Government of Saskatchewan

Guideline: Uranium Royalty System

MIN001

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Governing Legislation:

Act: The Crown Minerals Act
Regulation: The Crown Mineral Royalty Regulations

Record of Change

Revision	Date	Description
0.0		Initial draft
1.0	June 19, 2014	Approved first version
2.0	Feb. 27, 2017	Revision/Update

Table of Contents

1. INTRODUCTION

This guideline has been prepared by the Saskatchewan Ministry of the Economy (the department) to explain the policies and procedures which are used to report the Crown royalty for uranium royalty payers in accordance with *The Crown Mineral Royalty Regulations* (the Regulations) pursuant to *The Crown Minerals Act* (the Act). The Crown uranium royalties are detailed in Part III of the Regulations. Reference should be made to the Act and Regulations for an exact statement of the law. In case of a conflict between this Guideline and the provisions of the Act and Regulations, the Act and Regulations will govern. This Guideline has no legal force or effect.

The Government of Saskatchewan approved a new uranium royalty system in the March 2013 budget. The new royalty system as approved April 1, 2013 came into effect retroactive to January 1, 2013. The Regulations were revised by *The Crown Mineral Royalty Amendment Regulations, 2016* to provide clarification for industry and government in the implementation of uranium royalties and also introduced a new diamond royalty system. The amendment was approved in June 2016 and includes all royalty payments, revenues and costs for the 2016 calendar year.

The royalty system has three components:

Basic royalty - 5% of gross revenue
Profit royalty - rates increase from 10% to 15% as net profit increases
Saskatchewan Resource Credit - a credit of 0.75% of gross revenue

where:

Total Royalty = Basic Royalty + Profit Royalty - Saskatchewan Resource Credit

Under the new system, each owner or joint venture participant in a uranium mine is a royalty payer. Individual interests of a royalty payer are consolidated on a corporate basis for the calculation of royalties due on the royalty payer's sales of uranium. Profit is calculated based on recognition of the full dollar value of a royalty payer’s exploration, capital, production, decommissioning and reclamation costs. Capital allowances calculated under the previous royalty system for projects currently under construction are granted under transition rules to the new system.

2. DEFINITION OF TERMS

Terms used in this guidleine are defined in the Regulations.

2.1 CAPITAL ADDITION means the capital addition determined in accordance with section 25 of the Regulations.

2.2 CAPITAL BANK means the capital bank determined in accordance with section 23 of the Regulations.

2.3 DECOMMISSIONING is defined in Section 2(1)(h) of the Regulations and means the removal or permanent retirement from service of all or part of a production unit, and includes actions directly associated with the removal or retirement.

2.4 EXPLORATION BANK means the exploration bank determined in accordance with section 24 of the Regulations.

2.5 EXPLORATION EXPENSES are defined in Section 2(1)(j) of the Regulations and mean the costs and expenses that are incurred by the royalty payer during the year for the purposes of determining the existence, location, quantity or grade of a mineral deposit under Crown mineral lands and includes expenses incurred in the course of:
(i) prospecting;
(ii) carrying out geological, geophysical or geochemical surveys;
(iii) drilling; and
(iv) trenching, digging test pits, and preliminary sampling;

but does not include:

(v) interest expenditures;
(vi) acquisition costs of land or mineral rights;
(vii) any payment made or any royalty or overriding royalty paid to any person for the purchase or acquisition of, or the acquisition of an option to purchase or a right of first refusal for, mineral rights, any interest in mineral rights or the right to mine any mineral; or
(viii) any portion of expenses covered by a grant or subsidy or other third party contribution.

2.6 GROSS REVENUE means the value determined in accordance with section 9 of the Regulations, which has been derived from the royalty payer's share of the uranium extracted, recovered or produced from, or allocated under a unitization agreement to, the royalty payer's production units.

2.7 INDEX VALUE is defined in Section 17(1)(h) of the Regulations means the amount A calculated as follows:

A = B/C

where:

B is the price index for the previous year; and

C is the price index for 2012.

2.8 PRICE INDEX is defined in Section 17(1)(l) of the Regulations means the implicit price index for a year published in the Bank of Canada Review as the gross domestic product at market value or if the Bank of Canada does not publish an implicit price index for a year, the implicit price index as determined by the minister.

2.9 PRODUCTION COST means the production cost determined in accordance with section 26 of the Regulations.

2.10 PRODUCTION UNIT is defined in Section 2(1)(r) of the Regulations and means:

(i) the royalty payer's processing facility to the extent used to process minerals produced from:
(A) the mineral disposition;
(B) any mineral disposition of which the royalty payer is named as lessee and from which minerals are, were, or will be processed at the processing facility; and
(C) any mine located on the mineral disposition lands; or
(ii) any:
(A) mineral disposition in which the royalty payer is named as lessee; and
(B) mine located on the mineral disposition lands;

from which minerals are, were, or will be processed at a processing facility in which the royalty payer has no interest;

2.11 QUALIFYING ENVIRONMENTAL ASSURANCE is defined in Section 2(1)(t) of the Regulations and means a trust, guarantee, irrevocable letter of credit, irrevocable letter of guarantee, performance bond, surety bond, or security interest that would constitute a financial assurance fund for decommissioning and reclamation pursuant to *The Mineral Industry Environmental Protection Regulations, 1996.*

2.12 RECLAMATION is defined in Section 2(1)(u) of the Regulations and means the rehabilitation, before, during or after decommissioning, of all or part of the land, water or watercourses used or disturbed by the construction or operation of the production unit.

2.13 ROYALTY PAYER is defined in Section 2(1)(w) of the Regulations and means:

(i) every holder of a mineral disposition to the extent of the holder's interest in the mineral disposition as registered in the registry;
(ii) if a partnership is a holder of a mineral disposition, each partner to the extent of its interest in the partnership; and
(iii) if a joint venture has been entered into in relation to the mining of Crown minerals, each joint venture participant to the extent of its interest in the joint venture.

2.14 ROYALTY YEAR means the calendar year.

3. CORPORATE REPORTING

3.1 Every royalty payer shall calculate and pay Crown royalties on a corporate basis. If a royalty payer shares in sales or consumption of uranium produced from more than one production unit the royalty payer shall combine the revenues and deductions from each production unit for the purpose of calculating the royalty payer's net profit and determining the Crown royalty payment. The determination of net profit is specified in Section 22 of the Regulations, gross revenue is specified in Section 9 and deductions (eg capital costs, production costs) are specified in Sections 23 to 26.

3.2 If a royalty payer is owned in whole or in part, its owner shall consolidate the proportional interest of the royalty payer with its own royalty statements. If a royalty payer is prevented from consolidating the interests of a subsidiary due to confidentiality, tax implications or other reasons, the royalty payer may submit an application to the Minister to report in another manner.

4. ROYALTY PAYMENTS

4.1 Every royalty payer shall remit royalty payments in accordance with the Regulations.

4.2 As specified in Section 33 of the Regulations, on or before the last day of the month following the month in which the royalty payer sold or consumed the uranium, the royalty payer shall pay the basic royalty in accordance with Section 20.

4.3 As specified in Section 34 of the Regulations, in the case of uranium, the profit royalty shall be calculated in accordance with Section 21 and on or before the last day of each quarter in any royalty year, every royalty payer shall submit an estimate of the profit royalties payable for the year based on the following schedule:

a) the first quarter in a year is 25% of the profit royalties for the year, calculated on the estimate made in the first quarter of that year's profit royalties;

b) the second quarter in a year is the difference between:

(i) 50% of the profit royalties for the year, calculated on the estimate made in the second quarter of that year's profit royalties; and

(ii) the amount paid pursuant to clause (a);

c) the third quarter in a year is the difference between:

(i) 75% of the profit royalties for the year, calculated on the estimate made in the third quarter of that year's profit royalties; and

(ii) the total of the amounts paid pursuant to clauses (a) and (b); and

d) the fourth quarter in a year is the difference between:

(i) the profit royalties for the year, calculated on the estimate made in the fourth quarter of that year's profit royalties; and

(ii) the total of the amounts paid pursuant to clauses (a) to (c).

4.4 As specified in Section 36 of the Regulations, on or before March 31 of the year following the end of each year, a royalty payer must submit an annual return for that royalty year and the royalty payment due in that year less the sum of the monthly royalty payments made in that year.

4.5 The Crown royalty payments must be remitted to the Minister of Economy offices of the department in Regina. Payments are required to be submitted monthly together with department form EM 725 and annually together with department form EM 726.

5. DELAYED PAYMENTS AND INTEREST

Every royalty payer shall pay interest on any royalty payment or portion of royalty payment that is not paid as required. Interest will be calculated from the date on which the payment was due until the payment has been received by the Minister. Interest payable on assessment is specified in Section 43 of the Regulations. The rate of interest with respect to unpaid royalty is the prime lending rate of the bank holding Saskatchewan's general revenue fund plus three percentage points. The interest rate shall be determined on June 15 and December 15 in each year.

In the case where a royalty payer has submitted payment in excess of royalties due, the minister shall refund the amount in excess of the amount for which the royalty payer is liable and pay interest to the royalty payer on that excess amount. Interest payable on overpayment is specified in Section 44 of the Regulations. The rate of interest with respect to refunds is the rate equal to the prime lending rate of the bank holding Saskatchewan's general revenue fund. The interest rate shall be determined on June 15 and December 15 in each year.

6. CROWN ROYALTY - BASIC

Uranium produced from or allocated to Crown lands is subject to Crown royalty. The basic royalty is specified in Section 20 of the Regulations and is determined on a corporate basis by applying the royalty of 5% to the gross revenue from uranium sold by each royalty payer.

Basic Royalty = the basic royalty rate (5%) * royalty payer's gross revenue.

The Basic Royalty is often referred as the net value of the basic royalty less the Saskatchewan Resource Credit (see section in this guideline). Effective April 1, 2013 the SRC is 0.75%, thus the common reference to the net rate of 4.25% (5.0% –0.75%).

7. CROWN ROYALTY - PROFIT

Uranium produced from or allocated to Crown lands is subject to a profit royalty. The profit royalty rate is specified in Section 21 of the Regulations. The profit royalty is determined on a corporate basis by determining the net profit for the royalty payer as the sum of all the revenues and deductions being claimed for all of a royalty payer's production units or interest in production units.

7.1 The profit royalty is calculated as the sum of the following:

(a) 10% of the royalty payer's net profit for net profit up to and including the product of:

(i) $22.00 per kilogram of U_3O_8 sold; and

(ii) the index value; and

(b) 15% of the royalty payer's net profit for net profit in excess of the product of:

(i) $22.00 per kilogram of U_3O_8 sold; and

(ii) the index value.

7.2 The trigger value of $22.00 profit per kilogram of U_3O_8 sold which determines the rate of profit royalty is indexed for inflation based on the Bank of Canada's implicit price index for the gross domestic product at market value for each year. The index value calculation is defined in Section 17(1)(h) of the Regulations.

7.3 The net profit determination is specified in Section 22 of the Regulations and is calculated as the value NP using the following formula:

$NP = A + B – C – D – E - F$

where:

A is the royalty payer's gross revenue, if any, for the year that has been derived from the royalty payer's share of the uranium extracted, recovered or produced from, or allocated pursuant to a unitization agreement to, the royalty payer's production units;

B is the proceeds from the disposal of any asset during the year the cost of which was:

(a) included in whole or in part in the capital bank to the extent that the proceeds exceed the unclaimed balance of the capital bank; or

(b) deducted as a production cost, if the disposal of an interest in a production unit is not to be construed as a disposal of an asset for the purposes of this clause;

C is the capital bank or the portion of the capital bank claimed by the royalty payer;

D is the production cost;

E is the exploration bank or the portion of the exploration bank claimed by the royalty payer; and

F is the sum of:

(a) the sum of all decommissioning and reclamation costs incurred in the year; and

(b) for the year of termination of production and the two years preceding the year of termination of production, that portion of decommissioning and reclamation costs incurred in the three-year period immediately following the year of termination of production required to reduce the net profit to zero, to a total maximum value claimed against net profit in the year of termination of production and the two years preceding the year of termination of production of the total decommissioning and reclamation costs incurred in the three-year period immediately following the year of termination of production.

7.4 Section 8 provides specific requirements on the transfer or disposal of an interest in a production unit for a royalty payer which may qualify as the disposal of an asset. The conditions on the carry back of decommissioning and reclamation costs are further explained later in this guideline.

7.5 The full dollar values of the capital costs and additions for a capital asset are recognized in determining the royalty payer's royalties. Under corporate reporting the recognized capital costs and additions for the royalty payer's production units are summed into a capital bank which may be used as a deduction to determine the royalty payer's net profit for the year. Capital costs incurred for the years 2013 to 2015 are subject to transition rules until 2016 and for the year 2017 and subsequent years a royalty payer can claim the full dollar values for the current and previous years. Similarly, the full dollar values of the production costs are recognized in determining the royalty payer's royalties. Under corporate reporting all recognized production costs for the royalty payer's production units are summed into a total cost which must be used as a deduction to determine the royalty payer's net profit for the year. If the production cost deduction results in a net loss rather than a net profit for the royalty payer, the royalty payer is allowed to carry forward that loss for 10 years.

7.6 The exploration costs that are claimable are detailed in the Exploration section of this guideline. The full dollar values of the exploration expenses incurred by a royalty payer are recognized in determining the royalty payer's royalties. Under corporate reporting all allocated exploration expenses and allocated historical exploration expenses are summed into an exploration bank which may be used as a deduction to determine the royalty payer's net profit for the year. The amount of expenses deducted from the exploration bank by the royalty payer in determination of their net profit for the year is at the discretion of the royalty payer.

7.7 The decommissioning and reclamation costs that are claimable are detailed in Decommissioning and Reclamation section of this guideline. The full dollar values of the decommissioning and reclamation costs incurred by a royalty payer are recognized in determining the royalty payer's royalties. Under corporate reporting all decommissioning and reclamation costs for a royalty payer's production units are summed and used as a deduction to determine the royalty payer's net profit for the year. The decommissioning and reclamation costs incurred in the three years after cessation of production may be carried back and recognized in determining the net profit for the final three years of production.

7.8 Uranium exempted from profit royalty is the uranium that has been previously processed and for which the royalty payer has not designated the source (ie production unit). Production from a facility that has not, or may not, qualify for capital or production cost recognition may be exempted from the payment of profit royalty under that determination. One example is the recycled material from refining and enrichment facilities. The exemption is identified in Section 30 of the Regulations.

8. SASKATCHEWAN RESOURCE CREDIT

Uranium produced from or allocated to Crown lands is subject to the Saskatchewan Resource Credit (SRC). The SRC is specified in Section 29 of the Regulations and, effective April 1, 2013, is a credit of 0.75% of the gross revenue from uranium sold by each royalty payer.

The SRC is applied as a credit (ie subtracted from) in the calculation of total Crown royalty.

SRC = 0.75% * royalty payer's gross revenue.

The SRC is typically identified as a credit against the basic royalty rate of 5% rather than a standalone calculation subtracted from both the basic and profit royalties. It is referenced as a net royalty rate of 4.25% (Basic –SRC).

9. CAPITAL COSTS

The full dollar values of the capital costs and additions for a capital asset are recognized in determining the Crown royalties of a royalty payer. Under corporate reporting all recognized capital costs and additions for the royalty payer's production units are summed into a capital bank which may be used as a deduction to determine the royalty payer's net profit for the year. Capital additions include sustaining capital costs incurred in the year and state the transition rules for the capital costs recognized for the years 2013 to 2015 inclusive and the historical recognition for the Cigar Lake production unit. The transition rules terminate in 2016 and all deferred capital costs become capital additions to add to the capital bank for 2017 and subsequent years. The amount of capital deducted from the capital bank by the royalty payer in determination of their net profit for the year is at the discretion of the royalty payer. The capital bank at year's end is the net of the previous year's ending balance plus all additions minus amounts claimed due to disposals of assets or withdrawals used to reduce net profit during that year.

9.1 CAPITAL ADDITION is defined in Section 25 of the Regulations and means:
(1) Subject to subsections (2) to (4), the capital addition is the sum of all capital costs in the year with respect to the royalty payer's production units.

(2) Subject to subsection (3), the capital additions for:

(a) the years 2013, 2014 and 2015 is 50% of the royalty payer's capital costs for the year with respect to the royalty payer's production units; and

(b) the year 2016 is the sum of:

(i) all the royalty payer's capital costs in 2016 with respect to the royalty payer's production units; and

(ii) with respect to each of the years 2013, 2014 and 2015, 50% of the product of:

(A) the royalty payer's capital costs with respect to the royalty payer's production units in each year; and

(B) the index value for 2016 divided by the index value for the year in which the capital costs were incurred.

(3) In the case of the Cigar Lake production unit, the capital addition for the year 2016 is the sum of:

(a) the amounts mentioned in subclauses (2)(b)(i) and (ii); and

(b) the capital addition for the Cigar Lake production unit, as approved by the minister, that was effective on January 1, 2013 multiplied by the index value for 2016.

(4) All capital costs that are incurred with respect to a royalty payer's production unit on or after January 1, 2016 that were not included in the capital addition by the royalty payer or any other royalty payer in a previous year are considered to be a capital cost in the first year minerals are sold or consumed by the royalty payer from the royalty payer's production unit.

9.2 CAPITAL ASSET is defined in Section 2(1)(d) of the Regulations and means any real or personal property, whether tangible or intangible, including any plant or equipment, that:

(i) is held for use in the production or supply of goods or services; and

(ii) is expected to be used during more than one year;

but does not include:

(iii) any interest in land or mineral rights;

(iv) any property that, in the opinion of the minister, is properly referable to the production of any product other than the mineral for which the royalty payer is reporting; or

(v) spare parts and servicing equipment unless the royalty payer expects to use them during more than one year and the parts or servicing equipment are only used in conjunction with an item of property, plant or equipment;

9.3 CAPITAL BANK is defined in Section 23 of the Regulations and means the capital bank of a royalty payer at the end of a year and is the amount A calculated in accordance with the following formula:

$A = B + C – D + E - F$

where:

B is the amount in the capital bank at the end of the previous year;
C is the capital addition;
D is the total capital bank claimed for the year;
E is the total production unit capital bank transferred into the capital bank as determined in accordance with section 8; and
F is the total production unit capital bank transferred out of the capital bank as determined in accordance with section 8.

9.4 CAPITAL COST is defined in Section 2(1)(e) of the Regulations and means:

(i) if:

(A) a capital asset is acquired from a person dealing at arm's length with the royalty payer, the purchase price of the capital asset;

(B) a capital asset is acquired from an affiliate or from a person not dealing at arm's length with the royalty payer, the lesser of:

(I) if the affiliate or person purchased the asset in an arm's-length transaction, the purchase price of the capital asset paid by the affiliate or person, or, if the affiliate or person constructed the asset, the cost of construction; and

(II) the carrying value of the asset on the financial statements of the affiliate or person on the day on which the royalty payer acquires title to the asset;

(C) a capital asset is constructed by the royalty payer, the cost of construction; or

(D) a capital asset is approved as an approved remote asset subsequent to its acquisition, the least of:

(I) if the capital asset was acquired from a person dealing at arm's length with the royalty payer and its affiliates, the amount that would be determined pursuant to paragraph (A);

(II) if a capital asset was acquired from an affiliate or from a person not dealing at arm's length with the royalty payer, the amount that would be determined pursuant to paragraph (B); and

(III) the carrying value of the capital asset on the financial statements of the royalty payer or its affiliates at the time of the approval; and

(ii) all freight costs, installation charges and other costs incurred by the royalty payer and its affiliates for the purpose of putting the asset in place for the royalty payer, including:

(A) the cost of employee wages and benefits arising from the construction or acquisition of the asset;

(B) the costs of site preparation;

(C) initial delivery and handling costs;

(D) assembly costs;

(E) the costs of testing the asset; and

(F) the cost of services to provide health, safety and security during installation;

but does not include:

(iii) any profit, gain, commission or overhead to an affiliate providing a capital asset to a royalty payer;

(iv) except for approved remote assets, the cost of any capital asset that is not located in Saskatchewan;

(v) except for approved remote assets, the cost of any capital asset that is not used exclusively with respect to a mineral produced from a mine;

(vi) the cost of feasibility studies, except those related to exploration, new mines and expansions;

(vii) interest;

(viii) operating costs, operating losses or deficits;

(ix) administrative and corporate expenditures;

(x) fees or expenses for legal or accounting services; or

(xi) the cost of directly or indirectly acquiring, from a person who is not dealing at arm's length with the royalty payer, any interest or right under or in relation to any patent, copyright, trademark, industrial design or other form of intellectual property or similar intangible.

9.5 COST OF CONSTRUCTION is defined in Section 2(1)(g) of the Regulations and with respect to a capital asset, includes:

(i) the costs of employee wages and benefits arising from the construction of the asset;

(ii) direct material costs related to the construction of the asset;

(iii) the costs of site preparation related to the construction of the asset;

(iv) initial delivery and handling costs of parts and materials related to the construction of the asset;

(v) the net costs of testing the asset;

(vi) indirect construction costs that are required for the construction of the asset but that cannot be individually traced to the constructed asset, including power, supplies, materials, construction labour and project management;

(vi.1) costs that have been incurred during development of a production unit or asset that would normally be considered to be operating costs after production has occurred;

(vii) construction insurance;

(viii) the costs of services to provide health, safety and security during the construction of the asset;

(ix) the costs of design, engineering, procurement and construction management services related to the construction of the asset; and

(x) the cost of contractors, subcontractors, trades and subtrades directly attributable to the construction of the asset;

but does not include:

(xi) any profit, gain, commission or overhead to an affiliate providing capital assets to a royalty payer;

(xii) the cost of any capital asset, other than approved new mines or expansions, until that asset is in use;

(xiii) the cost of feasibility studies, except those related to approved new mines and expansions;

(xiv) interest costs;

(xv) operating costs, operating losses or deficits;

(xvi) administrative and corporate expenditures;

(xvii) fees or expenses for legal or accounting services; or

(xviii) the cost of directly or indirectly acquiring from a person who is not dealing with the royalty payer at arm's length any interest or right under or in relation to any patent, copyright, trademark, industrial design or other form of intellectual property or similar intangible.

To develop a methodology and consistent application of the intent of the regulations as written, the ministry and the uranium industry established a subcommittee to develop audit interpretation guidelines. The resultant recommendation of the subcommittee, and accepted by the ministry and industry participants, was to use the joint venture statements for an industry project to determine costs under the regulatory definitions. A table (included in this guideline) was developed to provide detail on costs accepted.

10. PRODUCTION COST

The full dollar values of the costs to produce uranium in a saleable form are recognized in determining the Crown royalties of a royalty payer. Under corporate reporting all recognized production costs for the royalty payer's production units are summed into a total cost which must be used as a deduction to determine the royalty payer's net profit for the year. If the production cost deduction results in a net loss rather than a net profit for the royalty payer, the royalty payer is allowed to carry forward that loss for 10 years.

10.1 OPERATING COSTS are defined in Section 2(1)(o) of the Regulations and mean the costs incurred at a place in Saskatchewan where production occurs at the royalty payer's mine to mine, refine and produce minerals in a saleable form, and includes:

(i) salary payroll;

(ii) direct labour;

(iii) maintenance labour;

(iv) other payroll;

(v) employee benefits and payroll taxes;

(vi) operating supplies consumed;

(vii) repair materials consumed;

(viii) production materials consumed;

(ix) electricity consumed;

(x) natural gas consumed;

(xi) other utility costs;

(xii) insurance premiums;

(xiii) purchased services; and

(xiv) any other costs that, in the opinion of the minister, are directly attributable to the operations of the production unit.

10.2 PRODUCTION COST is defined in Section 26 of the Regulations and means the sum of the following in the year:

(a) operating costs;

(b) the custom milling fees paid by the royalty payer if the uranium ore from the production unit is processed by a custom miller and:

(i) the custom milling fees are paid in money, not in kind; and

(ii) the custom miller is deemed to deal at arm's length with the royalty payer;

(c) the production costs of the custom miller in providing the custom milling if the uranium ore from the production unit is processed by a custom miller and:

(i) the custom milling fees are paid in kind; or

(ii) the custom miller is not deemed to deal at arm's length with the royalty payer;

(d) storage costs incurred respecting uranium stored off-site;

(e) transportation costs for the year;

(f) all taxes, rates, assessments, fees and duties levied or imposed with respect to the production unit of the royalty payer, including:

(i) school taxes;

(ii) municipal taxes;

(iii) business taxes;

(iv) sales taxes for non-capital items; and

(v) annual disposition rentals;

but not including:

(vi) any mineral rights taxes; or

(vii) any tax measured by reference to the income or the capital of the royalty payer;

(g) the costs of providing, or of contributions to:

(i) a qualifying environmental assurance; and

(ii) any other assurance fund as required pursuant to *The Mineral Industry Environmental Protection Regulations, 1996*, with the written approval of the minister;

(h) if the consideration for the sale or other disposition of uranium that was purchased from another royalty payer who is dealing with the royalty payer at arm's length at the time of the purchase is included in the gross revenue of the royalty payer for the year, the actual cost of that uranium;

(i) marketing costs;

(j) mine research and development costs;

(k) donations to religious, charitable, educational or similar non-profit organizations in Saskatchewan;

(l) subject to subsection (3), any portion of the total of the amounts, if any, by which profits in any of the 10 preceding years were less than zero, to the extent that the portion has not been deducted from profits in previous years; and

(m) administrative and corporate expenditures not incurred at the production unit and directly attributable to the production and sale of uranium produced in Saskatchewan.

(2) In making calculations in accordance with subsection (1), no deduction shall be made for:

(a) depletion in the value of any mineral reserve by reason of exhaustion or partial exhaustion of that reserve;

(b) interest or other financing costs;

(c) taxes on profits, income or capital;

(d) royalties;

(e) dividends or any distribution of surplus or capital;

(f) any expenditure that has been reimbursed in whole or in part by way of subsidy, grant or other reimbursement to the extent of the reimbursement;

(g) any expenditure incurred in purchasing or acquiring the right to produce minerals or an option to purchase or acquire that right;

(h) reserves or provisions for reclamation or decommissioning other than contributions to an assurance fund required pursuant to *The Mineral Industry Environmental Protection Regulations, 1996*; or

(i) subject to subsection (1), the amount of any deduction mentioned in subsection (1) that could have been taken in a previous year but was not; or

(j) any costs incurred in the current or previous royalty years for which the royalty payer or its affiliates have received monies:

(i) as compensation for damage or pursuant to a policy of insurance with respect to damage to property or assets of the royalty payer used in connection with the production of uranium if the costs of repairing that damage are within the scope of subsection (1); or

(ii) pursuant to a policy of insurance with respect to maintaining ongoing mining operations after an insurable loss occurs.

(3) For the purposes of clause (1)(l), "**the 10 preceding years**" does not include any year before 2013.

To develop a methodology and consistent application of the intent of the regulations as written, the ministry and the uranium industry established a subcommittee to develop audit interpretation guidelines. The resultant recommendation of the subcommittee, and accepted by the ministry and industry participants, was to use the joint venture statements cost categories for an industry development to determine costs under the regulatory definitions. A table (included in this guideline) was developed to provide detail on costs accepted.

11. INTERPRETATION OF ALLOWABLE COSTS

The following table is to be used in the interpretation of allowable costs. In case of a conflict between this table and the provisions of the Act and Regulations, the Act and Regulations will govern.

Cost Allowable Table	**Allowed**	**Not Allowed**
Exploration Expenses		
Acquisition Costs of Land or Mineral Rights		X
Any payment or royalty paid for purchase/acquisition of mineral rights		X
Pre-Production Expenses		
Acquisition costs of land or mineral rights, or an interest in a joint venture		X
Expenditures on the design, development, and construction of new mining operations claimed before production of minerals from those new mining operations	X	
Operating Costs Allowed/Not Allowed in Determining Profits		
Production Costs (Definition)		
Clean-up costs, legal costs, additional investigations and environmental studies that are required as a result of environmental accidents and not otherwise considered part of production	X	
Reclamation expenditures or provisions for anticipated reclamation expenditures	X	
Marketing Costs (Definition)		
Salaries, commissions, travel and entertainment costs of salespersons based at the head office who spend all of their time in marketing and salespersons based at locations other than head office	X	
Advertising and sales promotion costs	X	
Costs associated with maintaining sales offices other than Head Office	X	

Cost Allowable Table	**Allowed**	**Not Allowed**
Costs of conducting sales meetings	X	
Market research costs relating to North American market	X	
Real property taxes and any business licences or registration fees necessary to carry on the business of marketing	X	
Fees charged by a non-arm's length marketing agency approved as reasonable in the circumstances	X	
Depreciation allowances for sales offices other than Head Office (10% straight-line basis), furniture and equipment used exclusively in sales offices (20% straight-line basis), automobiles used exclusively for marketing (35% straight-line basis)	X	
Market studies for corporate planning purposes		X
Grants or donations		X
Income or capital taxes		X
Salaries and benefits for persons located at head office who do not spend all of their time in marketing		X
Provision for or actual bad debt		X
Administrative and corporate expenditures	X	
Interest or any form of financing charges		X
Public relations	X	
Costs related to Personnel, credit or financing functions or accounting and legal costs	X	
Residual or extraordinary costs		X
Costs applicable to the making of offshore sales through an industry sales organization		X
Administrative and Corporate expenditures, unless incurred at a place in SK where production occurs and are solely attributable to production from a mine (Definition)		
Directors' fees and expenses	X	
Management and operator fees	X	

Cost Allowable Table	**Allowed**	**Not Allowed**
Corporate licensing or registration fees	X	
Research and Development costs incurred in SK for the year that do not have prior written approval of the minister		X
Corporate relations, including association fees, advertising, public affairs, membership fees for corporation or employees	X	
Functions of a corporate comptroller's department, finance department, treasury department	X	
Personnel management and industrial relations	X	
Acquisition, lease costs, rental and maintenance of capital assets offsite the production unit, including accommodations, office building, office furniture and equipment, leasehold improvements, data processing and computer equipment, photocopying equipment and vehicles	X	
Power, water and utility services offsite the production unit	X	
Offices services offsite the production unit, including remunerations and benefits for the office manager and switchboard, mailroom, and typing pool staff	X	
Janitorial services	X	
Vehicle Operating expenses	X	
Property taxes	X	
Office supplies, newsletter, periodicals, publications, maps, books and photos	X	
Postage, courier, telephone/telecommunications, fax machines, telex/telecopiers, radio and radio telephones	X	
Severance packages	X	
Salary, wages, and other remunerations for an individual working in a managerial capacity at the site of the production unit	X	
Fees of independent consultants doing work directly related to the production unit of the royalty payer	X	
Expenditures incurred in Saskatchewan with respect to work or services and goods delivered in SK attributable solely to the production unit, with respect to purchasing, warehousing, accounting, data processing and computer services, engineering, and environmental and occupational safety	X	

Cost Allowable Table	**Allowed**	**Not Allowed**
Salaries, benefits and severance packages of corporate officers and key management personnel and their immediate staff (includes president, VP, general manager, their executive assistants, employees in financial planning, including the CFO, budget officer, financial analysts and their staff, and others with similar functions but different titles), and any other costs associated with their offices, including transportation and relocation costs associated with their employment and severance packages	X	
Operating costs directly attributable to the production of minerals or those costs directly attributable to the mining or processing of minerals	X	
Proceeds of Insurance (as a reduction to costs)	X	
Depreciation on mine capital	X	
Decommissioning and reclamation (not reimbursed)	X	
Cost of providing guarantee, irrevocable letters of credit or guarantee, performance or surety bonds, security interest constituting financial assurance for decommissioning and reclamation	X	
Environmental assurance fund	X	
Net losses from past years	X	
Exploration outside of Saskatchewan		X
Exploration on lands administered by federal government		X
Exploration within the boundaries or any Indian Reserve		X
Approved market development costs	X	
Mine research and development costs	X	
Approved research and development costs eligible for credit (Costs incurred in or outside SK by a producer and affiliates respecting research and development directly attributable to the mine, including demonstration of new technology prior to commercial application for projects intended to improve production efficiency, mitigate environmental impact, reduce mining risk, develop new or improved products, and contain an element of technical innovation, less any grant, subsidy, reimbursement, or sale of the technology)	X	
Exploration incurred on the lease in which the mine is situated	X	
Donations to religious, charitable, educational or similar NPOs in SK	X	
Other donations than those above		X

Cost Allowable Table	**Allowed**	**Not Allowed**
Expenditures incurred in purchasing or acquiring the right to produce minerals or option to purchase/acquire that right		X
Reserves or provisions for reclamation or decommissioning other than contributions to an approved environmental assurance fund		X
Actual amounts paid by affiliate on arm's length purchased, leased, or rented goods or services	X	
Actual cost to affiliate on manufactured goods for the producer	X	
Interest or other financing		X
Patent, copyright, trademark, industrial design, similar intellectual property or intangible		X
Wages, salaries, other compensation for employees who are not normally employed exclusively at the mine, except for those that are directly attributable to the mines		X
Outlay, loss, or replacement of capital or payment on account of capital		X
Depreciation or obsolescence allowances other than those described above		X
Rent, royalty or other lease payment of any property treated as a capital asset under GAAP		X
Depletion in the value of any reserve by reason of exhaustion of the reserve		X
Amortization of any pre-production expenditures or financing expenditures or any other amortization charges, write-offs or amounts transferred to a reserve, apart from those charges defined above		X
Operation of residential/community services in vicinity of production unit for the use of persons who normally work at the production unit	X	
General and Administrative expenses attributable to the production unit	X	
Costs incurred for the development of new markets and expanding existing markets for minerals produced in SK	X	
Insurance (production assets, residential/community)	X	
Allocated exploration expenses	X	

Cost Allowable Table	**Allowed**	**Not Allowed**
Depreciation (production assets, residential/community)	X	
Allocated Pre-Production Expenses as defined above	X	
Cost of < 1 yr useful life or not in use capital asset	X	
Investigations, feasibility studies related to the acquisition or construction of a capital asset that are not new mines and expansions	X	
Management salaries for employees, except those in marketing, sales and distribution who are not employed exclusively at the mine	X	
Legal or audit	X	
Fees or expenses of consultants who perform work related to legal, audit and accounting matters, data processing and computer systems, executive pension plans, profit sharing plans, taxes or royalties	X	
Prior year allowances or deductions that could have been taken by were not	X	
Amounts in excess of reimbursement of direct operating costs for the treatment of minerals by another person		X
Operating costs incurred by the producer for the treatment of minerals owned by another person		X
Foreign currency exchange gains or losses		X
Any amounts determined via allocation methods that are considered not fair or reasonable		X
Any outlay or expense not made for the purpose of generating revenue		X
Any expenditure the has been reimbursed by subsidy, grant or other reimbursement, to the extent of the reimbursement		X
Any deduction considered not reasonable in the circumstances		X

12. EXPLORATION EXPENSES

The full dollar values of the exploration expenses incurred by a royalty payer are recognized in determining the Crown royalties of a royalty payer. Under corporate reporting all allocated exploration expenses and allocated historical exploration expenses are summed into an exploration bank which may be used as a deduction to determine the royalty payer's net profit for the year. The amount of expenses deducted from the exploration bank by the royalty payer in determination of their net profit for the year is at the discretion of the royalty payer. The exploration bank at year's end is the net of the previous year's ending balance plus all additions minus withdrawals during that year.

12.1 ALLOCATED URANIUM EXPLORATION EXPENSES are defined in Section 17(1)(a) of the Regulations and, with respect to a royalty payer, means exploration expenses that have been allocated to the royalty payer, but does not include expenditures incurred on Crown mineral lands other than mineral disposition lands.

12.2 ALLOCATED HISTORICAL URANIUM EXPLORATION EXPENSES are defined in Section 17(1)(b) of the Regulations and, with respect to a royalty payer or a person who becomes a royalty payer, means the exploration expenditures that:

(i) with respect to a person who becomes a royalty payer, have been incurred by the person who becomes a royalty payer during the 15-year period ending with the person becoming a royalty payer;

(ii) with respect to a royalty payer who has purchased a production unit, have been incurred with respect to the purchased production unit during the 15-year period ending with the beginning of production; and

(iii) have been incurred after January 1, 2013;

but does not include:

(iv) those expenditures incurred on Crown mineral lands other than mineral disposition lands; and

(v) those expenditures claimed in a previous year by the royalty payer or any other royalty payer;

12.3 EXPLORATION BANK is defined in Section 24 of the Regulations and the exploration bank of a royalty payer at the end of a year is the amount A calculated in accordance with the following formula:

$A = B + C - D$

where:

B is the amount in the exploration bank at the end of the previous year;

C is the sum of the allocated uranium exploration expenses and allocated uranium historical exploration expenses; and

D is the total exploration bank claimed for the year.

12.4 Under the new royalty system, a company who becomes a royalty payer can claim all the allocated expenses that would have been recognized for a royalty payer for the 15 year period prior to them becoming a royalty payer but not prior to January 1, 2013. If a royalty payer buys a project from a company who is not a royalty payer and then develops that project, the royalty payer can only claim those expenditures specific to the project for the 15 year period prior to the project going into production but not prior to January 1, 2013.

Exploration expense determinations for a merger or acquisition are treated the same based on whether the two affected companies are separate legal entities with differing ownership or are separate legal entities under a common corporate ownership.

For example, if the company Isotope Inc. who has a Mudjatik exploration project and develops that project into the Mudjatik mine with first production in 2020 they can claim all their corporate exploration expenditures back for 15 years or to January 1, 2013 whichever is the latest date. Therefore, they can claim all their corporate exploration expenditures back to January 1, 2013.

If Isotope sells the Mudjatik project to the royalty payer Metmin Inc. in 2015, Metmin can immediately claim new exploration expenses (2015 and onwards) under their corporate reporting but can only claim the Mudjatik project exploration expenditures prior to purchase of the project goes into production for 15 years previous or to January 1, 2013 whichever is the latest date. Therefore Metmin would be able to claim historic expenditures for 2014 and back to January 1, 2013.

If Metmin acquired Isotope as an entire company, the situation is similar to Metmin having just purchased the Mudjatik project. Metmin would be able to claim the same historic expenditures on any of Isotope's projects they develop into producing mines and not just for Mudjatik. Metmin's acquisition costs of Isotope are not recognized.

If Isotope merges with the company Atomic Inc. who is not a royalty payer and both companies then operate under a new single legal entity IsoAtom Inc., and develop the Mudjatik project into a producing mine with first production in 2020 they can claim all their corporate exploration expenditures back to January 1, 2013.

The Metmin acquisition of Isotope would be treated the same as stated above if they are separate legal entities and regardless of whether they may be owned by a common parent company Element Inc. Similarly, the merger of Isotope and Atomic would be treated the same as stated above if they are separate legal entities and regardless of whether they may be owned by a common parent company Element Inc.

13. DECOMMISSIONING AND RECLAMATION COSTS

The full dollar values of the decommissioning and reclamation costs incurred by a royalty payer are recognized in determining the Crown royalties of a royalty payer. Under corporate reporting all decommissioning and reclamation costs for a royalty payer's production units are summed and used as a deduction to determine the royalty payer's net profit for the year. The decommissioning and reclamation costs incurred in the three years after cessation of production may be carried back and recognized in determining the net profit for the final three years of production. In any of the carry back years, a royalty payer may only claim that portion of costs sufficient to reduce his net profit to zero and only to the total maximum of the incurred decommissioning and reclamation costs in the three years after cessation of production.

13.1 The recognition of decommissioning and reclamation costs in the net profit calculation is defined as the value F in Section 22 of the Regulations which is defined as the sum of:

(a) the sum of all decommissioning and reclamation costs incurred in the year; and

(b) for the year of termination of production and the two years preceding the year of termination of production, that portion of decommissioning and reclamation costs incurred in the three-year period immediately following the year of termination of production required to reduce the net profit to zero, to a total maximum value claimed against net profit in the year of termination of production and the two years preceding the year of termination of production of the total decommissioning and reclamation costs incurred in the three-year period immediately following the year of termination of production.

Under the new royalty system, a royalty payer may establish a qualifying environmental assurance to fund the decommissioning and reclamation activities. The cost of the assurance may be recognized as a decommissioning and reclamation cost. This allows a company to deposit funds into an assurance and recognize the deposits as a decommissioning and reclamation cost. In practice this would allow a company to recognize the estimated total decommissioning and reclamation costs using deposits over multiple years and not specific to the three year carry back period which would recognize costs incurred by the royalty payer at the production unit.

14. GENERAL

Inquiries related to the uranium royalty system should be directed by phone to 1-844-213-1030 or by email to AuditServices@gov.sk.ca.