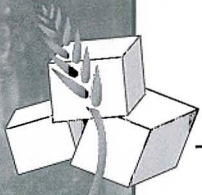


# Potash Taxation Frameworks & Recommendations



# Global Industry Outlook

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## What is Potash

Potash is the term used to describe Potassium (K) bearing minerals and chemicals – it's mainly used in fertilizer production.

## Potash Landscape

50% of the world's known Potash reserves are in Canada (75B Tons). Other countries with significant reserves include:

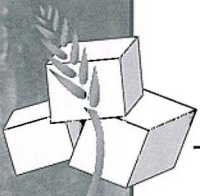
- Russia
- Belarus
- Germany

## A Global Market

- The top 8 Potash producers control 82% of the world production
- U.S. imports 90% of Potash to produce fertilizer
- China is the largest producer/distributor of fertilizer – U.S. is the second largest

## A Growing Need

The International Fertilizer Association (IFA) estimates that demand for Potash will continue to grow at 3.7% per annum

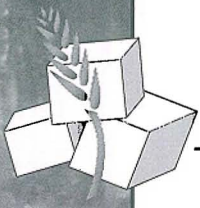


# Domestic Potash Production

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## Key Data Points

- The United States accounts for only 2.5% of the Global Potash Production – while it accounts for 19% of it's consumption...
- Potash producing states in the U.S. include:
  - New Mexico (75% of the U.S. Production)
  - Utah
  - Michigan



# New Mexico Potash Tax Policy

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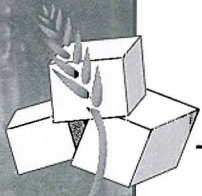
## Tax Policy

- Severance Tax: 2.5%, net proceeds
- Severance Tax deductions include the actual cost of hoisting, crushing, and loading
- Resources Excise Tax: New Mexico has a 0.5% Severer Tax or a 0.125% Processors Tax

## Summary

- New Mexico established a 2% (1% on Federal Lands) Royalty Rate for lower grade Potash, and has a 2.5% net proceeds Severance Tax for a combined 4.0% - 5.0% Royalty/Severance Tax





# Utah Potash Tax Policy

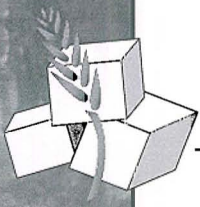
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## Tax Policy

- Severance Tax: The State of Utah excludes Potash from the State's Severance Tax, and does not impose a Property Tax

## Summary

- The State of Utah established a 5% Royalty Rate on Potash development on state lands, or a 1% Royalty Rate on Federal (BLM) Lands, for a total state contribution of up to 5%



# Michigan Potash Tax Policy

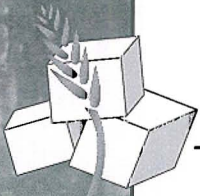
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## Tax Policy

- Severance Tax: The State of Michigan excludes Potash from the State's Severance Tax, and does not impose a Property Tax

## Summary

- The State of Michigan has established a 4% Royalty Rate on Potash development on State lands. Total State contribution equals 4%



# North Dakota Position

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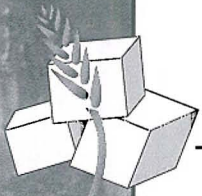
## Proposed Tax Policy

- Extraction Tax: 5% Extraction Tax on the annual average price of Potash (based on the Potash producer price index determined by the U.S. Bureau of Labor Statistics)
  - 4% Potash byproducts tax is imposed on gross value of Potash byproducts produced during Potash processing

## Summary

- The State of North Dakota has established a 2.5% Royalty Rate for Potash development on state lands. (No Deductions)
  - Private Land Owners – 3.5% Royalty Rate with deductions
- The combined Royalty/Potash Extraction Tax contribution is 7.5% (8.5% if development occurs on private land)





# Recommendations for North Dakota

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- Establish an overall Extraction Tax that encourages Potash exploration and development – 1% increasing to 2.5% valued on “net” actual sales proceeds. (3.5% increasing to 5% Total State tax)
- Valuation of minerals should be on “Net” Value Method, rather than “Gross Receipts”
- Tax at Actual Sales Price vs. Producer Price Index (Which doesn’t account for Potash Grade)
- Revisit this Tax Policy as needed