November 2019

A TAX SYSTEM TAILORED TO THE MINING SECTOR

THE MINING TAX REGIME IN BRIEF

Votre gouvernement

Finances Québec

CALCULATION OF THE MINIMUM MINING TAX

The minimum mining tax takes the place of financial compensation for the appropriation of mineral resources until the exploitation of such resources generates profits. The minimum mining tax is calculated on output value at the mine shaft head (OVMSH).

CALCULATION OF OUTPUT VALUE AT THE MINE SHAFT HEAD

Gross value of annual output of the mine

Less:

– Expenses incurred for the realization of the gross value of annual output in respect of the mine pertaining to:

- crushing, milling, sieving, processing, handling, transportation or storage activities related to the mineral substance from the mine at its initial accumulation site once it is removed from the mine
- marketing activities related to the mineral substance

– General and administrative expenses pertaining to the abovementioned activities

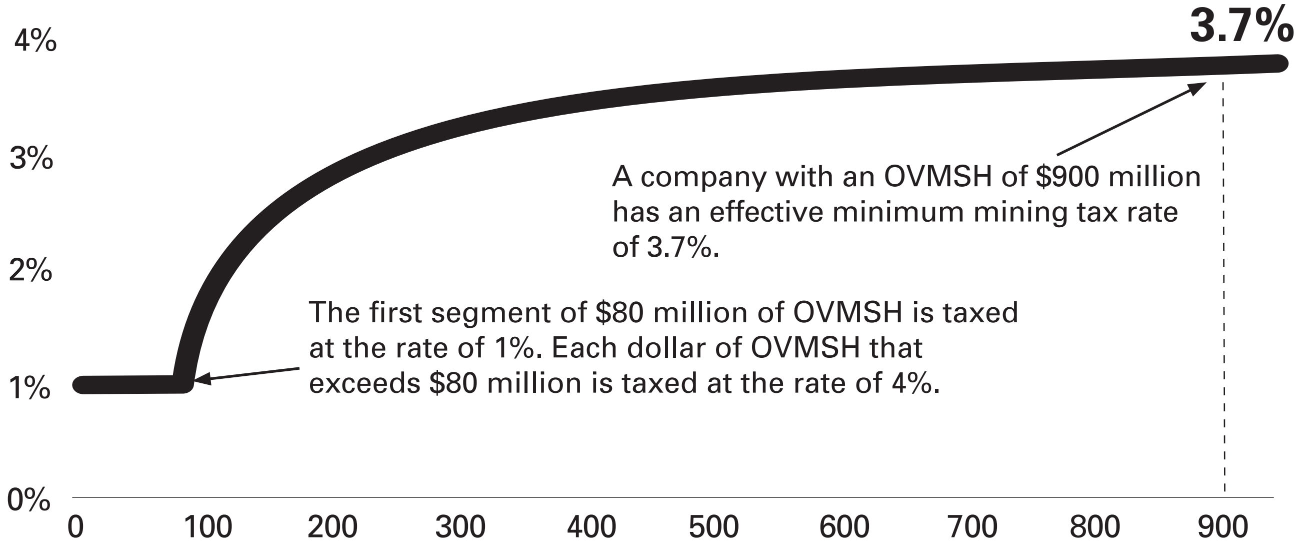
– The depreciation allowance on goods used in the mining operation at the initial accumulation site of the mineral substance once it is removed from the mine

– Processing allowance

= Output value at the mine shaft head[1]

1 The output value at the mine shaft head may not under any circumstances be lower than 10% of the mine's gross value of annual output.

EFFECTIVE RATE OF THE MINIMUM MINING TAX ACCORDING TO OUTPUT VALUE AT THE MINE SHAFT HEAD



The minimum mining tax paid in a fiscal year may be accrued to be used against the mining tax on future annual profit in the form of a non-refundable duties credit on account of minimum mining tax.

Note: The text of the Act takes precedence.

CALCULATION OF THE MINING TAX ON ANNUAL PROFIT

Gross value of annual output attributable to operations of the mine
Value of mineral substances and processing products from mining operation

LESS

Production costs attributable to the mine

Net income attributable to the mine before allowances

LESS

Depreciation allowance

The cost to acquire a road, a building, equipment or service property used in the mining operation, where acquired after March 30, 2010, may be amortized at the rate of 30%.

Post-production development allowance

The expenses eligible for this allowance are those incurred for:

- sinking or excavating a mine shaft, main haulage way or similar underground work designed for continuing use, built or excavated after the mine came into production in reasonable commercial quantities;
- extending any such shaft, haulage way or work.

The amount to be deducted is capped at 30% of the balance of the cumulative expenses account.

Processing allowance

The processing allowance is intended to zero-rate profit stemming from mineral ore processing by granting a theoretical return on processing assets.

The rate of return granted to processing assets ranges from 10% to 20%.

The amount of the allowance is capped at the higher of 75% of annual profit or 30% of OVMSH.

Additional depreciation allowance

The additional depreciation allowance was implemented in order to recognize the importance of major investments made in Québec. The allowance applies to a mill.

The period of eligibility for the allowance has ended.

Additional allowance for a northern mine

Operators may benefit from the additional allowance for a northern mine if the processing of ore from the mine began prior to March 31, 2010.

Additional allowance for a mine situated in Northern Québec

The additional allowance for a mine situated in Northern Québec is meant to take into account the high costs stemming from the coming into production of a mine situated in the North.

It is intended for mines that come into production after March 30, 2010 and offers a deduction of:

- $2 million for each new mine located in the area covered by the Northen Plan;
- an additionnal $3 million for each new mine located in the Far North.

Annual profit of the mine

Total annual profit of each mine

LESS

Donations

The deduction amount is capped at 10% of total annual profit of each mine.

Allowance for community consultations

Eligible expenses correspond to 50% of consultation expenses.

Allowance for environmental studies

Eligible expenses correspond to 50% of environmental study costs.

Exploration, mineral deposit evaluation and mine development allowance

Operators may deduct this allowance in respect of exploration, mineral deposit evaluation and mine development expenses incurred prior to March 31, 2010.

Exploration allowance

Eligible expenses are exploration expenses incurred after March 30, 2010 are eligible.

Exploration expenses incurred in Northern Québec are increased by 25%.

Except in the case of an eligible operator, the amount deducted may not exceed 10% of annual profit.

General and administrative expenses related to exploration work

Scientific research and experimental development expenses

Pre-production development allowance

Development expenses incurred after March 30, 2010 to bring a new mine to the production phase in commercial quantities are eligible.

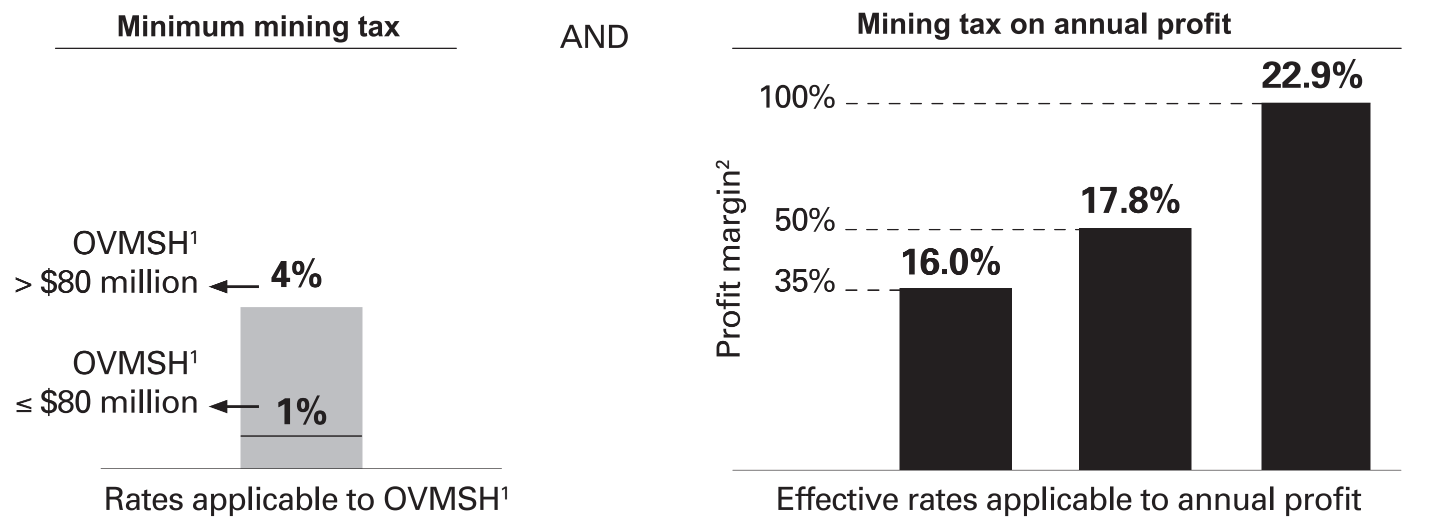
Additional exploration allowance

Certain exploration expenses incurred after May 12, 1994 and prior to March 31, 2010 may give entitlement to this additional allowance.

Annual profit (annual loss)

OPERATION OF THE MINING TAX REGIME

MINE OPERATORS PAY THE HIGHER OF:



1 Output value at the mine shaft head.
2 The profit margin corresponds to the operator's annual profit divided by the total gross value of annual output for all mines operated by the operator.

PARAMETERS OF THE MINING TAX REGIME

	Effective rate at the higher end of the segment	Applicable rate
Minimum mining tax[1]		
– On the first $80 million of output value at the mine shaft head		1%
– On the output value at the mine shaft head that exceeds $80 million		4%
Mining tax on annual profit by profit margin segment[2]		
– 0% to 35% segment	16.0%	16%
– 35% to 50% segment	17.8%	22%
– 50% to 100% segment	22.9%	28%

1 The minimum mining tax paid is deferrable and applicable against mining tax on future annual profit.
2 The profit margin corresponds to the operator's annual profit divided by the total gross value of annual output for all mines operated by the operator.

ILLUSTRATION OF THE COMBINED TAX RATE OF CORPORATE INCOME TAX AND MINING TAX ON ANNUAL PROFIT IN 2019

	Low margin[1]	Average margin[2]	High margin[3]
Federal corporate tax	15.0%	15.0%	15.0%
Provincial corporate tax	11.6%	11.6%	11.6%
Mining tax on profit	16.0%	17.1%	21.2%
Deductibility of mining tax for the purposes of calculating income taxes	−4.3%	−4.6%	−5.7%
Combined tax rate – Income taxes and mining tax on annual profit	**38.3%**	**39.1%**	**42.1%**

1 A low margin corresponds to a profit margin less than or equal to 35%.
2 An average margin corresponds to a profit margin of 42.5%.
3 A high margin corresponds to a profit margin of 75%.