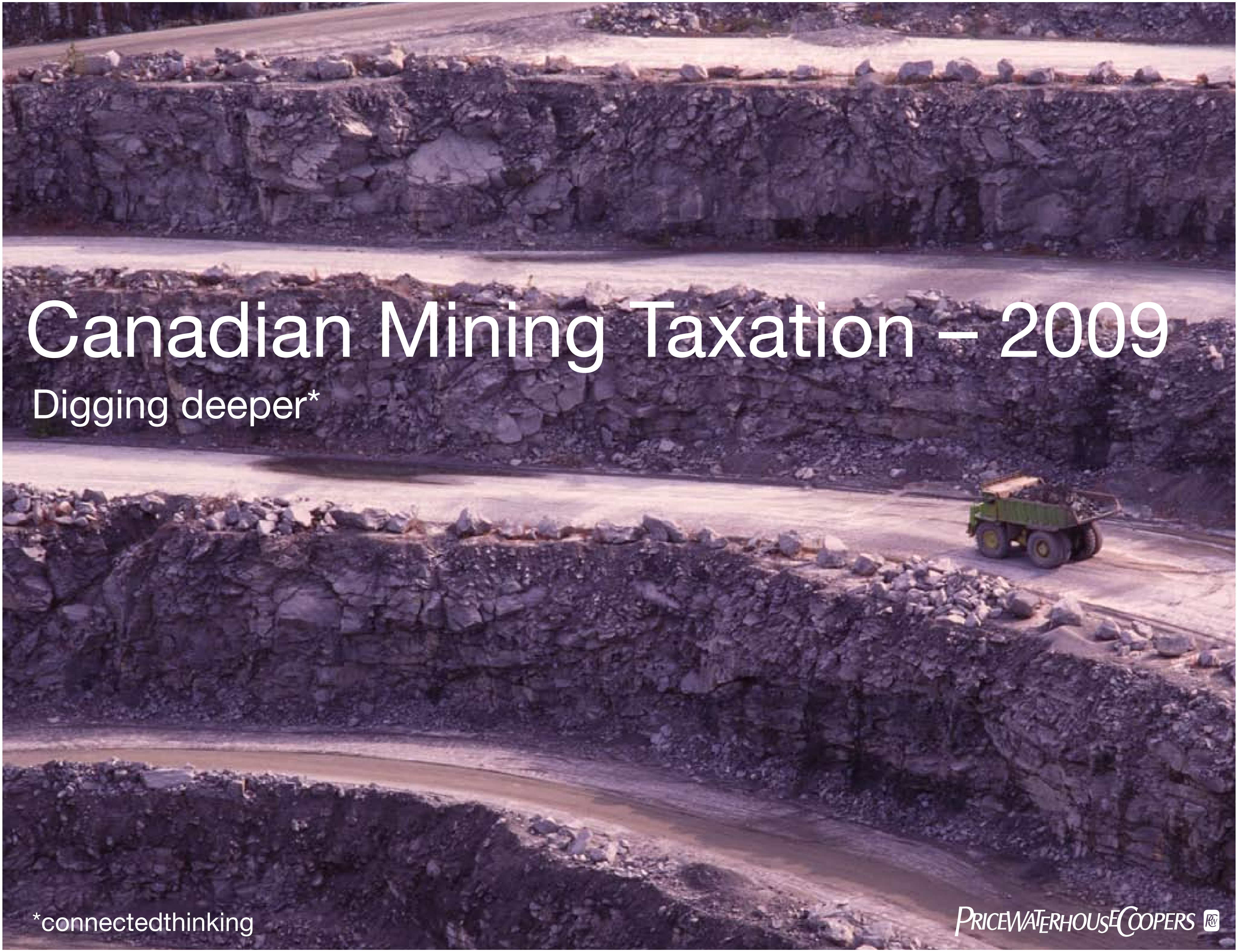
Canadian Mining Taxation – 2009

Digging deeper*



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PRICEWATERHOUSECOOPERS

Canadian Mining Taxation – 2009

Digging deeper

Contents

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Abbreviations and Symbols

CCA	Capital cost allowance
CCDE	Cumulative Canadian development expense
CCEE	Cumulative Canadian exploration expense
CDE	Canadian development expense
CEA	Cumulative expenditure account (British Columbia)
CEDOE	Canadian exploration and development overhead expense
CEE	Canadian exploration expense
CFRE	Cumulative foreign resource expenses
CMT	Corporate minimum tax (Ontario)
FAPI	Foreign accrual property income
FEDE	Foreign exploration and development expense
FIE	Foreign investment entities
FRE	Foreign resource expenses
ICA	*Investment Canada Act*
ITC	Investment tax credit
LCT	Large Corporations Tax
METC	Mining exploration tax credit (British Columbia)
MMETC	Manitoba mineral exploration tax credit
OCED	Ontario Community and Economic Development
RCA	Reclamation Cost Account (British Columbia)
TIEA	Tax Information Exchange Agreement

ABC Abbreviations are defined in a box like this.

Major incentive features are highlighted in coloured text and marked in the margin with this shovel icon.

Mining Taxation Help from PricewaterhouseCoopers LLP

To find out more about our mining tax practice and how we can help, please contact one of the following PricewaterhouseCoopers Mining Taxation Group leaders:

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This booklet is intended only to highlight the main features of Canadian mining taxation. The taxation of a Canadian mining operation is a complex matter. Rates and other information are current to September 1, 2009, but may change as a result of legislation or regulations issued after that date.

Introduction

Mining Tax Worldwide

According to some estimates, roughly 60% of the earth's land surface is now open to mineral exploration as a result of changed political and economic policies. Since most new target areas for exploration and development are in developing countries, all countries must balance the need for capital investment to develop their mineral resources with the desire to increase revenues through higher taxation. In conjunction with this competition, developed countries and emerging nations alike have been examining their mineral taxation regimes critically.

For the most part, Canada's mining tax system is considered to be internationally competitive, although some criticisms have been levelled periodically.

Canada's Mining Regime

The Canadian mineral taxation regime has some attractive attributes:
- Mining is a high-risk and capital-intensive industry. The federal and provincial income tax systems and most provincial mining taxes recognize these characteristics by allowing mining companies to recover much of their capital investment before paying taxes.
- The income tax rules recognize the cyclical nature of the mining industry by providing generous loss carry-back and carry-forward rules.
- Generally, producers prefer to pay taxes or royalties that are based on profits, rather than gross royalties or net smelter return royalties. Most provincial mining taxes in Canada are based on net production profits.
- The decision to develop a mine entails a huge commitment for the life of the project. A stable mineral taxation regime is crucial, and Canada's has been stable for many years. Typically, significant changes are implemented through a transparent, consultative process.
- Mining taxation in Canada keeps up with changing times. The income tax system now addresses important trends in the industry, such as globalization, the taxation of hedging gains, the deductibility of mine closure costs and the filing of tax returns in a company's functional currency.

However, Canada's mining tax regime is not perfect. A number of its features are the subject of persistent criticism:
- The federal and provincial governments are relying more and more on non-profit-based taxes as sources of revenue. These include payroll taxes, property taxes, user fees, and similar imposts. Because the producer is a price-taker, these costs cannot be passed on to the customer and must be absorbed by the mining company.
- Mining taxation in Canada is not easy to understand, partly because each province and territory imposes its own mining tax, under systems that vary significantly.

What this Guide Provides

As an aid to understanding Canadian mining taxation, this guide summarizes the main features of the Canadian income and mining tax systems currently in effect throughout the country. Quantitative examples give further insight into the application of the systems (see especially the Appendices).

A variety of distinct business structures have evolved to facilitate mine development, including partnerships, joint ventures, flow-through share financing, farm-ins and royalty arrangements. Normally, a tax regime will accord different treatment to each of these structures, affecting the tax effectiveness of that structure in a given situation. This guide describes the basics of the more common business structures, along with their treatment for tax purposes.

This guide also provides a broad overview of Canada's system for taxation of foreign mining projects, whether held through branches or foreign subsidiaries, and lists some special considerations for non-resident investors in Canada.

Tax Tip
Tax planning tips are also provided to suggest tax-effective methods that can be used in the course of planning a project.

Introduction

Basic Framework of the Canadian System

Canadian mining operations are subject to an essentially three-tiered tax system:

- federal income tax is levied on a mining operation's taxable income (generally being net of operating expenses, depreciation on capital assets and the deduction of exploration and pre-production development costs);
- provincial and territorial income taxes are based on the same (or similar) taxable income; and
- provincial and territorial mining taxes, duties or royalties are levied on a separate measure of production profits or revenues.

Before 2003, taxes imposed under one tier were generally not deductible in determining the taxable base under the other tiers, while the federal system and most of the provincial income tax systems provided indirect relief for the mining tax burden, in the form of a deductible "resource allowance."

From 2003 to 2006, however, federal legislation phased in the deduction for provincial and territorial mining taxes, duties or royalties and phased out the deduction for the resource allowance.

For 2007 onwards, royalties and mining taxes are 100% deductible for federal tax purposes.

The federal, provincial and territorial income tax systems normally segregate a mining operation into four stages:

1) exploration and development;
2) extraction;
3) processing (generally concentrating, smelting, and refining) to the "prime metal stage"; and
4) other activities that may be conducted beyond that stage, such as fabricating.

This book deals with the first three stages, which the legislation recognizes as mining activities and accords special treatment and incentives. The final stage generally is treated as manufacturing under tax legislation; different rules apply, which are not discussed here.

An important distinction is made between the pre-production and production phases of an operation. Generally, the two phases are determined by the date of "commencement of commercial production," which is normally considered to be the first day of the first ninety-day period throughout which the mill operated consistently at 60% of capacity or more.

Provincial and territorial mining taxes or duties can be the most significant tax burden on a mining operation (see **Exhibit 1** on page 3). Theoretically, these charges are levied on income from production (as distinct from processing), although the exact rules vary widely among the provinces, along with the treatment of different minerals. Most provincial and territorial regimes allow for some recovery of exploration, development and capital costs before the mine becomes taxable, but again this varies by province.

The income tax and mining tax laws all distinguish among different minerals. The rules described in this guide do not apply to most industrial minerals, such as limestone quarries or sand and gravel pits.

Federal Income Tax

The *Income Tax Act* has many special provisions that pertain to the mining industry. Interpretation of these provisions can create ambiguities regarding the treatment of various tax deductions when determining taxable income for a mining company. The sections below discuss the many considerations that affect the calculation of taxable income.

Rates of Tax

The federal government imposes income tax on mining income at the same basic rate of tax that applies to other types of income.

For December 31, 2009 year ends, the federal corporate income tax rate is 19%, as follows:

Basic federal rate	38%
Provincial abatement	(10%)
Federal rate before reduction	28%
Less: general rate reduction	(9%)
Federal rate	19%

The 10% provincial abatement of federal tax is designed to give the provinces and territories room to impose corporate income taxes. Provincial income tax rates range from 10% to 16% of taxable income (see **Exhibit 7** on page 14). The abatement is available only with respect to taxable income allocated to a Canadian province or territory. Income earned in a foreign jurisdiction is subject to the full rate of federal tax (i.e., for December 31, 2009 year ends: 38% - 9% = 29%), ignoring foreign tax credit relief.

For taxation years beginning after 2006, the general rate reduction applies to Canadian resource profits. Previously, there was a separate reduction for Canadian resource profits, which was eliminated in 2007 with the repeal of the resource allowance deduction.

For December 31 year ends, the 19% federal tax rate will be further reduced, as follows:

	2010	2011	2012
Corporate income tax rate	18%	16.5%	15%

Therefore, as of January 1, 2012, the federal tax rate applicable to resource profits will be 15%.

The calculation of federal taxable income and income tax is illustrated in **Exhibit 4** on page 7.

Exhibit 1: Comparative Summary by Province of Tax Burden on a Hypothetical Canadian Mining Operation

	IRR	Shareholders	Provincial or territorial tax (income and mining)	Federal tax
Ontario	36.4%	$264,144 [66.0%]	$68,128 [17.0%]	$67,830 [17.0%]
Manitoba	36.1%	$255,437 [63.8%]	$76,097 [19.0%]	$68,972 [17.2%]
Saskatchewan	36.4%	$254,816 [63.6%]	$76,889 [19.2%]	$68,801 [17.2%]
Yukon	34.8%	$246,576 [61.6%]	$84,198 [21.1%]	$69,209 [17.3%]
British Columbia	35.7%	$246,551 [61.6%]	$88,476 [22.1%]	$65,360 [16.3%]
Quebec	35.5%	$246,019 [61.4%]	$88,595 [22.1%]	$65,933 [16.5%]
Northwest Territories	35.2%	$243,318 [60.8%]	$92,456 [23.1%]	$64,732 [16.2%]
Nunavut	35.0%	$241,562 [60.3%]	$94,212 [23.5%]	$64,732 [16.2%]
Newfoundland and Labrador	35.0%	$240,730 [60.2%]	$100,329 [25.1%]	$59,116 [14.8%]
New Brunswick	34.9%	$235,045 [58.7%]	$109,894 [27.4%]	$55,567 [13.9%]
Nova Scotia	34.5%	$228,765 [57.2%]	$113,760 [28.4%]	$57,726 [14.4%]

Federal Income Tax

ITC

Investment Tax Credits

Tax Tip
R&D expenditures eligible for investment tax credits can include research relating to metallurgy, processing and similar activities.

Investment tax credits (ITCs) have been largely phased out as tax incentives for capital investment in Canada. An exception is a non-refundable ITC of 10% for certain mining Canadian exploration expenses. This ITC applies to both grassroots exploration and mine development costs, but only for base and precious metals and diamonds. It is available only to corporations, and does not apply to exploration financed by flow-through shares.

Another incentive is the 10% ITC on the cost of qualified property used in the Atlantic provinces and the Gaspé region of Quebec. Finally, ITCs of 20% (35% for certain private corporations) continue to be available for expenditures on qualified scientific research incurred anywhere in Canada.

ITCs are calculated by multiplying the capital cost of the qualified property or the amount of qualified expenditures by the specified percentage. They can be used to fully offset federal income taxes otherwise payable. Unused ITCs can be carried forward twenty taxation years and back three taxation years.

A temporary non-refundable 15% Mineral Exploration Tax Credit is available to individuals who invest in flow-through shares (discussed on page 8). The 2009 federal budget extended this program to March 31, 2010. Shares issued pursuant to these agreements are referred to as "super" flow-through shares. The 15% ITC is available only for certain Canadian exploration expenses (discussed on page 6) incurred relating to surface exploration.

Loss Carryovers

In computing taxable income, non-capital losses can be carried back three years and forward for a number of years, depending on the taxation year in which they arose, as follows:

		Carry-forward period
Taxation years ending	before March 23, 2004	7 years
	after March 22, 2004 and before January 1, 2006	10 years
	after December 31, 2005	20 years

Net capital losses can be carried back three years and forward indefinitely.

When control of a company is acquired, all net capital loss carryovers are lost and the subsequent deduction of pre-control non-capital loss carryovers becomes restricted. Generally speaking, pre-control non-capital losses are restricted to a deduction against income from a business that produces the same or similar products. In addition, a tax year is deemed to end immediately before the acquisition of control, effectively accelerating the expiry of any non-capital loss carryover.

CCA

Capital Cost Allowance

The capital cost allowance (CCA) system operates on a pool or "class of assets" basis, with separate classes provided for various kinds of depreciable property.

The capital cost of a particular property is added to the appropriate pool or class. Proceeds of disposition (not in excess of the original capital cost) of each property disposed of, plus any ITCs claimed in previous years, are deducted from the class. The prescribed rate of CCA is applied to the net balance in the class to calculate the maximum amount that may be claimed as CCA for a particular taxation year.

In recognition of the fact that assets are acquired throughout a year, for certain CCA classes, only half of the additions to a class are eligible for CCA in the year of acquisition, regardless of the time of year that the assets were acquired.

A taxpayer is entitled to claim any amount of CCA from nil up to the maximum permitted for the class. In certain circumstances, it may be to the taxpayer's advantage to claim less than the maximum amount of CCA available. For example, this occurs when a company may have difficulty using previous years' losses before they expire.

Each pool or class is reduced by the amount of CCA claimed. The balance left in each class at the end of the taxation year is referred to as the "undepreciated capital cost" of the class and forms the opening balance for the next taxation year. The mechanics of the CCA system are illustrated in **Exhibit 2**.

Exhibit 2: Mechanics of the Class Concept of the Capital Cost Allowance System

		Class		Total	
		41(a)	**41(b)**		
	Balance, beginning of year	$100,000	$0	$100,000	
+	Additions during year	150,000	50,000	200,000	
–	Proceeds of disposal	0	5,000	5,000	
=	Balance before CCA	250,000	45,000	295,000	**A**
	Balance upon which CCA may be claimed in current year	250,000	22,500	272,500	
x	CCA rate	Accelerated (see below)	25%		
=	CCA claimed	250,000	5,625	255,625	**B**
	Balance, end of year	$0	$39,375	$39,375	**A–B**

(in $ thousands)

Generally, only a few principal CCA classes are relevant to the mining industry. Class 41 is the most common, and includes virtually all tangible assets used in a mining operation.

Class 41

Class 41 assets include:

- electrical generating and distributing equipment for use at the mine;
- buildings, machinery and equipment acquired for the purpose of extracting or processing ore;
- processing machinery and equipment acquired for the purpose of gaining or producing income from processing mineral ores to any stage that is not beyond the prime metal stage or its equivalent;
- assets that provide services to the mine or to the community where a substantial proportion of persons ordinarily employed at the mine reside; and
- railway and loading facilities acquired for the purpose of gaining or producing income from a mine, but excluding rolling stock.

Class 41 assets generally qualify for a 25% CCA rate. However, Class 41(a) provides that certain buildings, machinery and equipment may qualify for an accelerated CCA rate of up to 100%.

Class 41(a) permits accelerated CCA on capital acquisitions made before the commencement of production or for the purposes of a major expansion. Class 41(a.1) permits accelerated CCA for the amount of Class 41 acquisitions in excess of 5% of the gross revenues from the mine for the year. The intent of these accelerated rules is to allow the taxpayer to recover the cost of pre-production capital before paying tax. Mining assets that do not qualify for inclusion in Classes 41(a) or (a.1) are included in Class 41(b).

The accelerated CCA claims (over 25%) cannot exceed the lesser of:

- the taxpayer's income from the new mine before the deduction of exploration and development expenses; and
- the remaining balance in the class before the additional claim.

Federal Income Tax

Class 41(a) CCA is illustrated in **Exhibit 3**. The rules effectively require Class 41(a.1) accelerated claims to be taken before Class 41(a) accelerated claims. These rules also require that a taxpayer compute income from each mine separately (referred to as "ring-fencing").

Proper application of these rules requires correct interpretation of engineering and operational processes, such as:

- What constitutes the "prime metal stage"?
- When does production commence?
- What constitutes a separate mine or group of mines?

Available-for-Use Rules

Generally speaking, CCA cannot be claimed until an asset is available for use. An asset is generally considered to be available for use when it is available for the purpose of producing income from the business. Special rules apply to public corporations and to projects involving long construction periods.

Exhibit 3: Class 41(a) Capital Cost Allowance

Assumptions	Class 41 undepreciated balance before claim	$100,000	**A**	
	Income from new mine before CCA	70,000	**B**	
Computation	Income from mine before CCA	70,000	=	**B**
	Less: Normal CCA	25,000	=	**A** x 25%
	Maximum accelerated CCA	$45,000		
	Total CCA	$70,000	=	*$25,000 + $45,000*

(in $ thousands)

Canadian Exploration Expense

CEE

Canadian exploration expense (CEE) consists of virtually all Canadian exploration and pre-production development expenses, including those incurred:

- to determine the existence, location, extent or quality of a mineral resource in Canada, including prospecting, rotary, diamond, percussion or other drilling, geological, geophysical or geochemical surveys, and trenching, test pits and preliminary sampling; or
- before the start of production, to bring a new mine in Canada into commercial production, including the expense of clearing, removing overburden and stripping, sinking a mine shaft, and constructing an adit or other underground entry.

These costs are accumulated in a pool called cumulative Canadian exploration expense (CCEE). CCEE

A taxpayer can deduct the full amount of its CCEE, to the extent of its income from any source. Any balance not deducted currently is carried forward indefinitely for deduction in future years (see also "Successor Corporation Rules" on page 8).

Canadian Development Expense

CDE

Canadian development expense (CDE) includes:

- the acquisition costs of Canadian resource properties; and
- the cost of mine shafts and main haulage ways or similar underground work incurred after coming into commercial production.

Similar to CCEE, these costs are accumulated in a pool called cumulative Canadian development expense (CCDE). A corporation can deduct up to 30% of the unclaimed balance in the CCDE pool at the end of each year. For short taxation years, the claim is restricted to the fraction that the number of days in the tax year is of 365 days. CCDE

Any unclaimed balance of CDE can be carried forward indefinitely. The deduction can be claimed whether or not the corporation has income; that is, by claiming CDE, the taxpayer can create a loss, eligible for carryback or carryforward.

Tax Tip
Although the industry generally refers to pre-production costs as "development" costs, for income tax purposes these costs qualify as CEE, not CDE.

Generally speaking, when a taxpayer disposes of a Canadian resource property, the proceeds of disposition are applied to reduce the taxpayer's CCDE balance. If the taxpayer's CCDE balance becomes negative, that amount is included in income.

Determining whether a cost should be treated as CEE, CDE or depreciable property can be difficult in practice. In general, distinguishing between an exploration expense and a development expense depends, among other things, on whether the mine has reached commercial production.

Depreciable property is distinguished from CEE and CDE in that depreciable property includes tangible property and structures that meet the definition of a particular class (e.g., Class 41 definition discussed above). Costs that meet the definitions of both depreciable property and CEE or CDE should be treated as depreciable property.

In summary, CCEE is deductible at a rate of 100% and can generate an ITC, while CCDE is deductible at a rate of 30% per annum. On the other hand, most depreciable property of a mining company (Class 41) is deductible at a CCA rate of only 25% per annum, subject to the acceleration discussed above.

Exhibit 4: Federal Taxable Income and Income Tax – Illustrative Calculation (2009)

Mining revenue	$10,000
Less: Operating costs	(5,000)
Capital cost allowance (CCA)	(600)
Canadian exploration expense (CEE)	(1,200)
Canadian development expense (CDE)	(50)
Interest expense	(100)
Taxable income	$3,050
Federal income tax (19%)	$580
	(in $ thousands)

Note: The deduction for mining tax is ignored in this example.

Resource Allowance

For federal tax purposes, the resource allowance had been repealed for taxation years that begin after 2006. However, the resource allowance will continue to be relevant in Ontario for purposes of computing a notional resource allowance (see page 16).

The resource allowance was calculated as 25% of resource profits, as defined. In general terms, "resource profits" for this purpose were defined as a taxpayer's income from:

- the production and processing (generally meaning concentrating, smelting or refining) in Canada of ore from mineral resources in Canada to any stage that was beyond the prime metal stage (or the pellet stage or its equivalent in the case of iron ore, or the crude oil stage or its equivalent in the case of tar sands); and
- royalties computed with reference to the amount or value of production from mining operations in Canada.

A taxpayer's resource profits for purposes of computing the resource allowance did not include proceeds from the disposition of a resource property.

In computing income from the sources noted above, most deductions claimed in computing income also reduced resource profits, unless the expense was reasonably allocable to a non-resource activity. In computing resource profits, no deduction was claimed for interest and other financing expenses or for expenditures in respect of CEE and CDE, with the exception of overhead expenses that qualify as Canadian exploration and development overhead expense (CEDOE).

CEDOE

CEDOE is defined to include any CEE or CDE in respect of:

- administration or management;
- maintenance, taxes, insurance or rent for property that is not used "substantially all" for the purpose of exploration or development; or
- the profit component of certain payments made to a person that is "connected" with the taxpayer (generally, a person holding a 10% interest or more in the taxpayer).

The resource allowance was a complex determination, because classifying expenses pertaining to resource or non-resource activities could be difficult. For example, a reasonable portion of corporate administrative expenses had to be allocated in the determination of resource profits.

Federal Income Tax

However, there was no hard-and-fast way of making this allocation and the Canada Revenue Agency generally assessed it case-by-case because there were no legislative methods. Whatever method was chosen had to be applied consistently, unless substantial changes in the company's operations justified a different methodology.

Provincial Mining Taxes and Royalties

Commencing in 2007, mining taxes and royalties paid to a province or territory are deductible in computing income for federal income tax purposes. Before 2007, indirect relief of the mining tax burden was provided in the form of a deductible "resource allowance."

Qualifying Environmental Trust

Reclamation requirements imposed by provincial and federal authorities are continually increasing, along with the demands on the mining industry to provide adequate financial assurances to guarantee performance. Under general principles, amounts accrued in respect of the obligations, in advance of incurring the actual reclamation expenditures, are not deductible for income tax purposes. To help match these expenses so they are deductible in the years that income is generated, contributions to a qualifying environmental trust are deductible by the taxpayer in the year that the contribution is made. Payments received from the trust are included in the taxpayer's income in the year in which they are received. In addition, income earned by the trust is taxable each year at corporate income tax rates, resulting in an element of double taxation.

Successor Corporation Rules

The income tax legislation dealing with exploration and development expenditures reflects an underlying policy that income tax relief should be available in respect of those expenditures, even to a taxpayer that did not necessarily incur the expense (as long as a deduction is claimed only once in respect of any particular expense). To this end, the so-called "successor corporation" rules of the *Income Tax Act* contain complicated provisions that, in certain circumstances, allow the unclaimed exploration and development expense balances of a particular taxpayer to be "inherited" by another corporation.

If a corporation (the successor corporation) has:

- acquired "all or substantially all" of the transferor's (the predecessor's) Canadian and foreign resource properties; and
- jointly elected with the predecessor in a prescribed manner,

the successor corporation becomes entitled to deduct in subsequent years an amount in respect of the predecessor's unclaimed CCEE, CCDE and FEDE (or FRE) balances. FEDE and FRE are discussed on page 12.

However, the successor corporation's deductions can be applied only to reduce the aggregate income earned by the successor that is reasonably attributable to production from or proceeds of disposition of properties that the predecessor owned at the time of the transfer.

Acquisition of control of a corporation also results in that corporation's exploration and development pools becoming successor pools and being subject to these income-streaming restrictions. The successor rules are extremely complex and can also apply on a winding-up or amalgamation of a corporation.

Flow-Through Shares

Structuring a mineral resource venture through conventional share financing limits the deductibility of the expenses of the venture to the income generated in the corporation that issues the shares. Given the uncertainty inherent in a mineral resource venture, the corporation may not have sufficient income to use otherwise-deductible exploration and development expenses.

Flow-through shares are shares issued by a corporation to a taxpayer, pursuant to an agreement with the corporation under which the issuing corporation agrees to incur exploration and development expenses in an amount up to the consideration paid by the taxpayer for the shares. The corporation "renounces" to the taxpayer an amount in respect of the expenditures, so that the exploration and development expenses are considered for tax purposes to be expenses of the taxpayer. As a result of the corporation's renouncing of the expenses, the shareholder can deduct the expenses as if incurred directly. Only certain CEE and CDE qualify for flow-through. For example, the acquisition cost of a mining property is not eligible for flow-through treatment.

The advantage of flow-through shares is that the shareholder has the opportunity to deduct expenses in the year that the expenses are incurred rather than risk forfeiture of the deduction by the corporation.

Strict time limits govern when the corporation must incur the qualifying expenditure. If the time limits are not complied with, the deduction will not be available to the shareholder.

In certain circumstances, it is also possible to deduct the expenses in the year before they are incurred by the corporation. However, the corporation must pay a special tax each month until the expenditures are actually made, to compensate the government for the time value of money.

Flow-through shares are deemed to have a cost base of nil. Therefore, on sale, the entire proceeds of disposition are normally taxed as a capital gain.

As discussed on page 4, a 15% federal ITC (or Mineral Exploration Tax Credit) is available for certain CEE renounced to individuals pursuant to flow-through share agreements entered into before April 1, 2010.

In addition to the 15% federal non-refundable ITC, four provinces provide eligible individual taxpayers with provincial tax credits for eligible expenditures:

British Columbia	20%
Manitoba	10%, 20% or 30% (see page 15)
Ontario	5%
Saskatchewan	10%

However, these provincial tax credits reduce the amount of the flow-through exploration costs otherwise deductible and the amount of expenditures qualifying for the federal ITC.

Quebec allows a deduction of up to 150% of qualifying expenditures incurred in certain areas. This and other Quebec incentives are discussed on page 17.

Partnerships

A major attraction of partnerships is their ability to flow certain costs through to the partners as they are incurred.

The partnership is treated as a separate taxpayer for only certain purposes, such as calculating income. Once the partnership income is determined, the various partners include their share of partnership income in their respective returns. The calculation and claim for CEE and CDE and the resource allowance is made on the partners' returns rather than at the partnership level. To obtain an allocation of CEE or CDE incurred by the partnership in that year, a taxpayer must be a partner at the end of the partnership's fiscal period.

A partner's ownership interest in the partnership is generally regarded as capital property for tax purposes and gives rise to a capital gain or loss on disposition.

Tax Tip
Joint venture operations can offer more flexibility than a partnership, because venturers can determine their own tax treatment of costs and revenues.

Exhibit 5: Major Tax Attributes of Alternative Structures[1]

		Structure		
		Corporation	Partnership	Joint Venture
Who claims	CEE & CDE	Corporation (or shareholders[2])	Partners[3]	Co-venturers
	Operating income/loss	Corporation		
	Resource allowance		Partners	
	CCA		Partnership[4]	

1. Commercial trust arrangements have unique attributes that differ from the three structures discussed here. While there may be advantages, a major disadvantage is that a trust cannot pass losses on to a beneficiary. A discussion of the taxation of trusts is beyond the scope of this book.
2. If flow-through shares are issued (subject to certain restrictions).
3. Unless a limited partnership is created, which limits claims to a limited partner's "at-risk" amount.
4. Calculated at partnership level, then flows through to partners as part of operating income/loss.

Federal Income Tax

A disadvantage of a partnership is the potential for unlimited legal liability. Limited partnerships can be established to provide limited legal liability for certain partners. However, exploration and development expenses can be deducted by a limited partner only to the extent that the limited partner's investment in the partnership is "at risk."

Joint Ventures

A joint venture is generally an arrangement under which two or more taxpayers contribute the use of their own assets to a project and share expenses and output of the project in agreed proportions. The difference between a joint venture and a partnership for tax purposes is that for tax purposes each venturer is considered to have directly incurred the agreed share of the underlying costs and expenses of the joint venture.

The joint venture is not considered to be a separate entity for tax purposes. Each venturer, by being considered to own a separate share of the venture assets, can deal with that share without affecting the other venturers.

Exhibit 5 on page 9 summarizes distinctions in tax treatment depending on the structure used.

LCT

Large Corporations Tax

The Large Corporations Tax (LCT) was an annual federal capital tax that, before 2006, applied to all taxable Canadian corporations and all other corporations with:

- a permanent establishment in Canada; and
- taxable capital employed in Canada.

Provincial capital tax is also being phased out over the next few years. See pages 19 to 21 for details.

Special Considerations for Non-Resident Investors

Along with most industries, mineral exploration and development is open to foreign investors. The federal government, however, expects that investment to provide identifiable benefits (such as job creation) to Canada and its citizens.

ICA

The *Investment Canada Act* (ICA), which is administered by Industry Canada, controls foreign investment. The ICA provides broad restrictions, and most new businesses can be established by filing a notification, without a detailed review. However, acquisition of control of a Canadian business by a non-Canadian requires either notification or, if specified investment thresholds are exceeded, an application for approval. To date, no foreign takeovers have been blocked by the ICA.

Thin capitalization

Under Canada's "thin capitalization" rules, for years beginning after 2000, interest paid to specified non-residents (major shareholders and affiliates) is deductible only in respect of debt up to two times the corporation's equity. Debt is calculated as the average of each month's maximum. Equity is calculated with reference to both monthly and beginning-of-year balances.

Canada has a sophisticated banking/financial services industry and foreign investors can obtain funds locally. Furthermore, the same incentives are available to foreign controlled companies as are available to local investors (e.g., ITCs for research and development expenditures and accelerated CCA for certain mining assets).

Foreign investors in Canada can use all the forms of doing business available to domestic investors, but usually conduct business through one or more separate Canadian corporations. However, as discussed below, initial operation as a branch of a profitable foreign entity may be preferable.

Subsidiary Corporation

Mining corporations face no minimum or maximum capital requirements and local equity participation is not required. Incorporation can be at either the federal or the provincial level and is relatively simple and inexpensive.

Canada imposes no foreign exchange controls or other restrictions on repatriation of profits or capital by foreign investors. The tax rules described in this guide apply equally to all Canadian corporations, whether controlled by residents or non-residents of Canada. Dividends from Canadian residents to non-residents, and a wide variety of other payments including royalties and related-party interest, are subject to non-resident withholding tax at a rate of 25%. This rate may be reduced by an applicable treaty (usually to 5%, 10% or 15%). Canada has an extensive network of tax treaties.

Branch of a Foreign Corporation

The taxable income of a branch is generally calculated on the basis that the branch is a separate entity and tax payable is computed in the same way as for a corporation. One exception to this general rule is that the thin capitalization rules described above currently do not apply to branches. The branch of a foreign corporation pays an additional branch tax on after-tax profits that are not reinvested in qualifying property in Canada. The rate of branch tax is 25%, effectively equivalent to withholding tax on dividends, and likewise may be reduced by an applicable treaty.

Start-up losses of a branch may be deductible against earnings of the foreign parent company, depending on the parent's jurisdiction. Therefore, the use of a branch may be preferred if start-up losses are anticipated.

A branch must keep proper accounting books and records, and file the required tax and other returns. It may have to make head office records, including financial statements, available to the Canada Revenue Agency for audit.

A branch can be incorporated into a Canadian subsidiary on a tax-deferred basis for Canadian tax purposes. The new subsidiary can access the undeducted CCEE and CCDE pools of the branch using the successor corporation rules (discussed on page 8). However, branch losses cannot be carried forward to offset income of the new incorporated entity.

Foreign Operations

Before commencing business in a foreign jurisdiction, a significant decision is whether to carry on activities through a foreign subsidiary or branch.

Branch

A Canadian corporation's income or loss from a foreign branch is included in or deducted from the corporation's income, whether or not the income is remitted to Canada.

Frequently, a taxpayer will carry out initial foreign exploration activities through a branch so that the expenses can be deducted from income in Canada, especially if the realization of foreign revenue will be deferred or unpredictable.

If the Canadian company is taxable in the foreign country, those foreign taxes are creditable against Canadian taxes otherwise payable on income from the particular country. Unused foreign business income tax credits may be carried forward ten years and back three years.

To qualify for a foreign tax credit, the foreign tax must be paid and be an income or profits tax. Payments such as resource royalties and stamp duties will not be eligible for credit but are generally deductible for Canadian tax purposes.

Transfer to a Subsidiary

A Canadian corporation is not allowed a tax-deferred transfer of property to a foreign corporation. Therefore, foreign properties that must ultimately be transferred to a foreign subsidiary should be transferred before significant appreciation in value.

Subsidiary

Active business income of foreign affiliates is not included in Canadian taxable income until remitted to Canada by dividend. Therefore, when significant foreign profits are expected, it may be prudent to carry out activities through a foreign subsidiary.

Federal Income Tax

If the foreign affiliate is resident in, and carries on business in, a country with which Canada has a tax treaty, the active business income is exempt surplus. Dividends received from exempt surplus are not subject to additional Canadian tax. The foreign affiliate's business income that is not exempt surplus is taxable surplus. Any dividends received from taxable surplus are taxable in Canada, with an effective credit for foreign income and withholding taxes paid.

Foreign Resource Expenses

FRE

CFRE

FEDE

Canadian tax law permits the deduction by a Canadian resident of expenses incurred in acquiring, exploring and developing a foreign resource property owned, or to be owned, by it. For taxation years beginning after 2000, these expenses are referred to as foreign resource expenses (FRE) and are captured in the taxpayer's cumulative foreign resource expense (CFRE) pool. A separate pool is prescribed for each country in which expenses are incurred. For earlier taxation years, these costs were captured in a single pool, and referred to as foreign exploration and development expenses (FEDE).

As with CEE and CDE, the FRE incurred by a partnership is allocated to each partner that is a member at the end of the partnership's fiscal period.

A taxpayer can deduct the lesser of its foreign resource income from a country and 30% of the CFRE in respect of that country. The taxpayer will be allowed in aggregate to claim the lesser of 30% of its total CFRE for all countries and its total foreign resource income from all countries for the year. In any case, the taxpayer can claim up to 10% of its total FRE (pro-rated for short taxation years), regardless of the amount of foreign resource income, and thus offset income from other sources.

FEDE can offset foreign resource income from any country, although claiming FEDE can reduce the FRE deduction. Any amount not deductible in a year can be carried forward. As with FRE, the taxpayer can claim up to 10% of its FEDE (pro-rated for short taxation years) even if it has no foreign income.

Foreign Affiliates

Foreign Accrual Property Income (FAPI)

FAPI

Passive income and certain capital gains earned by a controlled foreign affiliate constitute FAPI and are taxed in Canada on a current basis, whether or not remitted. These provisions prevent Canadian residents from avoiding or postponing Canadian tax by diverting that income to foreign corporations. The rules do, however, permit deductions that effectively allow credit for foreign taxes. Moreover, certain passive income earned by one foreign affiliate from another is excluded from FAPI.

Tax Tip
Certain charges paid by an operating subsidiary in a high-tax jurisdiction to an affiliate in a low-tax jurisdiction reduce foreign taxes and do not generate FAPI.

International Holding Companies

Holding companies can be used to minimize withholding taxes on dividend flows and capital gains taxes on divestment. For example, a capital gain realized on the sale of a foreign operating affiliate owned directly by a Canadian company results in immediate Canadian tax. However, if realized by a foreign holding company, the gain may not be immediately taxed. Canadian tax will apply only when this gain is distributed to Canada, but can be deferred by reinvesting the proceeds outside of Canada.

Tax Tip
Offshore holding companies can be used to defer tax on a capital gain arising on the sale of a foreign operating subsidiary. No current tax applies if the holding company reinvests the gain outside of Canada.

TIEA

Tax Information Exchange Agreements (TIEA)
New rules extend exempt surplus treatment to a foreign affiliate that is resident in a non-treaty country if that country enters into a TIEA with Canada. Canadian companies may find TIEA countries attractive due to the benefits of lower tax rates and the ability to expatriate to Canada with little or no further tax.

Reporting Requirements

Canadian taxpayers are required to file an information return (Form T1134-A or T1134-B) in respect of each foreign affiliate. This imposes a significant compliance burden on taxpayers with a large number of foreign affiliates. Failure to comply carries substantial penalties.

FIE

Foreign Investment Entities (FIE)

The proposed FIE rules can apply to a taxpayer that holds a participating interest in a non-resident entity (including a non-resident corporation) that is an FIE. For example, a non-resident corporation generally is an FIE if its principal business is an investment business. If the FIE rules apply, the taxpayer is generally required to include an amount in income determined, by applying the prescribed rate of interest to the cost of the taxpayer's interest in the non-resident entity.

Proposed Changes

Proposed changes to the FIE rules are included in Bill C-33, which received first reading in the House of Commons on November 22, 2006. This bill was re-introduced as Bill C-10, which died on the parliamentary order paper on September 7, 2008. The 2009 federal budget announced that the FIE proposals are under review.

Functional Currency Election

Section 261 of the *Income Tax Act* provides new tax calculating currency rules for taxpayers that wish to use their functional currency when determining their Canadian tax results. These rules establish the general requirement for a taxpayer to use the Canadian dollar as its tax calculating currency, and permit the use of the taxpayer's functional currency as its tax calculating currency if the taxpayer qualifies for, and makes a valid functional currency election.

Generally, the rules in section 261 apply in respect of taxation years that begin after December 13, 2007. For example, a Canadian mining company whose books and records of account are in U.S. dollars can elect the U.S. dollar to be its tax functional currency in Canada. The functional currency rules have complex transition rules and anti-avoidance rules that must be considered before making an election.

Exhibit 6 summarizes the positions of the various provinces on the applicability of the functional currency election to provincial tax legislation.

Exhibit 6: Functional Currency Election Applicable to Provincial Taxes

<table>
<tr><th></th><th>Provincial Income Tax</th><th>Provincial Capital Tax</th><th>Provincial Mining Tax</th></tr>
<tr><td>Alberta</td><td>Yes[1]</td><td rowspan="2">N/A</td><td>Undecided[1]</td></tr>
<tr><td>British Columbia</td><td rowspan="7">Yes</td><td rowspan="7">No</td></tr>
<tr><td>Manitoba</td><td>No</td></tr>
<tr><td>New Brunswick</td><td rowspan="3">N/A</td></tr>
<tr><td>Newfoundland and Labrador</td></tr>
<tr><td>Northwest Territories</td></tr>
<tr><td>Nova Scotia</td><td>Yes</td></tr>
<tr><td>Nunavut</td><td>N/A</td></tr>
<tr><td>Ontario</td><td colspan="2">Yes[2]</td><td>Undecided[2]</td></tr>
<tr><td>Prince Edward Island</td><td>Yes</td><td colspan="2">N/A</td></tr>
<tr><td>Quebec</td><td colspan="3">Yes[1]</td></tr>
<tr><td>Saskatchewan</td><td rowspan="2">Yes</td><td rowspan="2">N/A</td><td rowspan="2">No</td></tr>
<tr><td>Yukon</td></tr>
</table>

1. The province is still examining its approach to tax payments.
2. For taxation years ending after 2008, the functional currency election will apply in Ontario; however, there is some doubt whether the election applies in 2008. See page 16 for information on Ontario.

Provincial Income Tax

Tax Tip
Provincial income tax rates vary, so considerable care should be exercised in allocating taxable income among provinces.

The provinces levy provincial income tax on business income, at rates that range from 10% to 16% (**Exhibit 7**). Generally, these tax rates are levied on federal taxable income allocated to the particular province. However, Alberta, Ontario (for taxation years ending before 2009) and Quebec have particular rules for determining taxable income that differ from the federal rules. Many provinces also have special tax credits. Some of the major differences and credits are discussed in the following sections.

Alberta

Taxable income in Alberta is defined as taxable income for federal purposes, with certain exceptions. Two exceptions warrant particular consideration:

- Although the classes and rates used for CCA are the same as those used for federal purposes, a corporation may choose to deduct different amounts for federal and Alberta income tax.
- Capital taxes that are payable by corporations in other provinces will be non-deductible for Alberta corporate income tax purposes.

Recent Change
With the return to full royalty deductibility for federal purposes after December 31, 2006, there is no further need for the Alberta deduction of Crown royalties. Any unused amounts available for carry forward will expire on December 31, 2013.

British Columbia

British Columbia generally does not vary its taxable income base from the federal taxable income base.

As an administrative concession, British Columbia permits taxpayers to claim CCEE and CCDE that is otherwise deductible federally but that has not been claimed for federal tax purposes. As a result, any exploration expenses that may be available would be used faster than for federal income tax purposes.

Exhibit 7: Corporate Income Tax Rates Generally Applicable to Mining[1]

	Provincial Tax Rate %	Combined Federal/Provincial Rate General %	Combined Federal/Provincial Rate Mining[2] %
Alberta	10	29	
British Columbia[3]	11	30	
Manitoba[4]	12	31	
New Brunswick[5]	12	31	
Newfoundland and Labrador	14	33	
Nova Scotia	16	35	
Ontario[6]	12	33	31
Prince Edward Island	16	35	
Quebec	11.9	30.9	
Saskatchewan	12	31	
Northwest Territories	11.5	30.5	
Nunavut	12	31	
Yukon	15	34	

1. Rates are those in force at September 1, 2009, have not been pro-rated for rate changes occurring during 2009 and do not reflect reduced rates applicable to a portion of the income earned by Canadian-controlled private corporations or tax holidays for new companies available in some provinces.
2. Commencing in 2007, the general rate reduction applies to resource income (the resource rate reduction no longer applies) in all provinces and territories, except Ontario. As a result, the same corporate income tax rate applies to both general income and resource income in all jurisdictions, except Ontario.
3. British Columbia's rate will decrease to 10.5% on January 1, 2010, and 10% on January 1, 2011.
4. Manitoba's rate decreased from 13% to 12% on July 1, 2009. A further reduction to 11% at an unspecified date has been announced, but no legislation had been introduced at the time of writing.
5. New Brunswick's rate will decrease to 11% on July 1, 2010, 10% on July 1, 2011, and 8% on July 1, 2012.
6. A 2% reduction in the Ontario rate applicable to profits from certain activities including mining is reflected in the provincial tax rate shown and in the combined rate applicable to mining. Reductions to 10% for all activities have been announced, but no legislation had been introduced at the time of writing.

The B.C. Royalty and Deemed Income Rebate was eliminated for tax years starting after 2006. As a result, British Columbia's taxation of the resource sector has been harmonized to the federal system for 2007 and future years (i.e., it provides for full deductibility of provincial resource royalties and taxes).

METC

Expenditures made after July 31, 1998, and before January 1, 2017, by eligible individuals, corporations, and active members of partnerships conducting grassroots mineral exploration in British Columbia, may qualify for the Mining Exploration Tax Credit (METC), if the taxpayer has a permanent establishment in British Columbia and is subject to British Columbia income tax.

The METC is a refundable tax credit that must be claimed within 36 months after the taxation year in which the expense is incurred. In general, qualified expenses include CEE incurred in British Columbia, except for expenses that are considered CEDOE. This tax credit is not available to corporations that earn exempt income, nor for expenses financed using flow-through shares.

An eligible taxpayer can claim a METC of 20% of the amount by which qualified mining exploration expenses incurred by the taxpayer in the taxation year exceed all amounts of assistance in respect of amounts included in the qualifying mining exploration expenses.

The mining flow-through share tax credit program allows individuals who invest in flow-through shares to claim a non-refundable tax credit equal to 20% of the British Columbia flow-through mining expenditures renounced to them by the corporation issuing the flow-through shares. This tax credit expires December 31, 2010.

Manitoba

As in several other provinces, the provincial tax rate (12%) is simply levied on federal taxable income allocated to Manitoba.

MMETC

The Manitoba Mineral Exploration Tax Credit (MMETC) is specific to mining activities. The MMETC was introduced in 2002 and extended in 2009 to flow-through share agreements entered into before April 1, 2012, to encourage and promote exploration and development of mineral deposits in the province. It is a non-refundable personal income tax credit for resident investors in eligible flow-through shares of qualifying exploration companies. To qualify, exploration activity must be undertaken in Manitoba.

Recent Change

The MMETC increased from 10% to 20% for flow-through share agreements entered into after March 31, 2009 and before April 1, 2010. It will increase to 30% for agreements entered into after March 31, 2010 and before April 1, 2012.

Nunavut

The *Nunavut Income Tax Act* uses the same definition of income as the federal rules. The territorial tax rate is 12%.

A Risk Capital Investment Tax Credit has been introduced, which encourages investment in Nunavut. Corporate taxpayers can qualify for tax credits by investing, either directly or indirectly, in corporations that carry on business in Nunavut. However, because this tax credit is available only to private corporations and has restrictions on capital and employees, it has limited application to the mining industry and is not discussed further.

Provincial Income Tax

Ontario

Ontario's corporate income tax, capital tax and corporate minimum tax will be administered by the Canada Revenue Agency commencing with taxation years ending in 2009. As a result, corporations will file a single combined tax return and will pay combined income tax instalments based on a harmonized corporate income tax base. Previously, as discussed below, taxable income may have differed for federal and Ontario purposes.

As stated on pages 8 and 9, the flow-through share tax credit program allows individuals resident in Ontario who invest in flow-through shares issued by a mining exploration company with a permanent establishment in Ontario to claim a refundable tax credit equal to 5% of the Ontario flow-through mining expenditures renounced to them by the corporation issuing the flow-through shares.

Calculation of Taxable Income

Ontario has fully harmonized with the federal definition of corporate taxable income for taxation years ending after 2008. As a result, for mining companies the resource allowance deduction is replaced with an additional tax payable (or a non-refundable credit), calculated as follows:

> (Adjusted crown royalties – notional resource allowance) x (14% x Ontario allocation)

Adjusted crown royalties is, essentially, the sum of all the mining taxes and crown charges paid. The notional resource allowance is 25% of the corporation's adjusted resource profits. See the discussion of the resource allowance on page 7.

In addition, on harmonization, the additional CCDE deduction for Ontario CDE has been eliminated and a deduction is permitted for FEDE and CFRE.

For taxation years ending before 2009, taxable income in Ontario was defined as taxable income for federal purposes, with certain exceptions. The following exceptions pertained to resource companies:

- Although the classes and rates used for Ontario CCA purposes were the same as those used for federal purposes, the actual amount of CCA deducted annually at the provincial level could have differed from the federal amount, at the taxpayer's discretion.
- A one-time deduction was available with respect to new water and air pollution control equipment purchased for use in Ontario. In the first taxation year that CCA was claimable for a purchase, an additional direct deduction could have been made equal to 30% of the cost of the purchase.
- Ontario excluded from taxable income the portion of the federal investment tax credit that related to qualifying Ontario SR&ED expenditures.
- For Ontario income tax purposes, mining companies were entitled to a 100% deduction for development expenses incurred in Ontario. The equivalent federal deduction is limited to 30%, as noted on page 6.
- Foreign resource properties were considered to be capital property for Ontario purposes, and were eligible for capital gains treatment in the event of a disposition. For Ontario purposes, FEDE (or FRE) were deductible in computing taxable income, but were added to the adjusted cost base of the foreign resource property.

Ontario did not parallel the federal resource tax measures that phased in the deduction of most Crown royalties and charges and phased out the 25% resource allowance (see page 7). Instead, Ontario maintained the 25% resource allowance deduction and prohibited a deduction for Crown royalties and charges.

Transition

A tax credit and debit mechanism will offset the tax gains (when federal tax attributes exceed the Ontario equivalent) and losses (when federal tax attributes are lower then the Ontario equivalent) to corporations caused by the replacement of Ontario tax attributes with federal tax attributes on harmonization. In summary:

- Transitional debit: an additional tax payable that is paid in most cases pro rata over a 5-year period, calculated as:

  (federal balance – Ontario balance) x (14% x Ontario allocation)

- Transitional credit: a non-refundable credit that reduces Ontario tax payable over the 5-year period commencing at the transition time, calculated as:

  (Ontario balance – federal balance) x (14% x Ontario allocation)

The federal balance and Ontario balance are limited to certain tax attributes as of the last day of the pre-transition taxation year (December 31, 2008, for most). These balances include CCA, CCDE and CCEE.

The transition time is the date for determining a corporation's transitional debit or credit. It is the beginning of the taxation year that includes the beginning of 2009.

CMT

Corporate Minimum Tax (CMT)

Ontario corporations that, on an associated basis, have either gross revenues exceeding $10 million, or total assets exceeding $5 million, are subject to a 4% CMT. For taxation years ending after June 30, 2010, the CMT will be levied at a rate of 2.7% on Ontario corporations that, on an associated basis, have at least $100 million in gross revenues and at least $50 million in total assets.

Tax Tip
Corporate Minimum Tax is determined at the individual company level. Accordingly, CMT planning opportunities may arise for companies in an associated group.

The CMT is essentially based on income (before tax) for financial statement purposes, with certain adjustments. The CMT is payable only to the extent that it exceeds the regular Ontario corporate income tax liability. Any CMT paid is creditable against regular Ontario corporate income tax payable in the twenty subsequent years. CMT losses can also be carried forward for twenty years. In both cases, no carryback is permitted.

Quebec

Although Quebec legislation generally conforms with the federal *Income Tax Act*, certain differences exist:

- For Quebec income tax purposes, a “development corporation” can deduct 100% of its CCDE in computing its income for a taxation year. In contrast, for federal purposes, taxpayers are generally entitled to a deduction of up to 30% of the CCDE pool at the end of the year.
- A tax incentive is available to individuals who invest in flow-through shares of companies engaged in mineral exploration in Quebec. This incentive, made permanent in 2004, provides that an extra allowance of 25% of eligible exploration expenses incurred in Quebec by an eligible exploration company can be claimed by individual flow-through share investors. A further 25% deduction for certain surface mining exploration expenses incurred in Quebec can be claimed by individual flow-through share investors. Both of these incentives are in addition to the 100% deduction of the exploration expenses that generate the allowances.
- An eligible corporation that incurs eligible expenses (exploration expenses incurred in Quebec) during a taxation year can claim a refundable tax credit, for that year, of between 15% and 38.75% of those expenses. The rate depends on the corporation’s status, the type of resource to which the eligible expenses relate and the location of the expenditures. As a result, the normal 100% deduction is not available to the corporation, but instead the corporation receives the refundable tax credit. This credit is not available for expenses financed using flow-through shares.
- For eligible expenses incurred before January 1, 2008, a further non-refundable credit in the range of 15% to 30% of these expenses, brings the maximum total credit to 45% of the eligible expenses. The credit claimed cannot exceed the amount of income and capital taxes payable for a taxation year. For this purpose, income and capital taxes payable are determined before taking into account any other refundable tax credits the corporation may otherwise receive, including the refundable tax credit on eligible expenses. Any excess non-refundable credit can be carried forward ten taxation years and carried back three against income and capital taxes for those years. These tax credits are included in taxable income for both income and mining tax purposes.
- In addition, an individual can earn a non-refundable tax credit on the acquisition of a share of a special designated venture capital company created by the Quebec government. Available until 2011, the credit is 50% (of investments up to $5,000; $2,500 before February 29, 2008) of the amount that the individual paid during the year to purchase, as a first acquirer, a share of this designated company. This tax credit can be claimed by an individual residing in Quebec on December 31 of the taxation year during which the shares were acquired.
- To further encourage business development in Quebec, a 10-year tax exemption is available for certain investment projects that give rise to significant job creation. Increase in payroll is the benchmark that determines whether a project fulfils this condition, and will be evaluated based on the facts of each situation. The exemption expires December 31, 2010, and equals 75% of eligible business income. The exemption is reduced if paid-up capital (on a consolidated basis) exceeds $20 million and is eliminated if it exceeds $30 million.

Provincial Income Tax

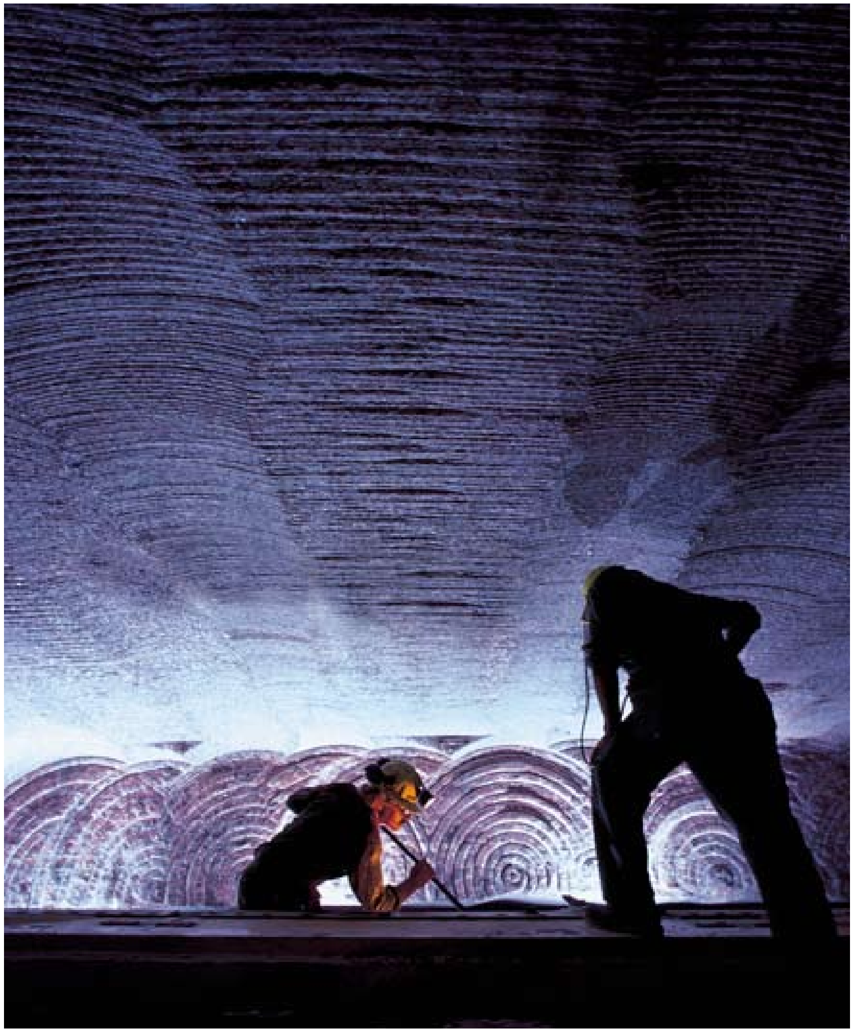
Saskatchewan

Saskatchewan adopts the federal definition of taxable income. However, Saskatchewan had historically allowed a tax rebate against Saskatchewan income taxes payable. This Royalty Tax Rebate was available for a taxation year if non-deductible Crown royalties exceeded the federal resource allowance, and was calculated by multiplying the effective Saskatchewan corporate income tax rate by this excess amount. Effectively, the rebate resulted in a deduction for Saskatchewan income tax purposes equal to the greater of the resource allowance and the actual Crown royalties.

Any rebate in excess of the Saskatchewan corporate income tax of a taxation year was not refunded, but could be carried forward to offset against Saskatchewan corporate income tax in a future year. As a consequence of the federal government's re-introduction of full deductibility of provincial resource royalties for federal and provincial CIT purposes, the Royalty Tax Rebate is no longer necessary and will wind down. Commencing January 1, 2007, the carry-forward period for any outstanding Royalty Tax Rebate balances is limited to seven years.

Recent Change

Saskatchewan's Mineral Exploration Tax Credit for flow-through share agreements entered into after March 31, 2008 is reinstated. The credit is non-refundable and equals 10% of Saskatchewan exploration expenses allocated to investors.



Provincial Capital Tax

Tax Tip
Use surplus funds before year end to pay down trade payables included in the computation of paid-up capital, thereby reducing taxable capital.

In addition to income taxes based on profits, Manitoba, Nova Scotia, Ontario and Quebec impose annual taxes on capital (see **Exhibit 8**). However, these will be phased out by July 1, 2012.

Capital taxes are generally computed in accordance with the structure outlined in **Exhibit 9**. They are calculated as a percentage of taxable capital that is allocated to the province. The method for the allocation of taxable capital to the province is the same as the allocation of taxable income to the province. However, the calculation of taxable capital varies from province to province.

Exhibit 8: Capital Tax Rates Applied to Taxable Capital Allocated to the Province[1]

	Rate[2]		Rate[2]
Manitoba	0.30%	Ontario	Nil
New Brunswick[3]	Nil	Quebec	0.24%
Nova Scotia	0.15%	Saskatchewan[4]	Nil

1. Rates given are those in force as at September 1, 2009, and have not been pro-rated for rate changes occurring during 2009.
2. In some provinces, capital taxes payable or capital tax rates will be lower, depending on the level of taxable capital.
3. New Brunswick's general capital tax was eliminated January 1, 2009.
4. Saskatchewan's general capital tax was eliminated July 1, 2008.

Exhibit 9: General Structure of Provincial Capital Tax Computation

	Financial statement capital	(e.g., share capital, contributed surplus, retained earnings)
+	Other inclusions	(e.g., long-term debt, reserves, bank loans and other liabilities)
–	Deductions	(e.g., long-term investments, deferred tax assets)
=	Net capital	
–	Basic exemption	(some provinces only)
=	Taxable capital	
x	Provincial allocation	(%)
=	Taxable capital employed in province	
x	Capital tax rate	(subject to threshold exemptions)
=	Capital tax payable	

Manitoba

Recent Change

In Manitoba, on July 1, 2008, capital tax was eliminated for eligible manufacturing and processing corporations. For other corporations (excluding Crown corporations), Manitoba's capital tax is being eliminated as follows:

		Taxation year commencing after January 1:			After 2010
		2008	**2009**	**2010**	
Taxable capital employed in Manitoba[1]	First $10 million	Nil			Nil
	> $10 million and ≤ $20 million	0.2%	0.1%	Nil	
	> $20 million and ≤ $21 million	2.4%	2.3%	2.2%	
	> $21 million	0.4%	0.3%	0.2%	

1. Before Manitoba's $10 capital tax deduction, which is shared by associated corporations.

The amount taxable is the portion of taxable paid-up capital that is allocated to Manitoba. Taxable paid-up capital is calculated as the amount by which the aggregate of:

- paid-up capital stock;
- earned, capital and other surpluses;
- deferred taxes;
- reserves not allowed for income tax purposes; and
- certain loans, advances, and other forms of indebtedness except "certain trade accounts payable";

exceeds the aggregate of:

- a goodwill allowance;
- an investment allowance; and
- exploration and development expenses that have not previously been deducted for income tax purposes.

Typically, trade accounts payable to corporations outstanding for more than 90 days at the end of the fiscal year are excluded from the definition of current accounts payable and therefore are included in the calculation of paid-up capital for Manitoba purposes.

In general, an adjustment to paid-up capital is also required to recognize the timing differences between book and tax claims.

Provincial Capital Tax

Nova Scotia

Corporations in Nova Scotia whose taxable capital, combined with that of related corporations, exceeds $5 million but is less than $10 million, are subject to capital tax on the portion of this excess that is employed in Nova Scotia. Corporations with taxable capital of $10 million or more are subject to capital tax on the full amount of their taxable capital employed in Nova Scotia. Taxable paid-up capital follows the former federal LCT calculation.

Recent Change

Nova Scotia's capital tax will be phased out as follows:

		Rate	Effective date
If taxable capital of related group is:	< $ 10 million[1]	0.4%	July 1, 2008
		0.3%	July 1, 2009
		0.2%	July 1, 2010
		0.1%	July 1, 2011
		Nil%	July 1, 2012
	≥ $10 million	0.2%	July 1, 2008
		0.15%	July 1, 2009
		0.1%	July 1, 2010
		0.05%	July 1, 2011
		Nil%	July 1, 2012

1. A $5 million exemption applies if taxable capital of the related group is under $10 million.

Ontario

The general capital tax has been eliminated for Ontario companies engaged primarily in manufacturing or resource activities, retroactive to January 1, 2007, for corporations that have employees reporting to a permanent establishment in Ontario on March 25, 2008.

The elimination of capital tax is based on the corporation's salaries and wages related to manufacturing or processing (M&P), mining, logging, farming or fishing activities in Ontario as a percentage of its total salary and wages in Ontario, as follows:

		Capital tax is:
% of salaries and wages related to M&P and resource activities	≥ 50%	Eliminated on January 1, 2007
	> 20% and < 50%	Reduced proportionately until July 1, 2010, when it will be eliminated.

For all other corporations, the capital tax will be eliminated as follows:

	From	To	Effective date
Capital tax rate	0.225%	0.15%	January 1, 2010
	0.15%	Nil%	July 1, 2010

A $15 million capital tax deduction is shared by related corporations.

As a result of Ontario tax harmonization, for taxation years ending after 2008:

- the Ontario taxable capital base is harmonized with the former federal LCT calculation; and
- the deduction for exploration and development expenses is not retained.

For 2008 and previous taxation years, taxable paid-up capital was the amount by which the aggregate of:

- paid-up capital stock;
- earned, capital and other surpluses;
- deferred taxes;
- reserves not allowed for income tax purposes; and
- all loans, advances, and other forms of indebtedness except "current accounts payable," as defined;

exceeded the aggregate of:

- an investment allowance;

- exploration and development expenses incurred in searching for minerals in Canada that had been renounced to shareholders; and
- exploration and development expenses that were not previously deducted for income tax purposes.

A statutory rule excluded from the definition of current accounts payable, trade accounts payable to:
- a related company, outstanding for more than 120 days at year end; and
- an unrelated company, outstanding for more than 365 days at the end of the fiscal year.

These amounts were therefore included in the calculation of paid-up capital for Ontario purposes.

In general, an adjustment to paid-up capital was also required to recognize the timing differences between book and tax claims.

Quebec

Quebec capital tax is imposed on taxable paid-up capital allocated to that province. A capital deduction of up to $1 million is available on an associated basis. Mining companies that have not reached the production stage do not have to pay any tax on capital.

Recent Change

Quebec's capital tax was eliminated or reduced for eligible manufacturing and processing corporations, for taxation years ending after March 13, 2008. For other corporations, the tax will be eliminated as follows:

Rate	Effective date
0.36%	January 1, 2008
0.24%	January 1, 2009
0.12%	January 1, 2010
Nil	January 1, 2011

Paid-up capital is calculated as the aggregate of:
- paid-up capital stock;
- earned, capital and other surpluses;
- deferred taxes;
- provisions and reserves, other than reserves in respect of amortization and depletion and those reserves allowed for income tax purposes;
- loans, advances, and other forms of indebtedness except for trade accounts payable outstanding six month or less; and
- deferred unrealized exchange gains at year end;

less:
- an investment allowance; and
- deferred expenses resulting from deferred unrealized exchange losses at year end.

Mining companies may reduce their paid-up capital by one-third of the proportion that their gross income from mining is of their total gross income.

Provincial Capital Tax

Alberta

According to the Alberta Department of Energy, 81% of the subsurface mineral rights in the province are owned by the Crown. For mining related to provincially owned mineral rights, Alberta does not follow the conventional model of mining taxes; rather, the province imposes different royalties that vary according to the type of mineral. The province's "Metallic and Industrial Minerals Royalty" taxes commodities such as placer minerals, quarriable minerals and salt based on production (typically tonnage). Royalty rates vary by mineral.

For metallic minerals (such as base metals, diamonds, and uranium), the royalty is more complicated because it is structured to allow operators to recover their capital cost before full participation by the Crown. The royalty rate is 1% of mine mouth revenue during the pre-payout phase, and 12% of net profits during the post-payout period (subject to a minimum royalty of 1% of mine mouth revenue).

Pre-Payout Royalty

The 1% rate is applied to mine mouth revenue, which is calculated as gross revenue less:

- the costs incurred between the mine mouth and the point of sale; and
- an allowance in respect of capital expenditures.

Determination of Payout

Payout is the date on which the gross revenue in respect of the mine, computed from the month of first sale, equals the aggregate of the costs and allowances claimed for:

- exploration;
- development; and
- recovering, processing, transportation or disposition of the metallic mineral.

Post-Payout Royalty

After payout, the tax becomes the greater of 1% of mine mouth revenue (as in the pre-payout period) and 12% of net revenues. Net revenues are calculated as gross revenue less the following costs:

- allowable exploration and development costs;
- allowable recovering costs;
- allowable processing costs;
- allowable transportation and disposal costs; and
- allowance in respect of capital expenditures.

The Alberta Department of Energy had been reviewing the Metallic and Industrial Minerals Royalty Regulation to ensure that it is appropriate in the current and emerging business environment. The review of this regulation is currently on hold.

Similar to metallic minerals, bituminous (mountain/foothills) coal is taxed using a pre- and post-payout royalty regime to allow developers to recover significant initial investments. The applicable pre-payout royalty rate is 1% of mine mouth revenue. The post-payout rate is 1% of mine mouth revenue plus 13% of profit.

Please see **Exhibit 10** for an example.

Exhibit 10: Alberta Metallic Mineral Royalty – Illustrative Calculation

Minimum Royalty	Revenue	$3,000	
	Less: Costs and allowances	(655)	
	Mine mouth revenue	$2,345	
	Tax at 1%	$23	**A**
Post-Payout Royalty	Revenue	$3,000	
	Less: Costs and allowances	(1,840)	
	Net revenue	$1,160	
	Tax at 12%	$139	**B**
	Tax payable	$139	Greater of **A** and **B**

(in $ thousands)

British Columbia

Under the *B.C. Mineral Tax Act,* mining taxes are imposed mine-by-mine in two stages:

- a 2% tax on "net current proceeds"; and
- a 13% tax on "net revenue."

The initial 2% tax is a form of minimum tax, which is deductible in full, with an interest component, against the 13% tax. Each mine is required to file a separate return that is due within six months of the fiscal year end of the mine.

Provincial Mining Tax

2% Net Current Proceeds Tax

Net current proceeds is defined as:

- gross revenue (including forward sales, but ignoring other hedging gains or losses); and
- proceeds from government grants and subsidies for current operating costs;

less:

- operating expenses, including post-production development costs, but excluding exploration, pre-production development and capital costs; and
- a deduction for non-capital reclamation costs, or contributions to the reclamation fund provided for under the *Mines Act*.

This tax is creditable against the 13% net revenue tax of the current year or future years, with notional interest at 125% of the prevailing federal bank rate. However, the 2% tax paid can be neither carried back to previous taxation years nor applied to other mines owned by the same operator.

13% Net Revenue Tax

"Net revenue" is determined by subtracting capital costs (net of any proceeds on disposition, as well as any grants or subsidies, of capital assets), exploration costs, pre-production development costs and an "investment allowance" from net current proceeds. The cost of acquiring surface rights and land lease costs are deductible, but the cost of acquiring sub-surface mining rights is not deductible for this tax, nor are interest, financing costs, royalties and incorporation or reorganization costs. If the net revenue calculation results in a negative amount, the result is added to the cumulative expenditure account (CEA) of the mine. This can be carried forward indefinitely, and applied to reduce net revenue of future years.

CEA

New Mine Allowance

To encourage new mine developments in British Columbia, the new mine allowance provides an additional allowance of one-third of the capital costs of new mines and expansions of existing mines that begin commercial production after December 31, 1994, and before January 1, 2016. The allowance requires that 133% of qualifying expenditures be added to the CEA of the mine.

Investment Allowance

The investment allowance is calculated using a notional interest factor (125% of the federal bank rate) that is applied to the average CEA balance. This is designed to approximate the cost of capital to the industry, regardless of the manner in which the costs are actually funded. That is, equity capital is treated the same as borrowed capital.

This notional interest, and the notional interest on the 2% net current proceeds tax, should not constitute taxable income for federal or provincial income tax purposes, because the amounts are not actually paid to the mine operator, but rather are applied only to determine the amount of 13% net revenue tax for which a mine is liable.

Tax Tip
By filing an appropriate election, a mine operator can transfer exploration costs incurred in one mine to the CEA of another mine.

Reclamation Costs

Reclamation costs are now treated in the same manner as other allowable costs (i.e., non-capital reclamation costs are deducted as a current operating cost and capital reclamation costs are added to the mine's CEA).

Before 1998, reclamation costs incurred in the fiscal year were added to the mine's Reclamation Cost Account (RCA). Transfers could then be made from this account to the CEA, so as to indirectly allow a deduction from net revenue. As well, a transfer of non-capital reclamation costs in this account could be made to reduce net current proceeds. An election is now required if the operator wishes to add reclamation costs to an RCA account.

RCA

A refund can be claimed of up to 13% of the balance of the RCA account. However, the refund cannot exceed the cumulative amount of the 13% net revenue tax paid by the mine up to that time.

Placer Gold Mine

A person who is a placer gold mine operator must pay an annual tax equal to 0.5% of the amount that is the operator's proportionate share of the transaction value of the mineral product disposed of during the calendar year.

Please see **Exhibit 11** for an example.

Exhibit 11: British Columbia Mineral Taxes – Illustrative Calculation[1]

Stage I Tax	Revenue	$3,000	
	Less: Operating costs[2]	(1,450)	
	Net current proceeds	$1,550	
	Stage I tax at 2%	$31	**A**
Stage II Tax	Revenue	$3,000	
	Less: Cumulative expenditure account opening balance[3]	(400)	
	Operating costs	(1,450)	
	New equipment and exploration	(150)	
	Investment allowance[4]	(10)	
	Net revenue	$990	
	Stage II tax at 13%	129	
	Less: Credit for Stage 1 tax[5]	(31)	
	Net Stage II tax	$98	**B**
Total mineral taxes		$129	**A + B**

(in $ thousands)

1. Calculation assumes no "new mine" incentive deductions.
2. Operating costs include mining, processing, transportation, selling, general and administrative expenses, but not royalty or capital depreciation.
3. Assumes all costs incurred were claimed in previous years.
4. Notional interest at 125% of assumed bank rate of 4% computed on the average CEA balance for the year.
5. Assumes no unclaimed carryforward from prior years.

Manitoba

The *Mining Tax Act* levies tax on the profit of a "mineral processing establishment" in Manitoba. Profit is determined by subtracting, from the sum of gross mining revenue and custom processing revenue, all related operating expenses, as well as allowances for:

- depreciation on a 20% declining-balance basis;
- exploration costs (up to 100% in any year); and
- processing.

Recent Change

For taxation years ending after June 30, 2009, Manitoba's basic mining rate has been changed from a flat 18% to the following:

Operator profits	< $50 million	10%
	$50 million to $55 million	65%
	$55 million to $100 million	15%
	$100 million to $105 million	57%
	> $105 million	17%

For depreciation purposes, capital assets include pre-production development costs (excluding interest).

Non-deductible costs include the initial cost of a mineral property, interest and other financing costs, income and capital taxes, as well as corporate organization and reorganization costs.

Reclamation costs, including contributions to the province's Mine Rehabilitation Fund, can be deducted when incurred. However, refunds from the Mine Rehabilitation Fund, including any interest component, are fully taxable for mining tax purposes.

Processing Allowance

An operator can claim a processing allowance as high as 20%, computed as follows:

	8%	of the original capital cost of processing assets
x	125%	gross-up to allow for overhead assets
=	10%	
	+10%	of the original capital cost of processing assets invested after April 20, 1994
	20%	

Provincial Mining Tax

However, there is a cap equal to 65% of taxable profits otherwise determined. Furthermore, no processing allowance is available for assets used in a new mine while that mine is in its “holiday period” (see below). During this holiday period the operator must account separately for the processing assets that relate to the new mine. There is no minimum allowance.

Special Tax

In addition to the basic mining tax, Manitoba levies a “special tax” of 0.5% of mining profits. This tax is refundable in full for taxpayers that operate exclusively inside Manitoba. For those operating both inside and outside Manitoba, a partial refund is determined under a formula based on a notional reallocation to Manitoba of certain foreign sales that are allocated to another jurisdiction for income tax purposes.

Off-Site Exploration Allowance

To encourage additional exploration for potential new mines, an operator can deduct 150% of off-site exploration expenses incurred in Manitoba in excess of a three-year moving average of those expenses, excluding the cost of acquiring mineral properties or capital assets. Exploration must be for new ore bodies.

New Mine Holiday

A new mine commencing production after 1992 is exempt from Manitoba mining tax until its profits, before deduction for depreciation, exceed the total cost of capital assets (including pre-production development costs, but reduced by any new mine investment tax credit earned) acquired before the commencement of commercial production.

Please see **Exhibit 12** for an example.

Exhibit 12: Manitoba Mining Tax – Illustrative Calculation[1]

Revenue		$3,000
Less:	Operating costs[2]	(1,450)
	Exploration and development[3]	(150)
	Depreciation allowance	(300)
	Interest expense[4]	–
Income before processing allowance		$1,100
Processing allowance		
	8% of cost[5]	120
	25% of the 8%	30
Total (maximum of 65% of profit)		150
Taxable profit		$950
Mining tax at 18%		$171

(in $ thousands)

1. Calculation assumes no “new mine” incentive deductions and taxation year ending before July 1, 2009.
2. Operating costs include mining, processing, transportation, selling, the cost of purchased feed products mined in Manitoba, and general and administrative expenses attributable to the mining, processing and sale of the output.
3. Assumes exploration is not in excess of a three-year moving average. Accordingly, there is no 50% additional allowance.
4. Interest expense is not deductible for mining purposes.
5. This assumes an original capital cost of processing assets equal to $1,500.

New Brunswick

The operator of a mine in New Brunswick is subject to a two-tier mining tax: a 2% royalty based on the annual “net revenue” derived from the mine and a 16% levy on “net profits” in excess of $100,000.

2% Royalty

The 2% royalty comes into effect two years after a new mine becomes active and operational. The royalty is based on 2% of the net revenue generated by the mining operation, which is equal to the gross revenue less allowable costs and allowances.

Gross revenue is defined as revenue generated from the sale or exchange of mine output and any amount received or receivable from hedging, excluding speculative currency hedging. Allowable costs are those related to transportation, refining, smelting and milling.

The processing allowance is equal to 8% of the original cost of milling or concentrating assets plus 15% of the original cost of smelting or refining assets, but the total deduction cannot exceed 25% of the net revenue before the processing allowance has been deducted.

Other than the exceptions noted above, no deduction is allowed in respect of capital costs of buildings or machinery and equipment, depletion of a mine, or capital investment.

16% Tax

The 16% tax is imposed on annual net profits in excess of $100,000. The net profit is calculated as the mine’s gross revenues less allowable costs, specified allowances for depreciation, financing expenses, processing and eligible exploration expenditures, as well as the 2% royalty paid.

The depreciation allowance ranges from a mandatory minimum of 5% to 100% of the original cost of depreciable assets used in a new mine or processing plant or in a major expansion. All other depreciable assets are subject to a maximum 33-1/3% depreciation rate. A finance allowance, permitted in lieu of an interest deduction, is allowed. It is equal to 8% of the balance of depreciable assets after depreciation.

The processing allowance is equal to 8% of the original cost of milling or concentrating assets plus 15% of the original cost of refining or smelting assets. This allowance is subject to a maximum of 65% of net profits before the processing allowance.

The exploration expenditure allowance is a deduction equal to 150% of “eligible exploration expenditures,” which are expenses associated with new mineral exploration for the year. They do not include expenditures to purchase mineral rights or an option in respect of those rights.

In certain cases, leased assets will be treated as though they were purchased for the purposes of the depreciation, processing and financing allowances as discussed above.

The 16% tax otherwise payable may be reduced by a tax credit equal to 25% of “eligible process research expenditures,” defined as the cost of research designed to recover additional mineral products. To be eligible, research expenditures must be approved by the mine assessor before being incurred.

The total mining tax payable may be further reduced by a tax credit equal to 18% of expenditures incurred by an operator on a 3-D seismic survey, deep drilling or any other advanced exploration technology within the province. An operator will not receive the tax credit unless approval is obtained from the mine assessor before the expenditures are incurred. In addition, the tax credit is limited to $1 million annually.

Royalties Tax

Any royalties received are subject to the 16% tax, which is deducted at source by the payer.

Please see **Exhibit 13** for an example.

Tax Tip
Eligible exploration expenditures that cannot be claimed in a taxation year may be carried forward for use in any succeeding year.

Provincial Mining Tax

Exhibit 13: New Brunswick Mining Tax – Illustrative Calculation

2% Royalty	Revenue	$3,000	
	Less: Milling costs	(430)	
	Net return	2,570	
	Milling allowance[1]	(120)	
	Net revenue subject to 2% royalty	$2,450	
	2% royalty payable	$49	**A**
16% Royalty	Revenue	$3,000	
	Less: Operating costs[2]	(1,500)	
	Depreciation allowance	(300)	
	2% royalty, per above	(49)	
	Interest expense[3]	–	
	Finance allowance[4]	–	
	Exploration allowance	(225)	
	Income before processing allowance	926	
	Less: Processing allowance[1]	(120)	
	Net profit subject to 16% tax	$806	
	16% tax payable[5]	$113	**B**
Total New Brunswick mining tax payable		$162	**A + B**

(in $ thousands)

1. Assuming processing assets consist of a concentrate costing $1,500, the milling allowance claim would be $120; i.e., 8% of the $1,500 used for the 2% royalty.
2. Includes milling costs, transportation, general, administrative and selling expenses, and royalties.
3. Interest expense is not deductible.
4. Assumes the depreciation allowance of $300 reduces the undepreciated capital cost of processing assets to nil.
5. Calculated at 16% of profit in excess of $100,000 (i.e., 16% x $706,000).

Newfoundland and Labrador

The *Mining and Mineral Rights Tax Act, 2002* imposes two levels of mining tax on income derived from mining operations in Newfoundland and Labrador. The first is a 15% tax on mining "taxable income" earned by operators. The second is a 20% tax on the royalty allowance claimed by the operator net of royalties actually paid (see below). In addition, there is a 20% tax on royalties paid to royalty-holders, other than the Crown.

15% Tax on Operators

Taxable income is determined by subtracting from gross revenue derived from the sale of minerals:

- all expenses reasonably incurred in mining and processing;
- depreciation allowance;
- pre-production development costs computed on a straight-line basis over the remaining mine life;
- exploration expenses incurred within the province before the commencement of commercial production (100% in the year incurred, or carried forward from any previous year);
- royalties paid to the Crown, excluding taxes;
- processing allowance; and
- royalty allowance.

Non-deductible costs include the initial cost of acquiring a mining property, interest and other financing costs, capital and income taxes, and cash payments made under Impacts and Benefits Agreements, among other things.

Depreciation Allowance

Generally, depreciation is allowed on assets at the rate of 25% on a declining balance basis. Assets are placed in one of three classes:

- Class 1 – processing and smelting assets,
- Class 2 – mining assets other than Class 3 assets,
- Class 3 – mining assets used in new mining operations or a major expansion project, designated as such by the Minister.

Similar to the federal CCA rules, assets are subject to a half-year rule in the year of acquisition, and depreciation is pro-rated for short taxation years. Class 1 and 2 assets are subject to a maximum claim of 25% of the undepreciated capital cost of each class, whereas up to 100% of the undepreciated capital cost of Class 3 assets can be claimed.

Processing Allowance

A deduction is allowed for 15% of smelting assets and 8% of all other processing assets, to a maximum of 65% of income before the processing and private royalty allowances. The processing allowance is available only for assets located in the province.

Royalty Allowance

An operator can deduct the greater of:

- royalties paid for the granting of the right to mine, other than Crown royalties; and
- 20% of taxable income otherwise determined (after deducting the processing allowance).

20% Tax on Operators

In addition to the 15% tax on mining "taxable income," operators are subject to a 20% tax on their total royalty allowance net of royalties actually paid.

Credit for Newfoundland and Labrador Income Taxes

For the first ten years after achieving commercial production, an operator can deduct Newfoundland and Labrador personal or corporate income taxes (paid in respect of mining income), from Newfoundland and Labrador mining taxes otherwise payable. The deduction is limited to $2 million per year for the 10-year period.

20% Royalty Tax

Recipients of royalties from mines in Newfoundland and Labrador are subject to a 20% tax on net royalty revenue, to be withheld at source by the payor. The only deductions allowed against the gross royalty are legal fees incurred in collecting the royalty, exploration expenses incurred and royalties paid by the royalty-holder to others. This tax is not restricted to residents of Newfoundland and Labrador. Nevertheless, the first $100,000 of royalty income earned in a taxation year is tax-free. This $100,000 tax-free exemption is phased out if royalty income reaches $200,000 per year.

Please see **Exhibit 14** for an example.

Exhibit 14: Newfoundland and Labrador Mining Tax – Illustrative Calculation

Mining Tax	Revenue	$3,000	
	Less: Operating costs[1]	(1,450)	
	Exploration and development	(150)	
	Depreciation allowance[2]	(300)	
	Interest expense[3]	–	
	Income before processing allowance	1,100	
	Processing allowance		
	8% of cost, maximum 65% of income[4]	(120)	
	Net income	980	
	Royalty deduction		
	Minimum 20% of net income[5]	(196)	**A**
	Taxable income	$784	
	Mining taxes at 15%	$118	**B**
Royalty Tax	Royalty deduction	$196	**A**
	Royalties[6]	(50)	
	Excess	$146	
	Royalty tax at 20%	$29	**C**
Total mining taxes (paid by operator)		$147	**B** + **C**

(in $ thousands)

1. Operating costs include mining, processing, transportation, selling, general and administrative expenses, but not royalties.
2. Includes any pre-production amortization for tax purposes.
3. Interest expense is not deductible for mining tax purposes.
4. This assumes an original capital cost of processing assets equal to $1,500, and no smelting or refining activities.
5. Actual royalties are assumed to be $50, whereas 20% x $980 = $196.
6. Operator is required to withhold 20% ($10 in this example) on account of mining royalty tax from this payment.

Provincial Mining Tax

> **Tax Tip**
> If a claim or lease was purchased as part of an expansion, the lesser of the purchase price and unclaimed exploration costs incurred by any prior owner can be deducted.

Northwest Territories

Every mine in the Northwest Territories located on Crown lands is subject to an annual royalty payment. The annual royalty is calculated, pursuant to the Northwest Territories and Nunavut Mining Regulations, on the value of the output of the mine during the fiscal year, and equals the lesser of:

- 13% of the value of the output of the mine, and
- the amount calculated on the value of output according to the following graduated scale:
  - 0% on the annual value of output of $10,000 or less;
  - 5% on the annual value of output in excess of $10,000 and up to $5 million;
  - 6% on the annual value of output in excess of $5 million and up to $10 million; and
  - an additional 1% on each additional $5 million in value of output in excess of $10 million up to a maximum rate of 14% on profits in excess of $45 million per year.

Value of Output Subject to Royalty

Annual royalties are payable based on the value of output for a fiscal year of the mine. This is defined, in general, as:

- market value of minerals produced from the mine;

less:

- transportation costs to smelter, treatment plant or refinery;
- operating costs;
- a depreciation allowance of up to 100%, to the extent that the original cost of the depreciable assets has not been fully written off;
- a development allowance for expenses incurred for prospecting and for exploration and development of a mine of up to 100%, but not exceeding the undeducted balance of all these expenses;
- if the production is further processed in the Northwest Territories, a processing allowance of 8% of the cost of processing assets up to a maximum of 65% of the value of the output of the mine;
- exploration costs incurred elsewhere in the Northwest Territories by an owner of the mine on land other than on the mining property and otherwise undeducted, but not exceeding 10% of the value of the output of the mine for the year; and
- contributions to a mining reclamation trust.

In addition, the total of the proceeds from sales of minerals produced also includes grants, investment tax credits, recaptured depreciation, and proceeds received from insurance on minerals produced from the mine. However, gains and losses from hedging transactions are not included in calculating the value of the output of a mine.

Please see **Exhibit 15** for an example.

Exhibit 15: Northwest Territories Mining Royalty – Illustrative Calculation

Total proceeds of sales from minerals		$3,000
Less:	Operating costs[1]	(1,450)
	Exploration and development costs at the mine	(150)
	Depreciation of mine and mill assets (assumed)	(300)
	Interest expense[2]	–
Income before processing allowance[1]		1,100
Processing allowance[3]		(120)
Value of output to royalty		$980
Royalty[4]		$49

(in $ thousands)

1. Includes transportation to the smelter, as well as mining, milling, smelter treatment and refining charges, marketing, selling, general and administrative expenses, but not royalties.
2. Interest expense is not deductible for mining royalty purposes.
3. Assuming processing assets consist of a concentrator costing $1,500, the claim would be 8% of $1,500 = $120. (Maximum = 65% of $1,100)
4. Calculated at 5% on profit in excess of $10,000 and less than $5 million (i.e., 5% x ($980,000 - $10,000).

Nova Scotia

Nova Scotia's mining tax is imposed in one of three ways:

- under the first method, royalties are paid at the greater of 2% of "net revenue" or 15% of "net income from the mine."
- under an alternative method, and upon notice in writing to the operator of a mine by the Minister, the operator pays a royalty, based on production, determined from time to time by the Governor in Council.
- at the Assessor's discretion, smaller mining companies with gross income of less than a prescribed amount pay tax equal to 2% of net revenue.

> **Tax Tip**
> Costs of reclamation incurred after Nova Scotia mining operations have ceased may be considered as a prior year operating expense and can be applied in reverse order to previous fiscal years' royalty returns to reduce royalties payable, but not to less than 2% of the net revenue for each fiscal year.

Taxable Mining Income

Net revenue for the purposes of the 2% royalty is defined as gross revenue less marketing, smelting, refining, packaging and transportation costs.

Net income from the mine for the purposes of the 15% royalty is defined as net revenue less all operating costs, depreciation, an 8% processing allowance and head office costs directly related to the mine.

No deductions are allowed for:
- interest and other financing costs;
- depletion;
- income or profit taxes and capital taxes; or
- acquisition cost of a mineral property.

Depreciation Allowance

Depreciable costs include the capital cost of mine, mill and smelter buildings and machinery, as well as exploration expenses and development expenses. Depreciation expense is discretionary and is calculated as a maximum of 100% of depreciable costs per annum for the first three years of operation and 30% per annum on a declining balance basis after that.

Processing Allowance

The processing allowance is equal to 8% of the original cost of processing assets, grossed up by 25% to account for assets used in servicing and management of processing activities. The processing allowance is subject to a ceiling of 65% of the net income otherwise determined.

Please see **Exhibit 16** for an example.

Nunavut

In Nunavut, mines located on Crown lands are subject to the same mining royalties as those in the Northwest Territories. Mines located on Inuit-owned lands, pursuant to the Nunavut Land Claims Agreement, are generally subject to the royalty negotiated between the operator and a Designated Inuit Organization. However, if a mine is located on Inuit-owned lands but on "grandfathered" claims staked, or leases issued by the Crown, before May 25, 1993, the operator of the mine has the choice of remaining subject to the royalty regime for the Northwest Territories.

Exhibit 16: Nova Scotia Mining Tax – Illustrative Calculation

Mining Tax	Revenue	$3,000	
	Less: Smelting costs	–	
	Marketing and transportation costs	(510)	
	Net smelter return	$2,490	
	Tax payable at 2%	$50	**A**
Royalty Tax	Revenue	$3,000	
	Less: Operating costs[1]	(1.450)	
	Exploration	(150)	
	Depreciation (assumed)	(300)	
	Interest expense[2]	–	
	Income before processing allowance	1,100	
	Processing allowance[3]	(150)	
	Net income from the mine	$950	
	Tax payable at 15%	$143	**B**
	Tax payable	$143	Greater of **A** and **B**

(in $ thousands)

1. Includes mining, processing, transportation, general, administrative and selling expenses, but not royalties.
2. Interest expense is not deductible for mining tax purposes.
3. Assuming processing assets consist of a concentrator costing $1,500, the claim would be 8% of $1,500 x 125% = $150. (Maximum = 65% of $1,100).

Ontario

Ontario mining tax is levied at a rate of 10% on taxable profit in excess of $500,000 derived from mining operations in Ontario. Ontario's mining tax is not affected by Ontario harmonization. Therefore, Ontario will continue to administer its mining tax.

Profit derived from mining operations is determined by taking the gross revenue received on the sale of the output of the mine (including futures hedging), either in a primary or processed state, and deducting specified costs and expenses, including:
- costs of production;
- most processing costs and transportation costs;

Provincial Mining Tax

- depreciation at prescribed rates;
- exploration and development expenses;
- processing allowances at prescribed rates;
- operating and maintenance costs of certain social assets in Ontario (e.g., housing, recreational and service facilities); and
- scientific research conducted in Canada, to the extent that the research relates to the output of mines.

No deductions are allowed for:
- interest and other financing costs;
- income or profit taxes and capital taxes;
- royalties paid to resource owners;
- depletion; or
- certain administrative expenses not directly related to earning mining profits.

Exempt Period

For a three-year period, the first $10 million of profits generated by a new mine or major expansion of an existing mine is exempt from tax. This period is extended to ten years for new mines opened in "remote" Ontario locations. Furthermore, a 5% tax rate applies to profits from the operation of a "remote" mine once the holiday period is over.

Tax Tip
Through careful planning, an operator can maximize income earned during the exempt period. For example, exploration expenses do not have to be claimed during the period.

Depreciation Allowance

Depreciation is allowed on mining assets on a 30% straight-line basis. If the mining assets are acquired before the commencement of commercial production, for use in a new mine or a major expansion of an existing mine, 100% depreciation may be claimed up to the profit from the mine. No minimum depreciation claim is required, except during the exempt period, when 30% must be taken.

Depreciation is allowed on processing and transportation assets on a 15% straight-line basis. No minimum depreciation claim is required, except during the exempt period, when 15% must be taken. No depreciation may be claimed on any "social" (or townsite) assets.

Exploration and Development

Exploration and development expenditures incurred in Ontario can be claimed in full in the year incurred, or the unclaimed expenditures can be carried forward indefinitely.

Reclamation

While not specifically contained in the legislation, Ontario allows a mining company to carry back any reclamation expenditures incurred after the cessation of mining activities (net of the proceeds from the sale of mining assets) to the last full year of commercial production.

Processing Allowances

Originally, processing allowances were intended to ensure that mining tax would be imposed only on profits from the extraction of ore, and not on profit from mineral processing operations. Ontario processing allowances have also been used, however, as an incentive for companies to establish new processing facilities in Ontario, particularly northern Ontario, and to increase the degree of processing in Canada.

The annual processing allowance is calculated on the cost of all processing assets, based on the degree of processing achieved. For example, a company that processes ore only to the concentrate stage is entitled to a processing allowance equal to 8% of the cost of concentrating assets.

If the company also operates a smelter and refinery in northern Ontario, it is entitled to a processing allowance equal to 20% of the cost of all concentrating, smelting and refining assets used in that operation. In other cases, allowances of 12% or 16% may be available.

The processing allowance is constrained to between 15% and 65% of mining and processing income after deducting all expenses (except that the maximum allowance can be exceeded if a semi-fabricating plant is built in northern Ontario). Unused processing allowances cannot be carried forward.

No processing allowance is permitted in respect of processing carried on outside Canada.

Please see **Exhibit 17** for an example.

Exhibit 17: Ontario Mining Tax – Illustrative Calculation

Revenue		$3,000
Less:	Operating costs[1]	(1,450)
	Depreciation allowance	(300)
	Exploration and development costs	(150)
	Interest expense[2]	–
Income before processing allowance		1,100
Processing allowance[3]		(165)
Basic exemption		($500)
Taxable profit		$435
Tax at 10%[4]		$44

(in $ thousands)

1. Includes mining, processing, transportation, general, administrative and selling expenses, but not royalties.
2. Interest expense is not deductible for mining tax purposes.
3. Assuming processing assets consist of a concentrator costing $1,500, the claim would be 8% of $1,500 = $120 (minimum 15% of $1,100 = $165).
4. Assumes this is not a remote mine.

Ontario Diamonds Royalty

For taxation years ending after March 22, 2007, diamond mining is not included within the scope of the Ontario mining tax. Instead, the net value of output of a diamond mine located in Ontario is subject to a 13% royalty. If the net value of output is less than $45 million, graduated rates ranging from 5% to 14% apply.

The net value of output for a fiscal year is generally determined as the proceeds of sale of diamonds (excluding gains and losses from hedging transactions), less specified costs and expenses, including:

- differences between the market value of the inventory of diamonds on hand at the beginning and end of the year;
- costs of cleaning, sorting, valuing, marketing and selling diamonds;
- costs of insurance, storage, handling and transportation;
- costs of mining and processing;
- repairs and maintenance costs; and
- general and indirect costs for property, employees and operations.

No deductions are allowed for:

- depletion;
- interest and other financing costs;
- income, profit and capital taxes, including royalties; and
- certain administrative expenses not directly related to the diamond mine.

Grass roots exploration costs are deductible in the year they are incurred as long as they are not related to an operational diamond mine. The deduction is limited to 10% of the net value of output, before deducting exploration costs, depreciation, contributions to environmental trusts, development allowance and the processing allowance.

Depreciation Allowance

A discretionary depreciation allowance can be claimed of up to 100% of the undeducted balance of eligible costs of the diamond mine and of any processing facilities in Ontario.

Development Allowance

Similar to the depreciation allowance, a development allowance of up to 100% of the undeducted balance of eligible costs is allowed. This claim is discretionary.
Eligible costs include:

- exploration costs incurred before the date of commercial production in the mining property;
- costs incurred before the date of commercial production, net of the market value of diamonds produced;
- exploration costs incurred post-production in the mining property; and
- costs incurred post-production designed for continuing use, such as sinking a shaft or stripping overburden.

Processing Allowance

A processing allowance deduction is available equal to 8% of the original cost of processing assets, subject to a ceiling of 65% of the net value of output.

Provincial Mining Tax

OECD

Ontario Community and Economic Development (OCED) Incentive

A discretionary deduction is permitted for qualifying donations (charitable, educational or benevolent) and qualifying expenditures, including those incurred under impact benefit agreements with Aboriginal communities. An operator is also entitled to an incentive allowance, which is the lesser of:

- 15% of all costs and allowances claimed, including OCED deductions; and
- 20% of the net value of output less all costs and allowances, excluding OCED deductions.

Reclamation

An operator is permitted to deduct contributions made to a qualifying reclamation trust, with withdrawals from these trusts included in the net value of output. Costs to rehabilitate the mine are also deductible.

Quebec

The *Mining Duties Act* levies mining taxes at a 12% flat rate on the annual profits from mining operations in Quebec. Operators include partnerships, corporations and individuals, but exclude unincorporated joint ventures. Annual profit is measured on the aggregate of an operator's mines, including part interests in unincorporated joint ventures.

Annual profit is determined by subtracting from gross revenue (excluding hedging gains or losses) the operating expenses directly related to mining, scientific research and development costs, and charitable donations to a registered Quebec charity, up to a maximum of 10% of profit. In addition, the following prescribed allowances are available:

- depreciation on roads, buildings and other equipment (up to 100% in any year);
- on-site exploration, mineral deposit evaluation, and mine development costs (up to 100% in any year);
- off-site exploration costs (up to 150% in any year); and
- processing allowance.

No deduction is allowed for the cost of acquiring a mineral property, or for interest and other financing costs, incorporation costs, royalties, capital or income taxes, contingent reserves or losses from hedging or speculative transactions.

Reclamation Costs

Contributions to a prescribed mine reclamation trust fund are deductible for mining tax purposes. Withdrawals from such funds are taxable, however, the interest earned by the fund is not. Actual reclamation costs are deductible when incurred. As an administrative concession, operators are entitled to amend the mining duties return for the final year of operations to include reclamation costs incurred in subsequent fiscal periods.

Processing Allowance

When an operator processes ore only to the concentrate stage, a processing allowance can be deducted from annual profit. The allowance is equal to 8% of the original capital cost of the processing assets used during the fiscal year that are in the operator's possession at year end. While there is no minimum processing allowance, it may not exceed 65% of annual profit from all mines.

For an operator engaged in smelting or refining of minerals other than gold or silver, the allowance is increased to 15% of the capital cost of assets used in smelting or refining, up to 65% of annual profit.

An additional allowance is available, equal to 15% of the capital cost of processing assets purchased after March 31, 1998, and used exclusively in the processing of mine tailings, up to 65% of annual profit. The allowance is available for up to ten years from when the operator begins to process mine tailings.

Refundable Credit for Losses

A feature unique to the Quebec mining duties system is an operator's ability to claim a refund for losses incurred in mining operations. The refund, which is provided in lieu of allowing any carryforward of losses, is equal to 12% of the lesser of:

- the annual loss, reduced by a notional processing allowance computed as though the amount of the loss were profits for the year; and
- the operator's claim for mineral exploration, evaluation and development costs incurred in the year.

The credit is increased to 15% if the exploration expenditure is incurred in Quebec's Near and Far North. It is non-taxable, and does not reduce the exploration expenses that a mining company can claim for Quebec income and mining tax purposes. An application for the credit must be filed within six months of the end of the fiscal period.

Additional Exploration Allowance

An additional exploration allowance may be claimed by an operator in computing annual profit. This allowance cannot exceed 50% of the lesser of:

- the annual ceiling on exploration, which is basically annual profit before the additional exploration allowance, the processing allowance, the additional depreciation allowance and the additional allowance for a northern mine; and
- cumulative exploration expenses relating to expenses in respect of work performed in Quebec carried out on land, from which no ore has previously been extracted, or if under a mining concession or mining lease, from which no ore has been extracted in the previous five years.

Northern Mine Allowance

To encourage development of Quebec's northern region, mines north of the 55° latitude are entitled to an incentive deduction in computing annual profit for the first ten years of production. The deduction is computed as the lesser of:

- annual profit from all mines otherwise determined; and
- the cumulative northern mine expenses at the end of the fiscal year.

Exhibit 18 provides an example for Quebec.

Exhibit 18: Quebec Mining Duties – Illustrative Calculation

Revenue		$3,000
Less:	Operating costs[1]	(1,450)
	Exploration and development allowance[2]	(225)
	Depreciation allowance	(300)
	Interest expense[3]	–
Income before processing allowance		1,025
Processing allowance:		
	8% of cost, maximum 65% of income[4]	(120)
Taxable profit		$905
Mining duties at 12%[5]		$109

(in $ thousands)

1. Operating costs include mining, processing, transportation, selling, general and administrative expenses, but not royalties.
2. Assumes off-site exploration of $150, plus a 50% additional exploration allowance.
3. Interest expense is not deductible for mining duties purposes.
4. This assumes an original capital cost of processing assets equal to $1,500 and no smelting or refining activities.
5. Calculation assumes no "north of 55" incentive deductions.

Saskatchewan

Saskatchewan levies different mining taxes on various minerals. Mining tax incentives include a 10-year royalty holiday for new gold and base metal mines and a "competitive" royalty system for the diamond mining industry and a remission of fuel tax for off-road fuel use in mineral exploration.

Gold and Base Metals

Saskatchewan mining tax is designed to enable recovery of 150% of the initial costs of exploration and development before the taxpayer is subject to tax. Pre-production expenses eligible for inclusion in the capital recovery pool include:

- exploration expenditures in the 10-year period before commercial production (at 150% of cost);
- expenditures on the design, development and construction of the production unit (at 150% of cost); and
- expenditures on the design, development and construction of new mining operations in an existing production unit that do not share a common point of access.

The allocated pre-production expenses are reduced by the sales of minerals produced before the start of commercial production and the proceeds (up to original cost) from disposal of assets.

The tax is levied on the royalty payer's net profit. The rate is 5% of net profit, up to a threshold of cumulative unit sales of base and precious metals and minerals from the beginning of commercial production, and 10% above the threshold. The threshold is:

- one million troy ounces for precious metals; and
- one million metric tonnes for all other minerals.

Net profit is defined as the gross value of mineral sales less all direct operating costs, current year exploration and pre-production expenses, depreciation, reclamation and decommissioning costs, and losses from prior years. No deductions are allowed for interest and other financing costs, taxes on profits, income or capital, royalties and exploration costs incurred outside Saskatchewan.

Tax Tip
During the first ten years of commercial production, net profits are deemed to be zero for royalty purposes.

Losses

Losses can be carried forward indefinitely and applied against the net profit otherwise determined. However, losses cannot be created or increased by claiming depreciation or pre-production expenses.

Provincial Mining Tax

Depreciation

An allowance can be claimed for depreciation of up to 100% of the capital costs for mining and social assets (up to the net profits otherwise determined).

Potash

Potash producers in Saskatchewan are subject to both a royalty and a two-tier production tax. The royalty is based on the gross value of potash produced from Crown lands, at effective rates ranging from 2.1% to 4.5%, depending on the grade of ore.

The potash production tax consists of a base payment plus a profit tax based on the producer's profitability. The base payment is determined on annual resource profits per tonne sold times 35%, subject to minimum and maximum per tonne amounts. The base payment is reduced by Crown and freehold royalties paid and the Saskatchewan Resource Tax Credit, which is 1% of sales. Tonnes produced from approved new capacity that commences after December 31, 2004, are not subject to the base payment for 10 years.

The profit tax is applied on operating profits for the year at:

- 15% on profits up to $53.33/tonne (2005 profit brackets); and
- 35% on any excess.

Exhibit 19 provides an example for Saskatchewan.

Exhibit 19: Saskatchewan Mining Tax (Gold and Base Metals) – Illustrative Calculation

Revenue		$3,000
Less:	Operating costs[1]	(1,450)
	Depreciation allowance[2]	(300)
	Exploration and development	(150)
	Interest expense[3]	–
Taxable profit		$1,100
Tax at 10%[4]		$110

(in $ thousands)

1. Includes mining, processing, transportation, general, administrative and selling expenses, but not royalties.
2. Assumes undepreciated balance of capital costs is $300.
3. Interest expense is not deductible for mining tax purposes.
4. Assumes cumulative sales of all minerals exceeds one million tonnes/troy ounces.

The profit tax is reduced by certain tax credits, such as a portion of the base payment discussed above. Unused base payment credits can be carried forward for a maximum of five years. In addition, losses may be carried forward against future profits for a maximum of five years.

Producers can elect to pay profit tax on profits of individual mines or on the consolidated profits of all of a producer's potash mines. Tonnes sold in excess of a producer's average of 2001 and 2002 sales tonnes are not subject to profit tax. Potash companies will also receive a depreciation rate of 120% in the profit tax calculation on new capital expenditures in excess of 90% of the 2002 amount spent.

Producers can also claim a tax credit for certain types of research and development and market development, calculated as 40% of the cost incurred.

Uranium

Saskatchewan imposes a basic royalty on uranium operations equal to 5% of gross sales revenue. In addition, a tiered royalty is levied on annual revenue, reduced by withdrawals from the operator's capital recovery bank, at the following rates:

		Tiered royalty as % of revenue with specified range
Average price per kilogram of uranium[1]	$0 to $30	0%
	$30 to $45	6%
	$45 to $60	10%
	Over $60	15%

1. 1999 bracket values to be indexed annually.

The basic royalty is not allowed as a credit against the tiered royalty. The capital recovery bank is based not on actual expenditures, but rather on the following allowances for certain types of mine development activities:

		Allowance per kilogram of annual capacity[1]
Activity	Open pit mine development	$45
	Underground mine development	$60
	Mill construction	$80
	Mill expansion (minimum 25% expansion)	$50

1. 1999 bracket values to be indexed annually.

The annual royalty liability is reduced by the Saskatchewan Resource Tax Credit, calculated as 1% of the gross sales revenue for the year.

Yukon

The Yukon mining royalty regime imposes a royalty on all gold shipped from the territory, and annual royalties with respect to all mines located within the territory.

Gold Royalty

The Yukon levies a royalty on all gold shipped from the Yukon for export, whether in the form of gold dust as mined or bars. The royalty is calculated at the rate of 2-1/2% of the value of the gold, or at such lesser rate as may be fixed by the Governor-in-Council, currently $15 per ounce.

Mining Royalty

Annual royalties are payable with respect to a mine located in the Yukon if the annual profits of the mine for a calendar year exceed $10,000.

The annual royalty is calculated as follows:

- 3% on annual profits in excess of $10,000 and up to $1 million;
- 5% on annual profits in excess of $1 million and up to $5 million;
- 6% on annual profits in excess of $5 million and up to $10 million; and
- a proportional increase of 1% for each additional $5 million of annual profits in excess of $10 million (no maximum).

Recent Change

The Yukon Minister of Energy, Mines and Resources tabled an Act to Amend the *Quartz Mining Act* on October 23, 2008. The proportional rate will be capped at $35 million or 12%. This change has not yet been enacted.

Annual Profits Subject to Royalty

Profits for the purpose of computing the royalty are ascertained as follows:

- the actual market value of the output at the pit's mouth (if ore is treated or processed by owner/operator);

less:

- transportation costs of mine output;
- operating costs;
- a depreciation allowance;
- treatment charges;
- costs incurred in digging or excavation work on mine land or any other land in the Yukon belonging to the mine owner or occupier;
- costs incurred for work intended to open up new mines or to test for ore or minerals; and
- income taxes payable on mining profits.

The depreciation allowance is computed as the actual annual cost of maintenance and repairs necessary to maintain plant, machinery, equipment and buildings in efficient working condition. The annual depreciation allowance cannot exceed 15% of the original cost of the assets.

The legislation does not provide for a processing allowance. While a processing allowance has been allowed administratively in some cases in the past, the Yukon intends instead to allow deductions for treatment charges in order to determine the value of the output at the "pit's mouth." Allowable treatment charges will include costs to treat the output of the mine, including milling, mineral processing, smelting and/or refining. If the mine owner/operator operates the processing facility, the operating costs of the processing facility and straight-line amortization of the cost of the processing facility will also be permitted.

Please see **Exhibit 20** for an example.

Exhibit 20: Yukon Mining Royalty – Illustrative Calculation[1]

Market value of output:		$3,000
Less:	Operating costs[2]	(1,450)
	Depreciation of mine assets (assumed)	(300)
	Excavating, drilling or sinking expenses	(150)
	Income taxes payable on mining profits	(100)
Profits subject to royalty		$1,000
Royalty[3]		$30

(in $ thousands)

1. Processing allowance not included in the illustrative calculation.
2. Includes mining, transportation, general, administrative and selling expenses, but not royalties.
3. Calculated at 3% on profits in excess of $10,000 and less than $1 million.

Appendices

Appendix 1
Comparative Summary of Tax Burden
on Hypothetical Canadian Mining Operation

Appendix 2
Provincial and Territorial Mining Tax Models

A British Columbia
B Manitoba
C New Brunswick
D Newfoundland and Labrador
E Northwest Territories
F Nova Scotia
G Nunavut
H Ontario
I Quebec
J Saskatchewan
K Yukon

(Alberta and Prince Edward Island have no active metallic mineral mines.)

Appendix 3
Summary of Features of Provincial Mining Tax Legislation

This appendix sets out the assumptions used in the models in Appendix 2 to illustrate the calculation of the total federal and provincial income, capital and mining tax burden for a hypothetical Canadian mine over a thirteen-year period. All provinces and territories are covered, except Alberta and Prince Edward Island, which have no active metallic mineral mines.

Results are in thousands of Canadian dollars and assume that:

1. The mineral property cost $25,000 and contains two million ounces of gold.
2. The mine processes ore only to the concentrate stage, with annual concentrate production containing 200,000 ounces. Commercial production commences in the fourth quarter of the third year, and ceases at the end of the third quarter of the thirteenth year, after ten years of operation.
3. The realization price is $550 per ounce of contained gold, and a cash cost of $275 per ounce.
4. Capital costs incurred to bring the mine into production are as shown in the table to the right:

	Year 1	Year 2	Year 3
Pre-production development costs	$3,000	$5,000	$2,000
Mining assets	Nil	$10,000	$10,000
Mill assets	Nil	$50,000	Nil

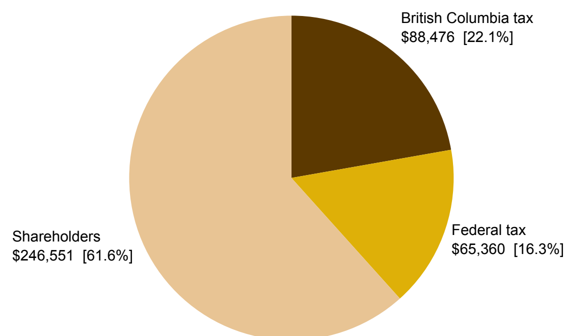
5. Additional capital costs of $500 per year are incurred in each of Years 4 through 10 ("sustaining capital").
6. Off-site exploration costs of $1,000 are incurred each year, commencing in Year 4.
7. A five-year loan is arranged for 50% of initial capital costs, at 10% interest.
8. No dividends are paid during the mine's operating life.
9. The tax rates applied are those in effect for the 2009 year.
10. Provincial capital taxes have not been taken into account.

	IRR	Shareholders	Provincial or territorial tax (income and mining)	Federal tax
Ontario	36.4%	$264,144 [66.0%]	$68,128 [17.0%]	$67,830 [17.0%]
Manitoba	36.1%	$255,437 [63.8%]	$76,097 [19.0%]	$68,972 [17.2%]
Saskatchewan	36.4%	$254,816 [63.6%]	$76,889 [19.2%]	$68,801 [17.2%]
Yukon	34.8%	$246,576 [61.6%]	$84,198 [21.1%]	$69,209 [17.3%]
British Columbia	35.7%	$246,551 [61.6%]	$88,476 [22.1%]	$65,360 [16.3%]
Quebec	35.5%	$246,019 [61.4%]	$88,595 [22.1%]	$65,933 [16.5%]
Northwest Territories	35.2%	$243,318 [60.8%]	$92,456 [23.1%]	$64,732 [16.2%]
Nunavut	35.0%	$241,562 [60.3%]	$94,212 [23.5%]	$64,732 [16.2%]
Newfoundland and Labrador	35.0%	$240,730 [60.2%]	$100,329 [25.1%]	$59,116 [14.8%]
New Brunswick	34.9%	$235,045 [58.7%]	$109,894 [27.4%]	$55,567 [13.9%]
Nova Scotia	34.5%	$228,765 [57.2%]	$113,760 [28.4%]	$57,726 [14.4%]

Summary	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Total**
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,882)	(110)									(11,113)
Pre-tax cash flow from operations		(1,400)	9,030	50,118	54,890	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,887
Income taxes														
Federal					(233)	(9,288)	(8,682)	(8,724)	(8,752)	(8,772)	(7,959)	(7,989)	(4,963)	(65,360)
Provincial				200	(606)	(5,223)	(4,873)	(4,897)	(4,913)	(4,925)	(4,454)	(4,471)	(2,719)	(36,882)
Mining taxes			(275)	(1,100)	(1,100)	(4,543)	(6,965)	(6,965)	(6,965)	(6,965)	(6,380)	(6,380)	(3,953)	(51,593)
Total taxes			(275)	(900)	(1,939)	(19,053)	(20,520)	(20,586)	(20,631)	(20,662)	(18,793)	(18,840)	(11,635)	(153,836)
Net cash flow from operations		(1,400)	8,755	49,218	52,951	35,947	34,480	34,414	34,369	34,338	31,207	31,160	19,615	365,051
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(3,245)	47,718	51,451	34,447	32,980	32,914	32,869	32,838	30,207	30,160	18,615	246,551
Working capital loan (repayment)	14,000	33,200	1,623	(47,718)	(1,105)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,623)**	**0**	**50,346**	**34,447**	**32,980**	**32,914**	**32,869**	**32,838**	**30,207**	**30,160**	**18,615**	**246,551**

IRR	**35.7%**

Share of Pre-Tax Earnings over the Life of the Mine



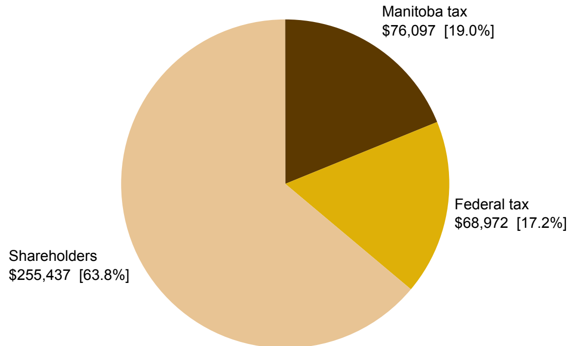
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,118	54,890	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,887
Deduct crown charges			(275)	(1,100)	(1,100)	(4,543)	(6,965)	(6,965)	(6,965)	(6,965)	(6,380)	(6,380)	(3,953)	(51,593)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(36,767)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(5,620)	830	53,618	50,204	47,719	47,673	47,638	47,612	43,240	43,335	27,083	394,434
Add back interest expense		1,400	4,720	4,882	110									11,113
Resource profits		(7,500)	(900)	5,713	53,728	50,204	47,719	47,673	47,638	47,612	43,240	43,335	27,083	405,546
Deduct interest expense		(1,400)	(4,720)	(4,882)	(110)									(11,113)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(11,800)	360	(720)	(720)	(720)	(720)	(720)	(720)	(440)	(16,200)
	(7,500)	(14,150)	(9,295)	(1,742)	40,017	49,303	46,117	46,335	46,486	46,590	42,309	42,467	26,540	353,476
Non-capital loss (claim)	7,500	14,150	9,295	1,742	(32,687)									0
Taxable income for income taxes					7,330	49,303	46,117	46,335	46,486	46,590	42,309	42,467	26,540	353,476
Federal tax - basic					1,393	9,368	8,762	8,804	8,832	8,852	8,039	8,069	5,043	67,160
Less ITC claim														
CCEE					(1,160)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(80)	(1,800)
Total federal tax	**0**	**0**	**0**	**0**	**233**	**9,288**	**8,682**	**8,724**	**8,752**	**8,772**	**7,959**	**7,989**	**4,963**	**65,360**
Provincial tax - basic					806	5,423	5,073	5,097	5,113	5,125	4,654	4,671	2,919	38,882
Less: BC METC				(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(200)	(2,000)
Total provincial tax	**0**	**0**	**0**	**(200)**	**606**	**5,223**	**4,873**	**4,897**	**4,913**	**4,925**	**4,454**	**4,471**	**2,719**	**36,882**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,118	54,890	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,887
Add back interest expense		1,400	4,720	4,882	110									11,113
			13,750	55,000	55,000	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	530,000
Assistance received on assets							80	80	80	80	80	80	160	640
Cumulative expenditure account deduction			(13,750)	(55,000)	(52,995)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(132,245)
Taxable income for mining tax					2,005	53,500	53,580	53,580	53,580	53,580	49,080	49,080	30,410	398,395
Mining taxes:														
Net current proceeds tax			275	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,000	1,000	625	10,600
Net revenue tax					261	6,955	6,965	6,965	6,965	6,965	6,380	6,380	3,953	51,791
Less cumulative tax credit					(261)	(3,512)	(1,100)	(1,100)	(1,100)	(1,100)	(1,000)	(1,000)	(625)	(10,798)
Total mining tax	**0**	**0**	**275**	**1,100**	**1,100**	**4,543**	**6,965**	**6,965**	**6,965**	**6,965**	**6,380**	**6,380**	**3,953**	**51,593**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(5)									(10,994)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Income taxes														
Federal						(9,516)	(9,305)	(9,307)	(9,310)	(9,310)	(8,463)	(8,479)	(5,283)	(68,972)
Provincial					(745)	(6,086)	(5,940)	(5,941)	(5,943)	(5,943)	(5,408)	(5,418)	(3,400)	(44,824)
Mining taxes					(3,518)	(3,244)	(3,675)	(3,824)	(3,929)	(4,013)	(3,591)	(3,652)	(1,827)	(31,273)
Total taxes					(4,262)	(18,847)	(18,920)	(19,072)	(19,182)	(19,266)	(17,461)	(17,549)	(10,510)	(145,069)
Net cash flow from operations		(1,400)	9,030	50,132	50,732	36,153	36,080	35,928	35,818	35,734	32,539	32,451	20,740	373,937
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	48,632	49,232	34,653	34,580	34,428	34,318	34,234	31,539	31,451	19,740	255,437
Working capital loan (repayment)	14,000	33,200	1,485	(48,632)	(54)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**49,179**	**34,653**	**34,580**	**34,428**	**34,318**	**34,234**	**31,539**	**31,451**	**19,740**	**255,437**

IRR	**36.1%**

Share of Pre-Tax Earnings over the Life of the Mine



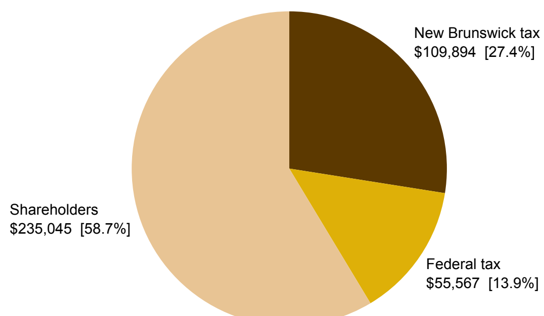
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Deduct crown charges					(3,518)	(3,244)	(3,675)	(3,824)	(3,929)	(4,013)	(3,591)	(3,652)	(1,827)	(31,273)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	46	(65)	(149)	(212)	(259)	(232)	(149)	(87)	(35,247)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(5,345)	1,944	51,305	51,802	51,259	51,027	50,859	50,728	46,178	46,199	29,337	416,393
Add back interest expense		1,400	4,720	4,869	5									10,994
Resource profits		(7,500)	(625)	6,813	51,311	51,802	51,259	51,027	50,859	50,728	46,178	46,199	29,337	427,387
Deduct interest expense		(1,400)	(4,720)	(4,869)	(5)									(10,994)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	179	(879)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(629)	37,505	50,720	49,498	49,510	49,527	49,525	45,066	45,151	28,333	373,535
Non-capital loss (claim)	7,500	14,150	9,020	629	(31,299)									0
Taxable income for income taxes					6,206	50,720	49,498	49,510	49,527	49,525	45,066	45,151	28,333	373,535
Federal tax - basic					1,179	9,637	9,405	9,407	9,410	9,410	8,563	8,579	5,383	70,972
Less ITC claim														
CCEE					(1,179)	(121)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**9,516**	**9,305**	**9,307**	**9,310**	**9,310**	**8,463**	**8,479**	**5,283**	**68,972**
Provincial tax - basic					745	6,086	5,940	5,941	5,943	5,943	5,408	5,418	3,400	44,824
Total provincial tax	**0**	**0**	**0**	**0**	**745**	**6,086**	**5,940**	**5,941**	**5,943**	**5,943**	**5,408**	**5,418**	**3,400**	**44,824**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Add back interest expense		1,400	4,720	4,869	5									10,994
Tax depreciation														
Mining			(13,750)	(13,350)	(10,780)	(8,724)	(7,079)	(5,763)	(4,711)	(3,869)	(3,095)	(2,476)	(1,981)	(75,577)
E&D						(3,833)	(1,167)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(11,000)
				41,650	44,220	42,443	46,754	48,237	49,289	50,131	45,905	46,524	28,269	443,423
Processing allowance						(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(80,000)
				41,650	44,220	32,443	36,754	38,237	39,289	40,131	35,905	36,524	18,269	363,423
Tax holiday			(13,750)	(55,000)	(9,045)									(77,795)
Taxable income for mining tax					35,175	32,443	36,754	38,237	39,289	40,131	35,905	36,524	18,269	312,728
Mining tax					3,518	3,244	3,675	3,824	3,929	4,013	3,591	3,652	1,827	31,273
Total mining tax	**0**	**0**	**0**	**0**	**3,518**	**3,244**	**3,675**	**3,824**	**3,929**	**4,013**	**3,591**	**3,652**	**1,827**	**31,273**

Summary	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**Year 10**	**Year 11**	**Year 12**	**Year 13**	**Total**
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(5)	0								(10,994)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Income taxes														
Federal						(717)	(9,716)	(8,330)	(8,359)	(8,379)	(7,651)	(7,674)	(4,740)	(55,567)
Provincial					(433)	(5,357)	(6,231)	(5,356)	(5,374)	(5,387)	(4,895)	(4,910)	(3,057)	(41,000)
Mining taxes					(6,117)	(8,529)	(8,529)	(8,529)	(8,529)	(8,529)	(7,760)	(7,789)	(4,584)	(68,894)
Total taxes					(6,550)	(14,603)	(24,476)	(22,215)	(22,262)	(22,295)	(20,306)	(20,372)	(12,381)	(165,461)
Net cash flow from operations		(1,400)	9,030	50,132	48,445	40,397	30,524	32,785	32,738	32,705	29,694	29,628	18,869	353,545
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	48,632	46,945	38,897	29,024	31,285	31,238	31,205	28,694	28,628	17,869	235,045
Working capital loan (repayment)	14,000	33,200	1,485	(48,632)	(54)									
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**46,891**	**38,897**	**29,024**	**31,285**	**31,238**	**31,205**	**28,694**	**28,628**	**17,869**	**235,045**

IRR	**34.9%**

Share of Pre-Tax Earnings over the Life of the Mine



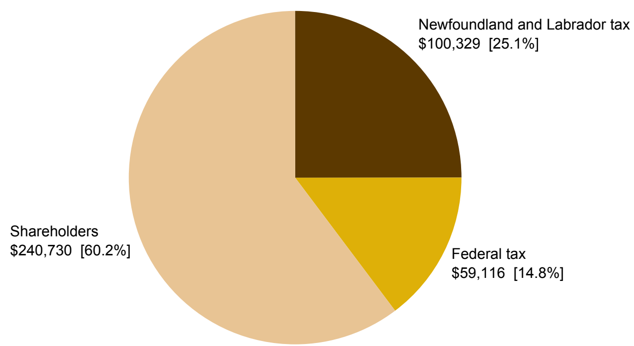
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Deduct crown charges					(6,117)	(8,529)	(8,529)	(8,529)	(8,529)	(8,529)	(7,760)	(7,789)	(4,584)	(68,894)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	(254)	1,472	(321)	(353)	(377)	(333)	(250)	(187)	(34,744)
Supp. Cl.41(a)				(36,094)	0	0	5,250							(30,844)
Income from mine		(8,900)	(5,345)	1,944	48,706	46,217	53,193	46,150	46,118	46,094	41,907	41,962	26,478	384,524
Add back interest expense		1,400	4,720	4,869	5									10,994
Resource profits		(7,500)	(625)	6,813	48,711	46,217	53,193	46,150	46,118	46,094	41,907	41,962	26,478	395,518
Deduct interest expense		(1,400)	(4,720)	(4,869)	(5)									(10,994)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	(315)	(385)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(629)	34,905	44,642	51,925	44,632	44,785	44,891	40,795	40,913	25,475	341,666
Non-capital loss (claim)	7,500	14,150	9,020	629	(31,299)									0
Taxable income for income taxes					3,607	44,642	51,925	44,632	44,785	44,891	40,795	40,913	25,475	341,666
Federal tax - basic					685	8,482	9,866	8,480	8,509	8,529	7,751	7,774	4,840	64,917
Less ITC claim														
Cl. 41(1)(a)						(7,000)								(7,000)
Cl. 41(1)(b)						(150)	(50)	(50)	(50)	(50)				(350)
CCEE					(685)	(615)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**717**	**9,716**	**8,330**	**8,359**	**8,379**	**7,651**	**7,674**	**4,740**	**55,567**
Provincial tax - basic					433	5,357	6,231	5,356	5,374	5,387	4,895	4,910	3,057	41,000
Total provincial tax	**0**	**0**	**0**	**0**	**433**	**5,357**	**6,231**	**5,356**	**5,374**	**5,387**	**4,895**	**4,910**	**3,057**	**41,000**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Add back interest expense		1,400	4,720	4,869	5									10,994
Tax depreciation														
Mining			(7,560)	(51,381)	(11,559)	(500)	(500)	(500)	(500)	(500)	(333)	(167)		(73,500)
Finance Allowance			(4,995)	(925)	(40)	(40)	(40)	(40)	(40)	(40)	(13)			(6,173)
Pre-production			(909)	(909)	(909)	(909)	(909)	(909)	(909)	(909)	(909)	(909)	(909)	(10,000)
E&D				(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(15,000)
			286	285	40,992	52,051	52,051	52,051	52,051	52,051	47,244	47,424	28,841	425,327
Royalty deduction					(255)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(1,020)	(745)	(8,140)
			286	285	40,737	51,031	51,031	51,031	51,031	51,031	46,224	46,404	28,096	417,187
Processing allowance			(186)	(186)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(36,371)
			100	100	36,737	47,031	47,031	47,031	47,031	47,031	42,224	42,404	24,096	380,815
Basic exemption			(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(1,100)
Taxable income for mining tax					36,637	46,931	46,931	46,931	46,931	46,931	42,124	42,304	23,996	379,716
Mining tax (A)					5,862	7,509	7,509	7,509	7,509	7,509	6,740	6,769	3,839	60,754 (A)
Net smelter return			13,750	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	55,000	41,250	550,000
Milling allowance			(3,438)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(43,438)
Taxable revenue			10,313	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	51,000	37,250	506,563
Royalty tax (2%) (B)					255	1,020	1,020	1,020	1,020	1,020	1,020	1,020	745	8,140 (B)
Total mining tax (A + B)	**0**	**0**	**0**	**0**	**6,117**	**8,529**	**8,529**	**8,529**	**8,529**	**8,529**	**7,760**	**7,789**	**4,584**	**68,894**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(337)									(11,325)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,663	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,675
Income taxes														
Federal						(472)	(10,490)	(8,946)	(8,953)	(8,957)	(8,221)	(8,236)	(4,841)	(59,116)
Provincial						(6,574)	(7,840)	(6,702)	(6,708)	(6,711)	(6,131)	(6,143)	(3,641)	(50,449)
Mining taxes				(3,312)	(6,670)	(4,938)	(5,139)	(5,290)	(5,403)	(5,488)	(4,761)	(4,827)	(4,053)	(49,880)
Total taxes				(3,312)	(6,670)	(11,984)	(23,469)	(20,937)	(21,064)	(21,155)	(19,113)	(19,205)	(12,535)	(159,445)
Net cash flow from operations		(1,400)	9,030	46,819	47,994	43,016	31,531	34,063	33,936	33,845	30,887	30,795	18,715	359,230
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	45,319	46,494	41,516	30,031	32,563	32,436	32,345	29,887	29,795	17,715	240,730
Working capital loan (repayment)	14,000	33,200	1,485	(45,319)	(3,366)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**43,128**	**41,516**	**30,031**	**32,563**	**32,436**	**32,345**	**29,887**	**29,795**	**17,715**	**240,730**

IRR	35.0%

Share of Pre-Tax Earnings over the Life of the Mine



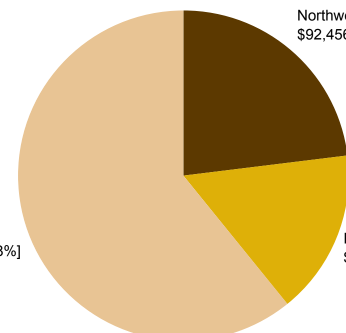
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,663	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,675
Deduct crown charges				(3,312)	(6,670)	(4,938)	(5,139)	(5,290)	(5,403)	(5,488)	(4,761)	(4,827)	(4,053)	(49,880)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(514)	(254)	1,472	(321)	(353)	(377)	(333)	(250)	(187)	(35,086)
Supp. Cl.41(a)				(34,726)	(1,026)		5,250							(30,502)
Income from mine		(8,900)	(5,345)		46,454	49,808	56,583	49,389	49,244	49,135	44,906	44,924	27,009	403,207
Add back interest expense		1,400	4,720	4,869	337									11,325
Resource profits		(7,500)	(625)	4,869	46,790	49,808	56,583	49,389	49,244	49,135	44,906	44,924	27,009	414,532
Deduct interest expense		(1,400)	(4,720)	(4,869)	(337)									(11,325)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(11,410)	(1,590)	300	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(2,573)	33,243	46,958	56,001	47,872	47,912	47,932	43,794	43,875	26,006	360,349
Non-capital loss (claim)	7,500	14,150	9,020	2,573	(33,243)									
Taxable income for income taxes						46,958	56,001	47,872	47,912	47,932	43,794	43,875	26,006	360,349
Federal tax - basic						8,922	10,640	9,096	9,103	9,107	8,321	8,336	4,941	68,466
Less ITC claim														
Cl. 41(1)(a)						(7,000)								(7,000)
Cl. 41(1)(b)						(150)	(50)	(50)	(50)	(50)				(350)
CCEE						(1,300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**472**	**10,490**	**8,946**	**8,953**	**8,957**	**8,221**	**8,236**	**4,841**	**59,116**
Provincial tax - basic						6,574	7,840	6,702	6,708	6,711	6,131	6,143	3,641	50,449
Total provincial tax	**0**	**0**	**0**	**0**	**0**	**6,574**	**7,840**	**6,702**	**6,708**	**6,711**	**6,131**	**6,143**	**3,641**	**50,449**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,663	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,675
Add back interest expense		1,400	4,720	4,869	337									11,325
Tax depreciation														
Mining			(12,500)	(9,438)	(7,203)	(5,527)	(4,271)	(3,328)	(2,621)	(2,091)	(1,631)	(1,223)	(917)	(50,749)
Processing			(1,250)	(18,750)										(20,000)
Pre-production				(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)	(1,111)		(10,000)
E&D				(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
				24,701	45,686	47,362	48,618	49,561	50,268	50,798	46,258	46,666	29,333	439,251
Processing allowance				(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(40,000)
				20,701	41,686	43,362	44,618	45,561	46,268	46,798	42,258	42,666	25,333	399,251
Royalty deduction				(4,140)	(8,337)	(8,672)	(8,924)	(9,112)	(9,254)	(9,360)	(8,452)	(8,533)	(5,067)	(79,850)
Taxable income for mining tax				16,561	33,349	34,689	35,695	36,449	37,014	37,439	33,807	34,133	20,266	319,401
Mining tax				2,484	5,002	5,203	5,354	5,467	5,552	5,616	5,071	5,120	3,040	47,910
Royalty tax				828	1,667	1,734	1,785	1,822	1,851	1,872	1,690	1,707	1,013	15,970
Tax credit for income tax						(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)		(14,000)
Total mining tax	**0**	**0**	**0**	**3,312**	**6,670**	**4,938**	**5,139**	**5,290**	**5,403**	**5,488**	**4,761**	**4,827**	**4,053**	**49,880**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(5)									(10,994)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Income taxes														
Federal						(8,568)	(8,778)	(8,770)	(8,799)	(8,819)	(8,005)	(8,035)	(4,958)	(64,732)
Territorial					(569)	(5,404)	(5,374)	(5,369)	(5,386)	(5,398)	(4,906)	(4,924)	(3,061)	(40,391)
Mining taxes					(4,778)	(6,435)	(6,435)	(6,435)	(6,435)	(6,435)	(5,850)	(5,850)	(3,413)	(52,065)
Total taxes					(5,346)	(20,407)	(20,587)	(20,574)	(20,620)	(20,652)	(18,761)	(18,809)	(11,432)	(157,188)
Net cash flow from operations		(1,400)	9,030	50,132	49,648	34,593	34,413	34,426	34,380	34,348	31,239	31,191	19,818	361,818
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	48,632	48,148	33,093	32,913	32,926	32,880	32,848	30,239	30,191	18,818	243,318
Working capital loan (repayment)	14,000	33,200	1,485	(48,632)	(54)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**48,095**	**33,093**	**32,913**	**32,926**	**32,880**	**32,848**	**30,239**	**30,191**	**18,818**	**243,318**

IRR	**35.2%**

Share of Pre-Tax Earnings over the Life of the Mine



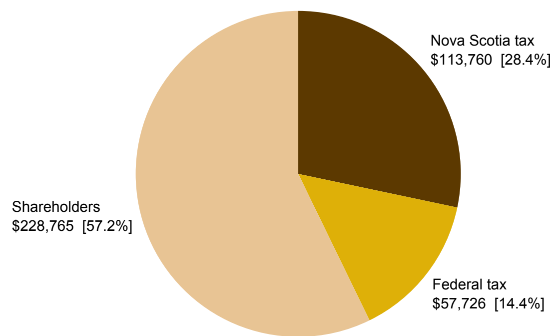
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Deduct crown charges					(4,778)	(6,435)	(6,435)	(6,435)	(6,435)	(6,435)	(5,850)	(5,850)	(3,413)	(52,065)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(36,767)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(5,345)	1,944	50,045	48,311	48,250	48,203	48,169	48,143	43,771	43,866	27,624	394,081
Add back interest expense		1,400	4,720	4,869	5									10,994
Resource profits		(7,500)	(625)	6,813	50,051	48,311	48,250	48,203	48,169	48,143	43,771	43,866	27,624	405,075
Deduct interest expense		(1,400)	(4,720)	(4,869)	(5)									(10,994)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	(60)	(640)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(629)	36,245	46,990	46,727	46,686	46,836	46,940	42,659	42,817	26,620	351,223
Non-capital loss (claim)	7,500	14,150	9,020	629	(31,299)									0
Taxable income for income taxes					4,946	46,990	46,727	46,686	46,836	46,940	42,659	42,817	26,620	351,223
Federal tax - basic					940	8,928	8,878	8,870	8,899	8,919	8,105	8,135	5,058	66,732
Less ITC claim														
CCEE					(940)	(360)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**8,568**	**8,778**	**8,770**	**8,799**	**8,819**	**8,005**	**8,035**	**4,958**	**64,732**
Territorial tax - basic					569	5,404	5,374	5,369	5,386	5,398	4,906	4,924	3,061	40,391
Total territorial tax	**0**	**0**	**0**	**0**	**569**	**5,404**	**5,374**	**5,369**	**5,386**	**5,398**	**4,906**	**4,924**	**3,061**	**40,391**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Add back interest expense		1,400	4,720	4,869	5									10,994
Tax depreciation														
Mining			(13,750)	(55,000)	(2,250)	(500)	(500)	(500)	(500)	(500)				(73,500)
Pre-production					(10,000)									(10,000)
E&D					(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
					40,750	53,500	53,500	53,500	53,500	53,500	49,000	49,000	30,250	436,500
Processing allowance					(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(36,000)
Taxable income for mining tax					36,750	49,500	49,500	49,500	49,500	49,500	45,000	45,000	26,250	400,500
Mining tax					4,778	6,435	6,435	6,435	6,435	6,435	5,850	5,850	3,413	52,065
Total mining tax	**0**	**0**	**0**	**0**	**4,778**	**6,435**	**6,435**	**6,435**	**6,435**	**6,435**	**5,850**	**5,850**	**3,413**	**52,065**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,894)	(236)									(11,249)
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,764	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,751
Income taxes														
Federal						(1,154)	(9,947)	(8,592)	(8,623)	(8,644)	(7,908)	(7,934)	(4,924)	(57,726)
Provincial					(705)	(7,383)	(8,503)	(7,362)	(7,387)	(7,405)	(6,744)	(6,765)	(4,231)	(56,485)
Mining taxes			(506)	(2,025)	(2,532)	(7,178)	(7,162)	(7,151)	(7,143)	(7,138)	(6,406)	(6,419)	(3,616)	(57,275)
Total taxes			(506)	(2,025)	(3,237)	(15,715)	(25,611)	(23,104)	(23,153)	(23,186)	(21,058)	(21,118)	(12,771)	(171,486)
Net cash flow from operations		(1,400)	8,524	48,081	51,528	39,285	29,389	31,896	31,847	31,814	28,942	28,882	18,479	347,265
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(3,476)	46,581	50,028	37,785	27,889	30,396	30,347	30,314	27,942	27,882	17,479	228,765
Working capital loan (repayment)	14,000	33,200	1,738	(46,581)	(2,357)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,738)**	**0**	**47,671**	**37,785**	**27,889**	**30,396**	**30,347**	**30,314**	**27,942**	**27,882**	**17,479**	**228,765**

IRR	**34.5%**

Share of Pre-Tax Earnings over the Life of the Mine



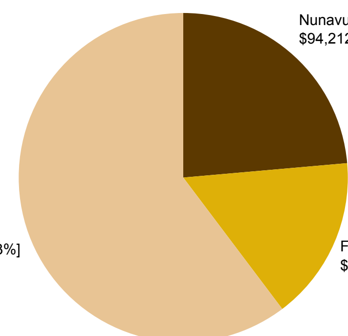
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,764	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,751
Deduct crown charges			(506)	(2,025)	(2,532)	(7,178)	(7,162)	(7,151)	(7,143)	(7,138)	(6,406)	(6,419)	(3,616)	(57,275)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(198)	(254)	1,472	(321)	(353)	(377)	(333)	(250)	(187)	(34,771)
Supp. Cl.41(a)				(35,987)	(80)	0	5,250							(30,817)
Income from mine		(8,900)	(5,851)	0	51,954	47,569	54,560	47,528	47,504	47,485	43,261	43,331	27,447	395,887
Add back interest expense		1,400	4,720	4,894	236									11,249
Resource profits		(7,500)	(1,131)	4,894	52,190	47,569	54,560	47,528	47,504	47,485	43,261	43,331	27,447	407,137
Deduct interest expense		(1,400)	(4,720)	(4,894)	(236)									(11,249)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	(163)	(537)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,526)	(2,573)	38,153	46,145	53,141	46,011	46,171	46,282	42,149	42,282	26,443	353,029
Non-capital loss (claim)	7,500	14,150	9,526	2,573	(33,749)									0
Taxable income for income taxes					4,405	46,145	53,141	46,011	46,171	46,282	42,149	42,282	26,443	353,029
Federal tax - basic					837	8,768	10,097	8,742	8,773	8,794	8,008	8,034	5,024	67,076
Less ITC claim														
Cl. 41(1)(a)						(7,000)								(7,000)
Cl. 41(1)(b)						(150)	(50)	(50)	(50)	(50)				(350)
CCEE					(837)	(463)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**1,154**	**9,947**	**8,592**	**8,623**	**8,644**	**7,908**	**7,934**	**4,924**	**57,726**
Provincial tax - basic					705	7,383	8,503	7,362	7,387	7,405	6,744	6,765	4,231	56,485
Total provincial tax	**0**	**0**	**0**	**0**	**705**	**7,383**	**8,503**	**7,362**	**7,387**	**7,405**	**6,744**	**6,765**	**4,231**	**56,485**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,764	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,751
Add back interest expense		1,400	4,720	4,894	236									11,249
Tax depreciation														
Mining			(5,380)	(34,500)	(31,120)	(150)	(255)	(329)	(380)	(416)	(291)	(204)	(143)	(73,167)
Pre-production				(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
E&D				(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
			8,370	18,500	21,880	52,850	52,745	52,672	52,620	52,584	47,709	47,796	29,107	436,833
Processing allowance			(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(55,000)
Taxable income for mining tax			3,370	13,500	16,880	47,850	47,745	47,672	47,620	47,584	42,709	42,796	24,107	381,833
Royalty at 15% **(A)**			506	2,025	2,532	7,178	7,162	7,151	7,143	7,138	6,406	6,419	3,616	57,275 **(A)**
Gross revenue			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Marketing and transportation			(2,200)	(8,800)	(8,800)	(8,800)	(8,800)	(8,800)	(8,800)	(8,800)	(8,800)	(8,800)	(6,600)	(88,000)
Taxable revenue			25,300	101,200	101,200	101,200	101,200	101,200	101,200	101,200	101,200	101,200	75,900	1,012,000
Royalty at 2% **(B)**			506	2,024	2,024	2,024	2,024	2,024	2,024	2,024	2,024	2,024	1,518	20,240 **(B)**
Total mining tax (greater of **A** and **B**)	**0**	**0**	**506**	**2,025**	**2,532**	**7,178**	**7,162**	**7,151**	**7,143**	**7,138**	**6,406**	**6,419**	**3,616**	**57,275**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(5)									(10,994)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Income taxes														
Federal						(8,568)	(8,778)	(8,770)	(8,799)	(8,819)	(8,005)	(8,035)	(4,958)	(64,732)
Territorial					(594)	(5,639)	(5,607)	(5,602)	(5,620)	(5,633)	(5,119)	(5,138)	(3,194)	(42,147)
Mining taxes					(4,778)	(6,435)	(6,435)	(6,435)	(6,435)	(6,435)	(5,850)	(5,850)	(3,413)	(52,065)
Total taxes					(5,371)	(20,642)	(20,821)	(20,808)	(20,854)	(20,886)	(18,974)	(19,023)	(11,565)	(158,944)
Net cash flow from operations		(1,400)	9,030	50,132	49,624	34,358	34,179	34,192	34,146	34,114	31,026	30,977	19,685	360,062
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	48,632	48,124	32,858	32,679	32,692	32,646	32,614	30,026	29,977	18,685	241,562
Working capital loan (repayment)	14,000	33,200	1,485	(48,632)	(54)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**48,070**	**32,858**	**32,679**	**32,692**	**32,646**	**32,614**	**30,026**	**29,977**	**18,685**	**241,562**

IRR	**35.0%**

Share of Pre-Tax Earnings over the Life of the Mine



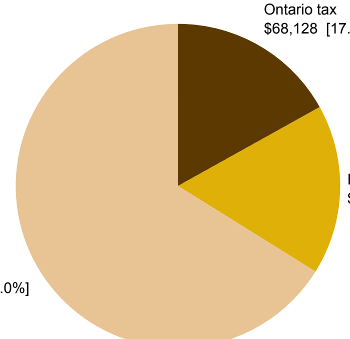
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Deduct crown charges					(4,778)	(6,435)	(6,435)	(6,435)	(6,435)	(6,435)	(5,850)	(5,850)	(3,413)	(52,065)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(36,767)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(5,345)	1,944	50,045	48,311	48,250	48,203	48,169	48,143	43,771	43,866	27,624	394,081
Add back interest expense		1,400	4,720	4,869	5									10,994
Resource profits		(7,500)	(625)	6,813	50,051	48,311	48,250	48,203	48,169	48,143	43,771	43,866	27,624	405,075
Deduct interest expense		(1,400)	(4,720)	(4,869)	(5)									(10,994)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	(60)	(640)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(629)	36,245	46,990	46,727	46,686	46,836	46,940	42,659	42,817	26,620	351,223
Non-capital loss (claim)	7,500	14,150	9,020	629	(31,299)									0
Taxable income for income taxes					4,946	46,990	46,727	46,686	46,836	46,940	42,659	42,817	26,620	351,223
Federal tax - basic					940	8,928	8,878	8,870	8,899	8,919	8,105	8,135	5,058	66,732
Less ITC claim														
CCEE					(940)	(360)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	0
Total federal tax	**0**	**0**	**0**	**0**	**0**	**8,568**	**8,778**	**8,770**	**8,799**	**8,819**	**8,005**	**8,035**	**4,958**	**64,732**
Territorial tax - basic					594	5,639	5,607	5,602	5,620	5,633	5,119	5,138	3,194	42,147
Total territorial tax	**0**	**0**	**0**	**0**	**594**	**5,639**	**5,607**	**5,602**	**5,620**	**5,633**	**5,119**	**5,138**	**3,194**	**42,147**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,995	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Add back interest expense		1,400	4,720	4,869	5									10,994
Tax depreciation														
Mining			(13,750)	(55,000)	(2,250)	(500)	(500)	(500)	(500)	(500)				(73,500)
Pre-production					(10,000)									(10,000)
E&D					(2,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
Processing allowance					(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(36,000)
Taxable income for mining tax					36,750	49,500	49,500	49,500	49,500	49,500	45,000	45,000	26,250	400,500
Mining tax					4,778	6,435	6,435	6,435	6,435	6,435	5,850	5,850	3,413	52,065
Total mining tax	**0**	**0**	**0**	**0**	**4,778**	**6,435**	**6,435**	**6,435**	**6,435**	**6,435**	**5,850**	**5,850**	**3,413**	**52,065**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,897)	(382)									(11,399)
Pre-tax cash flow from operations		(1,400)	9,030	50,103	54,618	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,601
Income taxes														
Federal						(8,882)	(9,295)	(9,260)	(9,288)	(9,268)	(8,341)	(8,368)	(5,128)	(67,830)
Provincial			(70)	(1,503)	(1,771)	(1,779)	(3,056)	(4,539)	(4,559)	(4,576)	(4,166)	(4,182)	(2,568)	(32,769)
Mining taxes			(500)	(1,946)	(2,696)	(3,864)	(3,860)	(3,860)	(3,860)	(4,073)	(4,085)	(4,098)	(2,517)	(35,359)
Total taxes			(570)	(3,449)	(4,467)	(14,525)	(16,211)	(17,659)	(17,707)	(17,916)	(16,592)	(16,648)	(10,213)	(135,957)
Net cash flow from operations		(1,400)	8,460	46,654	50,152	40,475	38,789	37,341	37,293	37,084	33,408	33,352	21,037	382,644
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(3,540)	45,154	48,652	38,975	37,289	35,841	35,793	35,584	32,408	32,352	20,037	264,144
Working capital loan (repayment)	14,000	33,200	1,770	(45,154)	(3,816)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,770)**	**0**	**44,835**	**38,975**	**37,289**	**35,841**	**35,793**	**35,584**	**32,408**	**32,352**	**20,037**	**264,144**

IRR	**36.4%**

Share of Pre-Tax Earnings over the Life of the Mine



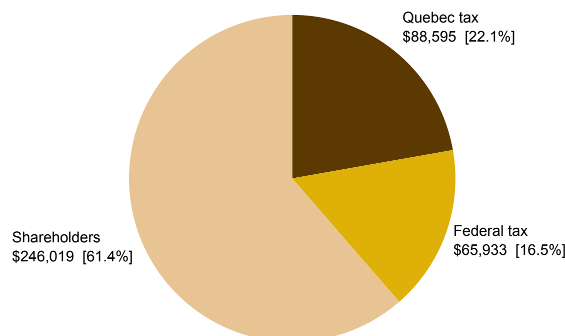
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,103	54,618	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,601
Deduct crown charges			(500)	(1,946)	(2,696)	(3,864)	(3,860)	(3,860)	(3,860)	(4,073)	(4,085)	(4,098)	(2,517)	(35,359)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(180)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(36,774)
Supp. Cl.41(a)				(36,063)	(23)									(36,086)
Income from mine		(8,900)	(5,845)		51,720	50,882	50,825	50,778	50,744	50,505	45,536	45,618	28,520	410,382
Add back interest expense		1,400	4,720	4,897	382									11,399
Resource profits		(7,500)	(1,125)	4,897	52,102	50,882	50,825	50,778	50,744	50,505	45,536	45,618	28,520	421,781
Deduct interest expense		(1,400)	(4,720)	(4,897)	(382)									(11,399)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	(206)	(494)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,520)	(2,573)	37,919	49,415	49,449	49,261	49,411	49,303	44,424	44,569	27,516	367,525
Non-capital loss (claim)	7,500	14,150	9,520	2,573	(33,743)									0
Taxable income for income taxes					4,177	49,415	49,449	49,261	49,411	49,303	44,424	44,569	27,516	367,525
Federal tax - basic					794	9,389	9,395	9,360	9,388	9,368	8,441	8,468	5,228	69,830
Less ITC claim														
CCEE					(794)	(506)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**8,882**	**9,295**	**9,260**	**9,288**	**9,268**	**8,341**	**8,368**	**5,128**	**67,830**
Provincial tax - basic			70	33		3,515	4,560	4,539	4,559	4,576	4,166	4,182	2,568	32,769
Provincial CMT (credit)				1,470	1,771	(1,737)	(1,505)							0
Total provincial tax	**0**	**0**	**70**	**1,503**	**1,771**	**1,779**	**3,056**	**4,539**	**4,559**	**4,576**	**4,166**	**4,182**	**2,568**	**32,769**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,103	54,618	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,601
Add back interest expense		1,400	4,720	4,897	382									11,399
Tax depreciation														
Mining				(150)	(300)	(450)	(500)	(500)	(500)	(500)	(350)	(200)	(50)	(3,500)
Processing				(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(7,500)	(5,000)				(50,000)
Pre-production				(6,100)	(13,900)									(20,000)
E&D				(11,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(20,000)
			13,750	30,250	32,300	46,050	46,000	46,000	46,000	48,500	48,650	48,800	30,200	436,500
Processing allowance			(4,000)	(4,538)	(4,845)	(6,908)	(6,900)	(6,900)	(6,900)	(7,275)	(7,298)	(7,320)	(4,530)	(67,413)
			9,750	25,713	27,455	39,143	39,100	39,100	39,100	41,225	41,353	41,480	25,670	369,088
Exempt amount			(4,250)	(5,750)										(10,000)
Basic exemption			(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(500)	(5,500)
Taxable income for mining tax			5,000	19,463	26,955	38,643	38,600	38,600	38,600	40,725	40,853	40,980	25,170	353,588
Mining tax			500	1,946	2,696	3,864	3,860	3,860	3,860	4,073	4,085	4,098	2,517	35,359
Total mining tax	**0**	**0**	**500**	**1,946**	**2,696**	**3,864**	**3,860**	**3,860**	**3,860**	**4,073**	**4,085**	**4,098**	**2,517**	**35,359**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,833)										(10,953)
Pre-tax cash flow from operations		(1,400)	9,030	50,168	55,000	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,048
Income taxes														
Federal						(8,813)	(8,919)	(8,916)	(8,945)	(8,965)	(8,143)	(8,173)	(5,060)	(65,933)
Provincial				150	98	(5,589)	(5,539)	(5,533)	(5,529)	(5,526)	(5,000)	(5,012)	(3,176)	(40,655)
Mining taxes			720		(5,850)	(5,520)	(5,880)	(5,880)	(5,880)	(5,880)	(5,340)	(5,340)	(3,090)	(47,940)
Total taxes			720	150	(5,752)	(19,922)	(20,338)	(20,330)	(20,354)	(20,371)	(18,483)	(18,525)	(11,325)	(154,529)
Net cash flow from operations		(1,400)	9,750	50,318	49,248	35,078	34,662	34,670	34,646	34,629	31,517	31,475	19,925	364,519
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,250)	48,818	47,748	33,578	33,162	33,170	33,146	33,129	30,517	30,475	18,925	246,019
Working capital loan (repayment)	14,000	33,200	1,125	(48,325)										
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,125)**	**493**	**47,748**	**33,578**	**33,162**	**33,170**	**33,146**	**33,129**	**30,517**	**30,475**	**18,925**	**246,019**

IRR	35.5%

Share of Pre-Tax Earnings over the Life of the Mine



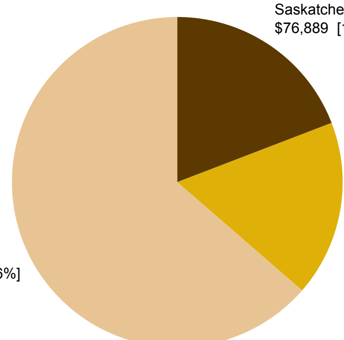
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,168	55,000	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,048
Deduct crown charges			720		(5,850)	(5,520)	(5,880)	(5,880)	(5,880)	(5,880)	(5,340)	(5,340)	(3,090)	(47,940)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(36,767)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(4,625)	1,980	48,978	49,226	48,805	48,758	48,724	48,698	44,281	44,376	27,947	398,247
Add back interest expense		1,400	4,720	4,833										10,953
Resource profits		(7,500)	95	6,813	48,978	49,226	48,805	48,758	48,724	48,698	44,281	44,376	27,947	409,200
Deduct interest expense		(1,400)	(4,720)	(4,833)										(10,953)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(11,700)	88	(533)	(765)	(765)	(765)	(765)	(765)	(765)	(16,735)
	(7,500)	(14,150)	(8,300)	(593)	35,477	48,053	47,390	47,376	47,526	47,630	43,304	43,462	27,078	356,754
Non-capital loss (claim)	7,500	14,150	8,300	593	(30,543)									0
Taxable income for income taxes					4,935	48,053	47,390	47,376	47,526	47,630	43,304	43,462	27,078	356,754
Federal tax - basic					938	9,130	9,004	9,001	9,030	9,050	8,228	8,258	5,145	67,783
Less ITC claim														
CCEE					(938)	(317)	(85)	(85)	(85)	(85)	(85)	(85)	(85)	(1,850)
Total federal tax					**0**	**8,813**	**8,919**	**8,916**	**8,945**	**8,965**	**8,143**	**8,173**	**5,060**	**65,933**
Provincial tax - basic					52	5,739	5,689	5,683	5,679	5,676	5,150	5,162	3,326	42,155
ITC claim				(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(1,500)
Total provincial tax				**(150)**	**(98)**	**5,589**	**5,539**	**5,533**	**5,529**	**5,526**	**5,000**	**5,012**	**3,176**	**40,655**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,168	55,000	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,048
Add back interest expense		1,400	4,720	4,833										10,953
Tax depreciation														
Mining			(13,750)	(55,000)	(2,250)	(500)	(500)	(500)	(500)	(500)				(73,500)
Pre-production			(10,000)											(10,000)
E&D						(4,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(15,000)
			(10,000)		52,750	50,000	53,000	53,000	53,000	53,000	48,500	48,500	29,750	431,500
Processing allowance			4,000		(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(4,000)	(32,000)
Taxable income for mining tax			(6,000)		48,750	46,000	49,000	49,000	49,000	49,000	44,500	44,500	25,750	399,500
Mining tax			(720)		5,850	5,520	5,880	5,880	5,880	5,880	5,340	5,340	3,090	47,940
Total mining tax	**0**	**0**	**(720)**	**0**	**5,850**	**5,520**	**5,880**	**5,880**	**5,880**	**5,880**	**5,340**	**5,340**	**3,090**	**47,940**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,869)	(6)									(10,994)
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,994	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Income taxes														
Federal					(260)	(9,735)	(9,551)	(9,450)	(9,099)	(9,097)	(8,242)	(8,262)	(5,105)	(68,801)
Provincial					(922)	(6,211)	(6,095)	(6,032)	(5,810)	(5,809)	(5,269)	(5,281)	(3,288)	(44,716)
Mining taxes				(6)	(2,032)	(2,225)	(2,360)	(3,068)	(5,041)	(5,134)	(4,749)	(4,794)	(2,764)	(32,172)
Total taxes				(6)	(3,214)	(18,171)	(18,005)	(18,550)	(19,950)	(20,039)	(18,260)	(18,337)	(11,157)	(145,689)
Net cash flow from operations		(1,400)	9,030	50,125	51,780	36,829	36,995	36,450	35,050	34,961	31,740	31,663	20,093	373,316
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(2,970)	48,625	50,280	35,329	35,495	34,950	33,550	33,461	30,740	30,663	19,093	254,816
Working capital loan (repayment)	14,000	33,200	1,485	(48,625)	(60)									0
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,485)**	**0**	**50,220**	**35,329**	**35,495**	**34,950**	**33,550**	**33,461**	**30,740**	**30,663**	**19,093**	**254,816**

IRR	36.4%

Share of Pre-Tax Earnings over the Life of the Mine



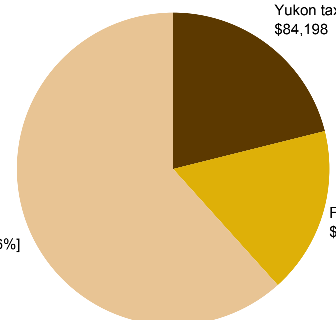
Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,994	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Deduct crown charges				(6)	(2,032)	(2,225)	(2,360)	(3,068)	(5,041)	(5,134)	(4,749)	(4,794)	(2,764)	(32,172)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(172)	46	(65)	(149)	(212)	(259)	(232)	(149)	(87)	(35,247)
Supp. Cl.41(a)				(36,094)										(36,094)
Income from mine		(8,900)	(5,345)	1,938	52,790	52,821	52,575	51,783	49,747	49,607	45,020	45,057	28,400	415,493
Add back interest expense		1,400	4,720	4,869	6									10,994
Resource profits		(7,500)	(625)	6,806	52,796	52,821	52,575	51,783	49,747	49,607	45,020	45,057	28,400	426,487
Deduct interest expense		(1,400)	(4,720)	(4,869)	(6)									(10,994)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(12,000)	200	(900)	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,020)	(635)	38,990	51,761	50,792	50,265	48,415	48,405	43,908	44,009	27,396	372,635
Non-capital loss (claim)	7,500	14,150	9,020	635	(31,305)									0
Taxable income for income taxes					7,685	51,761	50,792	50,265	48,415	48,405	43,908	44,009	27,396	372,635
Federal tax - basic					1,460	9,835	9,651	9,550	9,199	9,197	8,342	8,362	5,205	70,801
Less ITC claim														
CCEE					(1,200)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**260**	**9,735**	**9,551**	**9,450**	**9,099**	**9,097**	**8,242**	**8,262**	**5,105**	**68,801**
Provincial tax - basic					922	6,211	6,095	6,032	5,810	5,809	5,269	5,281	3,288	44,716
Total provincial tax	**0**	**0**	**0**	**0**	**922**	**6,211**	**6,095**	**6,032**	**5,810**	**5,809**	**5,269**	**5,281**	**3,288**	**44,716**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,132	54,994	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	519,006
Add back interest expense		1,400	4,720	4,869	6									10,994
Tax depreciation														
Mining				(20,500)	(500)	(500)	(500)	(500)	(500)	(500)				(23,500)
Processing			(13,750)	(18,375)	(12,863)	(9,004)	(6,303)	(4,412)	(3,088)	(2,162)	(1,513)	(1,059)	(2,612)	(75,140)
E&D				(16,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(25,000)
Taxable income for mining tax				125	40,638	44,496	47,197	49,088	50,412	51,338	47,487	47,941	27,638	406,360
Mining tax				6	2,032	2,225	2,360	3,068	5,041	5,134	4,749	4,794	2,764	32,172
Total mining tax	**0**	**0**	**0**	**6**	**2,032**	**2,225**	**2,360**	**3,068**	**5,041**	**5,134**	**4,749**	**4,794**	**2,764**	**32,172**

Summary	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Gross revenues			27,500	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	110,000	82,500	1,100,000
Operating costs			(13,750)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(55,000)	(41,250)	(550,000)
Reclamation costs											(5,000)	(5,000)	(10,000)	(20,000)
Interest expense @ 10%		(1,400)	(4,720)	(4,894)	(504)									(11,518)
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,496	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,482
Income taxes														
Federal						(8,019)	(9,706)	(9,512)	(9,542)	(9,562)	(8,709)	(8,740)	(5,419)	(69,209)
Territorial						(7,357)	(7,742)	(7,589)	(7,612)	(7,628)	(6,954)	(6,979)	(4,357)	(56,218)
Mining taxes			(505)	(4,707)	(4,707)	(2,720)	(2,492)	(2,531)	(2,525)	(2,521)	(2,147)	(2,141)	(985)	(27,980)
Total taxes			(505)	(4,707)	(4,707)	(18,096)	(19,940)	(19,631)	(19,679)	(19,711)	(17,810)	(17,860)	(10,761)	(153,407)
Net cash flow from operations		(1,400)	8,525	45,400	49,790	36,904	35,060	35,369	35,321	35,289	32,190	32,140	20,489	365,076
Capital costs	(28,000)	(65,000)	(12,000)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,000)	(1,000)	(1,000)	(118,500)
Net cash flow	(28,000)	(66,400)	(3,475)	43,900	48,290	35,404	33,560	33,869	33,821	33,789	31,190	31,140	19,489	246,576
Working capital loan (repayment)	14,000	33,200	1,738	(43,900)	(5,038)									
Equity (deficit)	**(14,000)**	**(33,200)**	**(1,738)**	**0**	**43,252**	**35,404**	**33,560**	**33,869**	**33,821**	**33,789**	**31,190**	**31,140**	**19,489**	**246,576**

IRR	**34.8%**

Share of Pre-Tax Earnings over the Life of the Mine



Income taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,496	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,482
Deduct crown charges			(505)	(4,707)	(4,707)	(2,720)	(2,492)	(2,530)	(2,525)	(2,521)	(2,147)	(2,141)	(985)	(27,980)
Less CCA														
Standard		(7,500)	(14,375)	(12,094)	(869)	(254)	(315)	(362)	(396)	(422)	(379)	(284)	(213)	(37,464)
Supp. Cl.41(a)				(33,306)	(2,091)									(35,397)
Income from mine		(8,900)	(5,850)	0	46,829	52,026	52,193	52,108	52,079	52,057	47,474	47,575	30,052	417,642
Add back interest expense		1,400	4,720	4,894	504									11,518
Resource profits		(7,500)	(1,130)	4,894	47,333	52,026	52,193	52,108	52,079	52,057	47,474	47,575	30,052	429,160
Deduct interest expense		(1,400)	(4,720)	(4,894)	(504)									(11,518)
CDE	(7,500)	(5,250)	(3,675)	(2,573)	(1,801)	(1,261)	(882)	(618)	(432)	(303)	(212)	(148)	(104)	(24,758)
CEE					(11,281)	(1,719)	300	(900)	(900)	(900)	(900)	(900)	(900)	(18,100)
	(7,500)	(14,150)	(9,525)	(2,573)	33,748	49,046	51,610	50,591	50,746	50,854	46,362	46,526	29,048	374,784
Non-capital loss (claim)	7,500	14,150	9,525	2,573	(33,748)									0
Taxable income for income taxes						49,046	51,610	50,591	50,746	50,854	46,362	46,526	29,048	374,784
Federal tax - basic						9,319	9,806	9,612	9,642	9,662	8,809	8,840	5,519	71,209
Less ITC claim														
CCEE						(1,300)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(2,000)
Total federal tax	**0**	**0**	**0**	**0**	**0**	**8,019**	**9,706**	**9,512**	**9,542**	**9,562**	**8,709**	**8,740**	**5,419**	**69,209**
Territorial tax - basic						7,357	7,742	7,589	7,612	7,628	6,954	6,979	4,357	56,218
Total territorial tax	**0**	**0**	**0**	**0**	**0**	**7,357**	**7,742**	**7,589**	**7,612**	**7,628**	**6,954**	**6,979**	**4,357**	**56,218**

Mining taxes	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Total
Pre-tax cash flow from operations		(1,400)	9,030	50,106	54,496	55,000	55,000	55,000	55,000	55,000	50,000	50,000	31,250	518,482
Add back interest expense		1,400	4,720	4,894	504									11,518
Tax depreciation														
Mining		(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(4,167)	(50,000)
E&D				(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)	(10,000)
		(4,167)	9,583	49,833	49,833	49,833	49,833	49,833	49,833	49,833	44,833	44,833	26,083	470,000
Income taxes:														
Federal						(8,019)	(9,706)	(9,512)	(9,542)	(9,562)	(8,709)	(8,740)	(5,419)	(69,209)
Territorial						(7,357)	(7,742)	(7,589)	(7,612)	(7,628)	(6,954)	(6,979)	(4,357)	(56,218)
Taxable income for mining tax			9,583	49,833	49,833	34,458	32,386	32,732	32,680	32,643	29,170	29,114	16,307	348,740
Total mining tax	**0**	**0**	**505**	**4,707**	**4,707**	**2,720**	**2,492**	**2,531**	**2,525**	**2,521**	**2,147**	**2,141**	**985**	**27,980**

Summary of Features of Provincial Mining Tax Legislation — Appendix 3

	Yukon	Alberta	Manitoba	Nova Scotia	Saskatchewan	Quebec	N.W.T. and Nunavut	British Columbia	Ontario	New Brunswick	Newfoundland and Labrador	
Statute	*Yukon Quartz Mining Act*	*Metallic and Industrial Minerals Royalty Regulation to the Mine and Minerals Act*	*The Mining Tax Act*	*Mineral Resources Act*	*The Crown Minerals Act*	*Mining Duties Act*	*Northwest Territories and Nunavut Mining Regulations*	*Mineral Tax Act*	*The Mining Tax Act*	*Metallic Minerals Tax Act*	*The Mining and Mineral Rights Tax Act, 2002*	**Statute**
Mining Tax Rate (% of profit unless otherwise indicated)	$10,000 to $1,000,000: 3% $1,000,000 to $5,000,000: 5% $5,000,000 to $10,000,000: 6% Every additional $5,000,000: tax rate increases by 1%	Greater of: 1% of mine mouth revenue and 12% of net profits after full cost recovery	< $50,000,000; 10% $50,000,000 to $55,000,000; 65% $55,000,000 to $100,000,000; 15% $100,000,000 to $105,000,000; 57% > $105,000,000; 17%	Greater of 2% of net revenue and 15% of net income or royalty based on production or 2% of net revenue	Sales up to 1 million troy ounces: 5% Sales over 1 million troy ounces: 10%	12%	Lesser of 13% and following formula: $10,000 to $5,000,000: 5% $5,000,000 to 10,000,000: 6% For every add'l $5,000,000 annual profit, rate increases by 1% to maximum of 14%	2% on net current proceeds plus 13% on cumulative net revenue	10%	2% on net revenue plus 16% on net profit in excess of $100,000 16% on royalties received	15% of mine profit plus 20% of excess of profit over royalties paid 20% on royalties received less certain deductions	**Mining Tax Rate (% of profit unless otherwise indicated)**
Hedging Gain/(Loss)	Silent on the issue					Excluded			Generally included	Included, except speculative currency hedging	Silent on the issue	**Hedging Gain/(Loss)**
Depreciation — Mining Assets	15% straight-line		20% declining balance	100% for first 3 years of operation, 30% declining balance thereafter	100% deduction				30% straight-line basis (up to 100% of new mine income for new mine assets)	5% minimum (no maximum) for new or expanded mine assets Other assets maximum 33-1/3%	25% declining balance (100% for new or expanded mine assets)	**Mining Assets — Depreciation**
Depreciation — Processing Assets									15% straight-line basis		25% declining balance	**Processing Assets**
Pre-Production Expenses	Deductible only in year incurred	Effectively 100%	Included in depreciable assets		Effectively 150%					5% minimum No maximum	Deductible over the life of the mine as estimated by the Minister	**Pre-Production Assets**
Exploration Expenses	Ministerial discretion applies up to 100% deduction		100% deduction, additional 50% if in excess of prior 3 years' average, if off-site			100% deduction, additional 50% if off-site				150% deduction	100% deduction Indefinite carryforward	**Exploration Expenses**
Processing Allowance (% of processing assets) — Concentrating	Ministerial discretion		10%	8%		8%			8%			**Concentrating — Processing Allowance (% of processing assets)**
Smelting				15%		15%			12%	15%		**Smelting**
Refining				8%					16%		8%	**Refining**
Other			N/A			N/A			20% Northern Ontario Refining	N/A		**Other**
Processing Allowance (caps)	Ministerial discretion		No minimum Maximum 65% of net profits			No minimum Maximum 65% of net profit			Minimum 15% Maximum 65% of net profit	Maximum 65% of net profit		**Processing Allowance (caps)**
Selected Non-Deductible Expenses	Interest, royalties, depletion, cost of mining property									Interest, depletion, cost of mining property		**Selected Non-Deductible Expenses**
Special Features	In computing mine profits all taxes paid or payable upon mining, smelting, or refining profits are deductible	A 10% allowance is permitted in lieu of overheads	Tax holiday period until payback achieved. New mine processing assets qualify for 20% processing allowance.	Certain specific minerals (e.g., gold, silver) are subject to royalties at fixed percentage rates. However, Minister may (and does) require any producer to pay tax under the 2-part system.	150% of pre-production expenses are recovered prior to any royalties being payable. Separate royalties are applicable to potash, coal and uranium producers.	A cash refund equal to the lesser of 12% of the loss and 12% of the aggregate of exploration and development costs is available.	Acquisition cost of expansion claims deductible within limits	Investment allowance replaces the deduction for interest expense. 33-1/3% super-deduction for capital and pre-production costs of new or reopened mine or major expansion.	No mining taxes are payable in the first 3 years of production on profits below $10 million. The period is extended to 10 years for mines n remote locations. 5% tax rate for new mines in remote locations.	Finance allowance replaces the deduction for interest expense. New mine exempt from 2% royalty in first 2 years. The amount of 16% tax payable is reduced by 25% of eligible process research expenditures	In computing mine profit subject to 15% tax, a deduction is allowed equal to the greater of 20% of profits (before this allowance) and non-Crown royalties paid. Income taxes on mining income (up to $2 million per year) deductible from mining taxes for first 10 years of commercial production.	**Special Features**
Provincial Income Tax Rate	15%	10%	12%	16%	12%	11.9%	11.5%/12%	11%	12%	12%	14%	**Provincial Income Tax Rate**
	Yukon	**Alberta**	**Manitoba**	**Nova Scotia**	**Saskatchewan**	**Quebec**	**N.W.T. and Nunavut**	**British Columbia**	**Ontario**	**New Brunswick**	**Newfoundland and Labrador**	

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