failure to submit an acceptable final technical report will result in cancellation of the Incentive and will require payment of any royalties previously not remitted because of the Incentive.
- The project proponent will not be able to transfer to another party the right to receive the Incentive benefit directly from Saskatchewan Ministry of the Economy.
- Following receipt of the Incentive benefit from Saskatchewan Ministry of the Economy, the project proponent will be responsible for sharing the Incentive benefit with any relevant Working Interest Owners.
- Project proponents will be required to submit a detailed application outlining their proposal, including a project budget.
- Saskatchewan Ministry of the Economy will review project applications to assess their eligibility, including their novel research content, and to determine their eligible costs.
- All projects must be Saskatchewan focussed and must be applicable to Saskatchewan oil or natural gas fields.
- Project costs approved under the SPRI will be eligible to be claimed under the Enhanced Oil Recovery royalty structure administered by Saskatchewan Ministry of the Economy for EOR projects approved pursuant to *The Oil and Gas Conservation Act*.
- Only the incremental project costs directly related to the research, development or demonstration of new or improved technologies will be eligible for the Incentive. Any project costs not directly related to the EOR pilot or new technology will be the sole responsibility of the project applicant or a third party.
- The Government of Saskatchewan will not acquire any rights to own or use technology involved in approved projects.

- Technology involved in approved projects must be available for use or license by other Saskatchewan oil and natural gas producers upon reasonable commercial terms.
- A company will be allowed to claim a deduction on its natural gas royalties for an oil research project and vice versa.
- Saskatchewan Ministry of the Economy will have the right to visit all project sites upon providing reasonable notice.

ELIGIBILITY CRITERIA FOR RESEARCH PROJECTS

The SPRI is available for research projects involving field pilots.

To be eligible to receive the SPRI, field projects must be an EOR pilot conducted in Saskatchewan or meet all of the following criteria:

- The project must be conducted in Saskatchewan.
- The project must involve technology which is related to oil and natural gas exploration, production, treatment, transportation, upgrading, processing, refining, and/or waste disposal from, or environmental impact of oil and natural gas activity. (Projects related to product marketing, office administration, staff training, or human resources management are not eligible for funding.)
- The project applicant must be the operator of the site of the project.
- The project must have significant novel research content. Novel research content means that the technology involved in the project must meet one of the following conditions:
 - The technology is not currently in use in the oil or natural gas industry in Saskatchewan.
- OR
- The technology has not previously been used in the oil or natural gas industry in Saskatchewan in a situation similar to that proposed in the project.
- Projects involving refinements, improvements or changes to technology that has previously been used in the oil or natural gas industry will be eligible to receive the Incentive relative to the costs of the refinement provided that the refinements, improvements or changes introduce significant technical uncertainty or risk which was not present during previous standard applications of the technology.
- The Incentive is not intended to subsidize the application of current uneconomic technologies.
- In order for a project to be eligible, it must appear likely that the commercial application of the technology involved in the project can be cost-effective.
- The Incentive is NOT intended to subsidize the evaluation of new technologies for the exclusive benefit of the applicant.
- All projects receiving the Incentive will be required to participate in the transfer of technical information to the rest of the industry, subject to a confidentiality period of up to one year.

- Projects that, because of unique circumstances, appear likely to benefit only the applicant will not be eligible.
- In order for a project to be eligible, it must appear likely that the technology involved in the project can be applied commercially on a widespread basis in Saskatchewan.

INFORMATION TO BE INCLUDED IN A PROJECT APPLICATION

To apply for approval under the terms of the SPRI, interested parties should prepare and submit an application clearly outlining their proposed project. Applications should be concise, accurate, well-organized and should contain all relevant information.

Applicants should note the criteria that will be used for the evaluation of proposals and should direct their applications to these criteria. The information outlined below indicates the minimum requirements that must be met by each application. Each application must be submitted electronically in the Microsoft Office Word format. The following outline is only a guideline to applicants for preparing their project proposals. The actual content of the application may be determined by the applicant.

Project applicants should include the following information in their application for approval for a field project under the terms of the SPRI:

- 1. Name of Operator (registered in Saskatchewan) Applying for Incentive**
- 2. Name, Title, Address, Phone Number, Fax Number, E-Mail Address of Contact Person**
- 3. Title of Project**

- 4. Location of Project Site**

Any portions of the project undertaken outside of Saskatchewan should be indicated, along with an explanation of why this work was not undertaken in Saskatchewan.

- 5. Notice of Confidential or Proprietary Information**

Any confidential or proprietary information contained in the project application should be specifically identified. The Government of Saskatchewan will make a reasonable effort to maintain the confidentiality of this identified information.

- 6. Project Description**

The applicant should describe the project in sufficient detail to permit a critical evaluation of the technology involved in the project. The applicant should indicate if the technology is currently in use in the oil or natural gas industry in Saskatchewan. If the technology has been previously used in the oil or natural gas industry in Saskatchewan, the applicant should explain fully why the application of the technology in the proposed project is significantly different from previous applications.

The applicant should indicate if the proposed project will test a refinement, improvement or change to technology that has previously been used. The applicant should explain why

this refinement, improvement or change to the technology will increase the technical uncertainty or risk present in the proposed project compared with previous applications of the technology.

The applicant should describe the value of the technology to the Saskatchewan oil and natural gas industry.

Any available supporting materials related to the project including planning documents, background technical reports, drawings, etc. should be attached to the application. Reference should also be made to any previous relevant work by the applicant or others. Any related reports or publications on relevant work should be listed and made available on request.

7. Project Monitoring & Evaluation

The applicant should explain how the performance of the technology will be monitored and evaluated to collect the data required to determine the technical merit and cost-effectiveness of the technology in a valid scientific manner.

8. Final Technical Report

The applicant should specify the information that will be included in the final technical report to be submitted to Saskatchewan Ministry of the Economy regarding the results of the project.

9. Project Cost

The applicant should submit an itemized cost estimate for the project using the following categories (if applicable):

- Labour costs for Operator (direct salary and benefits at actual cost for staff assigned directly to the project on a full time or part time basis).
- Corporate overhead costs (actual and reasonable corporate overhead costs calculated as maximum of 10-15% of operator's labour costs)
- Subcontracting expenses
- Materials and supplies
- Travel and living expenses
- Capital equipment costs (itemized for equipment over \$10,000)

Additional categories may be used if applicable. The nature and purpose of the various expenditures should be explained.

An estimate should be provided of the cost of the portions of the project undertaken outside of Saskatchewan.

10. Project Schedule

The applicant should indicate the start date for the project, when the capital expenditures on the project will be completed, and when all work on the project, including monitoring and the preparation of the final technical report, will be completed.

Projects must be approved by March 31, 2020.

All expenditures incurred on an approved project, including preparation of the final technical report, must be completed and the applicant must recover the entire Incentive by March 31, 2022 or two years from project completion date, whichever is earlier.

Expenditures incurred by the applicant prior to March 20, 1998 will not be eligible for the Incentive.

The applicant may begin the project prior to the approval of the project by Saskatchewan Ministry of the Economy under the terms of the Incentive. However, any expenditure incurred by the applicant prior to the approval of the project are incurred at the applicant's own risk.

11. Notice of Patents

The applicant should indicate if any current or expected patents may create barriers to the widespread application of the technology involved in the project.

THE REVIEW PROCESS

Each application will be evaluated to determine if the proposal is eligible for funding under the terms of the Incentive and to determine if the proposal is of interest to the Government of Saskatchewan.

During the evaluation process, the project applicant may be asked to provide additional information, to respond to questions about the project proposal, or to make themselves available for meetings.

The applicant may withdraw his application at any stage of the evaluation process and The Government of Saskatchewan may reject the application at any time.

If, following the completion of the evaluation process, Saskatchewan Ministry of the Economy approves the project under the terms of the Incentive, the applicant will receive a draft project agreement. This draft agreement will specify:

- Conditions that apply to the project, including:
 - Work to be done by applicant on the project
 - Eligible costs for the project
 - Maximum Incentive available for project
 - Information to be included in final report
 - Project completion date

- Deadline for claiming Incentive benefit.

The applicant will review the draft contract and can request any desired revisions. If both the applicant and Saskatchewan Ministry of the Economy agree on the terms of the contract, it will be signed by both parties as a legal document and can only be amended by mutual consent.

DETERMINATION OF CREDITS

Credits towards the remission of royalties and taxes shall be calculated in the following manner:

- 50% of eligible research costs directly involving the Petroleum Technology Research Centre (PTRC) in Regina (to a maximum of \$1 million per project), and
- 30% of any remaining costs directly involving the PTRC and all other eligible research costs (to a maximum of \$3 million per project)

PROJECT IMPLEMENTATION

Reporting and Deadlines Summary

- All expenditures incurred on an approved project, including preparation of the final technical report, must be completed.
- Final technical report should be submitted within three months from the project completion date.
- Follow-up Evaluation should be submitted two years after the project ends.
- The entire Incentive must be claimed no later than two years from the project completion date, or Mar 31, 2022, whichever is earlier.
- If requested in the application, the project information can maintain confidential up to one year from project completion date.

As the project proceeds, prior to a claim is submitted for the Incentive to the Revenue Accounting Branch of Saskatchewan Ministry of the Economy for royalty payment and deduction, the Applicant must E-mail the following information to the Energy Development and Climate Change Branch of Saskatchewan Ministry of the Economy for approval:

- A brief (2 to 5 page) project progress report to provide the following information:
 - project number, project name and reporting period
 - status of main project tasks
 - summary of results achieved to date.
 - actual eligible expenses incurred during the reporting period, and
 - calculation of the Incentive due on these actual eligible expenses (please refer to “DETERMINATION of CREDITS” in the previous page).
- Electronic Funds Transfer (EFT – Direct Deposit) Payment Details

The Applicant calculates the royalty payments that would normally be submitted for the various properties operated by the Applicant and then adjusts the amount of the total royalty payment by the amount of the Incentive due. In other words, the calculation of royalties from individual properties is unaffected by the Incentive. The Applicant recovers the Incentive from the total royalty cash flow he would otherwise submit to the Government of Saskatchewan.

If the Applicant is an operator of one or more properties with Working Interest Owners, the Applicant recovers the Incentive from the total royalty cash flow he would otherwise submit to the Government of Saskatchewan on behalf of himself and all Working Interest Owners on all Saskatchewan properties that he operates. (The Applicant is responsible for all accounting to share the Incentive received from Saskatchewan Ministry of the Economy with Working Interest Owners in the property where the project was conducted, as well as tracking the Incentive deducted from the royalty payments submitted by the Applicant from properties that were not involved in the project.)

In any given month, if the amount of the Incentive due to the Applicant exceeds the Applicant's total royalty cash flow, then the Applicant will accumulate a credit bank which will be applied against the Applicant's total royalty cash flow in the following and subsequent months, until the credit bank is exhausted.

Saskatchewan Ministry of the Economy has the right to audit the actual eligible expenditures related to the project and claimed by the Applicant. The audited project is normally given 30 days to provide all documents for verification.

Following completion of the project, the Applicant will submit the electronic copy of a draft final technical report on the project for review. After the Applicant has made any required revisions to the final technical report and the revised report is accepted by Saskatchewan Ministry of the Economy, the Applicant will provide one paper copy and an electronically reproducible original of the report.

If requested in the application, the project information, except for patent technology related, can maintain confidential up to one year from project completion date.

A Follow-up Evaluation on the status of the project and technology should be prepared and submitted to Saskatchewan Ministry of the Economy two years after the project end date. The Follow-up Evaluation will be included in the Agreement that both the Applicant and Saskatchewan Ministry of the Economy will enter. Response to the Follow-up Evaluation is mandatory; however, unlike the Final Report, response will be kept confidential and used only for internal program assessment.

CONTACT INFORMATION

The applicant is to submit one electronic copy and one paper copy of the completed application and any attached documents to:

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