A NEW MINING TAX REGIME

FAIR FOR ALL

STIMULATE MINING INVESTMENT

MAY 2013

UN QUÉBEC POUR TOUS

Québec

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TABLE OF CONTENTS

Charts

Tables

FIVE CORE PRINCIPLES

The Québec government wishes to make Québec one of the most prosperous places in the world by relying as a priority on private investment. Such prosperity must benefit all Quebecers. It is in this context that the government is presenting the new Québec mining regime. The regime hinges on five core principles.

1. All mining corporations must pay royalties

In 2011, half of mining corporations did not pay any royalties. This will not be possible under the new regime. From now on, all mining corporations operating in Québec must pay a minimum mining tax.

2. Quebecers must benefit more extensively from mining operations

Under the current system, certain mining operations may reap significant profits through a sudden increase in the price of ore without Québec's benefiting from sharp rises in prices. Under the new regime, the higher the profit margin of corporations is, the higher the mining tax will be. Accordingly, Quebecers will benefit from a possible significant increase in the price of ore.

3. More jobs in the processing sector

The government has adopted several measures to encourage businesses to process ore in order to create a maximum of paying jobs for Quebecers. With these measures, Québec will be one of the most worthwhile places to invest in the processing of mineral resources.

4. More responsible exploitation of mineral resources

The government wants Québec to develop its mining potential in a spirit of respect for the environment. It is ensuring that no mine site will be abandoned. The financial guarantee provided by mining corporations will cover 100% of the cost of restoring the mines that they operate. Moreover, a mining lease may not be issued unless the corporation has obtained environmental authorizations.

5. A more transparent regime

Prior to the reform, it was difficult for Quebecers to ascertain what benefits Québec derived from mining operations in the province. The future *Mining Act* will include provisions governing transparency, which will enable Quebecers to know how much tax each operator pays and information on the tonnage extracted will be public.

Quebecers will benefit to the utmost from the exploitation of Québec's mineral wealth. Private investors will continue to benefit, with clear, stable, predictable rules.

Following several analyses, debates and consultations, the government has struck a balance with a new mining tax regime fair for fall.

INTRODUCTION

The government's economic perspective is clear: private investments are the key to future growth. The stimulation of private investments is a priority within the framework of the government's policy to create wealth and jobs.

This priority applies, in particular, to the mining sector.

— In the mining sector, the development of our resources depends directly on the presence of and growth in investments that businesses in the sector make, whether they are big or small Québec, Canadian or foreign firms.

— The same private investments are already playing a strategic role in the development of the North. Northern development hinges, first and foremost, on the development and exploitation of Québec's mineral resources and is an economic driving force in this respect.

However, private investments in mineral resources must benefit all Quebecers. It is essential that they be carried out in a spirit of respect for the environment and that mining operations financed in this way be entirely transparent.

The government is, therefore, implementing a framework and rules to this end by defining a new **mining tax regime** through which Quebecers will benefit fairly from mineral resource development since the regime also promotes investments.

THE NEW MINING TAX REGIME

The government has clearly indicated its key directions and priorities with respect to mining royalties.

❑ Key directions and priorities

Quebecers must obtain their rightful benefits from mineral resource development. Such resources are non-renewable and it is essential that Québec derive its fair share of their development. We must do so while ensuring the profitability of investments through which mineral resources become a source of wealth. The measures adopted to modify for Quebecers' benefit the conditions under which mineral resources are exploited and developed must not have a counterproductive impact on investments.

We must adopt the means necessary to ensure that mining operations respect the environment and that they are carried out transparently. The conditions under which mines are exploited must be defined accordingly from both a short- and a long-term perspective.

Lastly, Québec must benefit directly from processing operations in respect of the ore mined in its territory. The fair sharing of the benefits of mineral resource development is not confined to the collection of royalties. It also implies that the ore mined in Québec's territory creates more employment and added value.

❑ Characteristics of the new mining tax regime

In order to carry out these key directions and priorities, the government is now making public the characteristics of the new mining tax regime, to be implemented in 2014.

— Through two major initiatives pertaining to the current regime, mineral resource development will generate higher royalties for Quebecers.

— The future *Mining Act* will include provisions that ensure better environmental protection and greater transparency from the standpoint of mining operations.

— The government is adopting and confirming a series of measures to foster and stimulate the processing of ore in Québec's territory.

The Forum sur les redevances minières

The government wished to proceed cautiously in putting into effect its key directions and priorities.

It consulted the mining industry and the stakeholders concerned by the question. On March 15, 2013, the Forum sur les redevances minières du Québec enabled everyone concerned to express an opinion and to make suggestions.

A key consultation exercise

The Forum sur les redevances minières was held at HEC Montréal. This important consultation exercise, co-chaired by Jacques Fortin (HEC Montréal) and Pierre Lasserre (UQAM-CIRANO) assembled representatives of the sectors concerned by the question of mining royalties.

In the consultation document *Le régime d'impôt minier du Québec*, the government confirmed its intention to enhance the sharing of wealth created by the exploitation of mineral substances and its determination to have all corporations contribute minimally to this objective.

The Forum sur les redevances minières focused on how to achieve this end and examined the different options proposed and possible solutions.

The deliberations

All told, nearly 300 people participated in the one-day event, including representatives of the mining industry, the municipal sector, the Aboriginal nations, and various interest groups.

The speakers presented to the participants a complete picture of the situation of the mining industry and mining taxation in Québec and the world.

Subsequently, the representatives of the key organizations concerned with mining development engaged in round-table forums to discuss a new mining royalties regime for Québec. The forum included question periods, which allowed those attending the forum to be heard.

All told, 25 groups or individuals interested by the question of mining royalties submitted a brief.

The briefs presented and the opinions expressed within the framework of the forum directly contributed to the government's deliberations to define the terms and conditions of a new mining tax regime.

1. MORE EXTENSIVE ROYALTIES FOR ALL QUEBECERS

The mining sector plays an important role in the Québec economy.

❑ The mining sector contributes significantly to economic activity in Québec

In 2011, GDP related to mining operations represented $2.9 billion, equivalent to 1.0% of Québec's GDP.

The mining sector plays a strategic role in Québec's external trade. Mining exports in 2011 stood at $2.4 billion, nearly 4.0% of Québec's total exports. When primary metal and non-metallic mineral manufacturing are added, exports in the mining sector reached nearly $16 billion in 2011, one-quarter of Québec's total exports.

Mining operations are extensive in certain regions, mainly in the Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec regions, where they create numerous jobs. All told, in 2011, mining operations supported nearly 17 000 direct jobs. On the whole, nearly 34 000 jobs are directly or indirectly linked to mining operations.

TABLE 1

Importance of the mining sector and primary metal and non-metallic mineral manufacturing in Québec – 2011

	Mining exploration and extraction	Primary metal and non-metallic mineral manufacturing(1)	TOTAL
GDP			
– billions of 2007 constant dollars	2.9	7.3	10.2
– as a % of the economy	1.0	2.4	3.4
Exports			
– billions of current dollars	2.4	13.3	15.7
– as a % of exports	3.8	20.9	24.7

(1) Including the production of primary aluminum.
Sources: Institut de la statistique du Québec, Ministère des Ressources naturelles du Québec and Statistics Canada.

❑ Mining investments are a key issue in Québec

The mining sector's contribution to Québec's economic growth depends directly on the investments made in the sector. Such investments vary according to changing world commodity prices.

In Québec, where production costs are relatively high, the link between the price of the resource and the extent of investments is almost immediate: higher prices for raw materials ensure the profitability of a greater number of deposits located in Québec and, therefore, the investments made to exploit them. Conversely, low prices very quickly affect the extent of investments in the Québec mining sector.

❑ A new plateau

In the early 2000s, mining investments in Québec hovered around $1 billion. Since the mid-2000s, such investments have reach a new plateau of around $4 billion.

Suitable economic conditions have fostered an increase in worldwide demand and, accordingly, high prices for natural resources. Extensive exploration initiatives over the past decade and a growing knowledge of Québec's mineral potential have also contributed to stimulating investments in the mining sector.

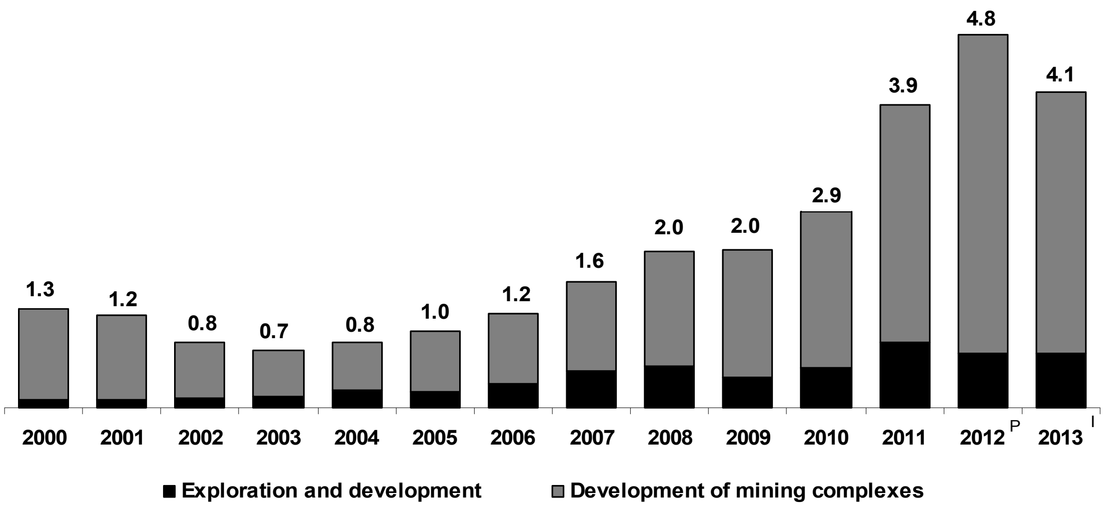
In 2012, mining investments in Québec stood at $4.8 billion, including 14% or $696 million on exploration and development expenses. The mining investments have been made principally in the Abitibi-Témiscamingue, Côte-Nord and Nord-du-Québec regions.

Mining investment intentions in 2013 stand at $4.1 billion. The decrease noted in relation to the 2012 level corresponds to a worldwide reference. This reduction must be put into perspective: in relation to the early 2000s, mining investments rose steadily until 2012.

It is important for the government that the new mining tax regime allows Quebecers to fully benefit from the interest that our resources arouse and maintains the flow of private investment that is essential to their development.

CHART 1

Changes in mining investments
(billions of dollars)



P: Provisional figures.
I: Intentions.
Source: Institut de la statistique du Québec.

❑ Two major initiatives

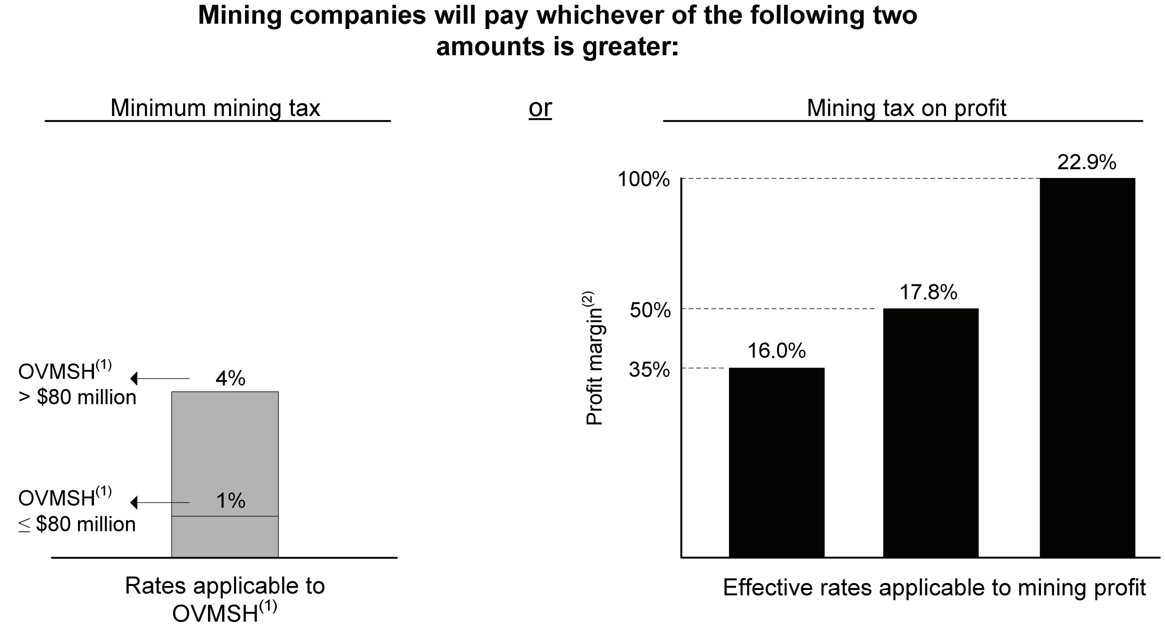
The government is announcing two major initiatives concerning the mining tax regime.

Henceforth, all mine operators will pay a minimum royalty, the **minimum mining tax**, which was not the case previously.

The government is also creating a **progressive mining tax on profit**, replacing the existing royalty: in this way, the government is ensuring that once the mining operation generates large profits, the wealth will be better shared.

CHART 2

Illustration of how the new mining tax regime works



(1) Output value at the mine shaft head.
(2) Profit margin: operator's mining profit divided by its gross value of annual production.

Minimum mining tax:

- 1% in respect of the first $80 million of output value at the mine shaft head;
- 4% in respect of the output value at the mine shaft head in excess of $80 million;
- the minimum mining tax paid may be carried forward and applied against the mining tax on future profit.

TABLE 2

Mining tax on profit

Profit margin	Applicable rates	Effective rates in the middle of the segment	Effective rates at the top of the segment
Segment from 0% to 35%	16.0%	16.0%	16.0%
Segment from 35% to 50%	22.0%	17.1%	17.8%
Segment from 50% to 100%	28.0%	21.2%	22.9%

1.1 A royalty payable by all mining corporations: the minimum mining tax

The government is setting up an ad valorem royalty, the minimum mining tax, so that all corporations operating a mine in Québec pay a minimum royalty. The minimum mining tax will act as financial compensation for the appropriation of mineral resources until such time as the development of these resources generates profits.

For a particular fiscal year, the ad valorem royalty will be calculated on the total output value at the mine shaft head for each mine operated.

— The royalty will be 1% of the value at the mine shaft head below or equal to $80 million, calculated on an annual basis.

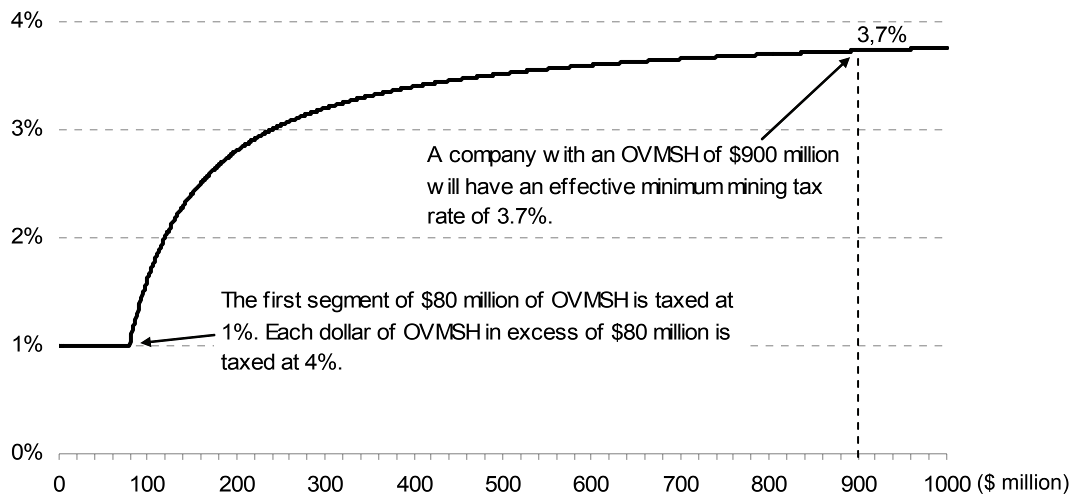
— The royalty will rise to 4% on the value at the mine shaft head in excess of $80 million.

The output value at the mine shaft head may not be less than 10% of the operator's gross value of annual output from the mine, for the fiscal year, in respect of each mine it operates during that year.

As Chart 3 shows, the effective rate of the minimum mining tax will rise gradually, as the output value at the mine shaft head increases.

CHART 3

Effective rates of the minimum mining tax according to the output value at the mine shaft head (OVMSH)



Output value at the mine shaft head

For the minimum mining tax to be calculated on a value that approaches the value of the ore at the mine shaft head, the expenses incurred by the operator from the first accumulation site of the mineral substance after it is removed from the mine will be deducted from the gross value of annual output for the mine.

The calculation of the output value at the mine shaft head in respect of a mine can be illustrated as follows.

Calculation of the output value at the mine shaft head in respect of a mine

Gross value of annual output for the mine

Less:

- Expenses incurred to achieve the gross value of annual output in respect of the mine that relate to:
  - activities of crushing, grinding, sieving, processing, handling, transportation and storage of the mineral substance from the mine, from its first accumulation site after it is removed from the mine;
  - marketing activities of the mineral substance.
- General and administrative expenses that relate to the above activities;
- Depreciation allowance for property used in mining operation activities from the first accumulation site of the mineral substance after it is removed from the mine;
- Processing allowance.

= Output value at the mine shaft head in respect of the mine[1]

(1) The output value at the mine shaft head in respect of the mine may in no case be less than 10% of the gross value of annual output for the mine.

1.2 A royalty that rises with earnings: the mining tax on profit

The government is implementing a progressive mining tax on profit so that all Quebecers benefit from a greater share of earnings from mining resources once the mining operation generates large profits. The higher a mining corporation's profit margin, the higher the mining tax.

❑ A progressive rate structure

The mining tax on profit will have the same tax base as under the existing regime. The new regime introduces a progressive rate structure based on the profitability of the annual output of all of an operator's mines.

The more profitable the operator, the higher the marginal tax rate that applies to mining profit.

The existing single tax rate is 16%. The new rates will range from 16% to 28%, depending on the profit margin.

TABLE 3

Mining tax on profit depending on profit margin

Profit margin	Applicable rates	Effective rates in the middle of the segment	Effective rates at the top of the segment
Segment from 0% to 35%	16.0%	16.0%	16.0%
Segment from 35% to 50%	22.0%	17.1%	17.8%
Segment from 50% to 100%	28.0%	21.2%	22.9%

Calculation of the profit margin, mining tax on profit and effective tax rate

Calculation of the profit margin

An operator's profit margin, for a fiscal year, will be calculated using the following formula:

$$\frac{\text{Operator's mining profit}}{\text{Total of the gross value of annual output for all the mines it operates}}$$

For example, an operator with a mining profit of $85 million and gross value of annual output for all the mines it operates totalling $200 million, for a fiscal year, will have a profit margin of 42.5% for that fiscal year.

$$\frac{\$85\text{ million}}{\$200\text{ million}} = 42.5\%$$

The expressions "mining profit" and "gross value of annual output", used for the purposes of calculating profit margin, correspond to notions used in calculating the mining tax on profit.

Calculation of the mining tax on profit and effective tax rate

The following table shows the detailed calculation of the mining tax on profit payable for an operator that has a profit of $85 million and a profit margin of 42.5%.

Thus, according to this example, the operator would pay a mining tax on profit of $14.5 million on a mining profit of $85 million for an effective tax rate of 17.1%.

Illustration of the calculation of the mining tax on profit and effective tax rate

	Breakdown of mining profit by segment		Mining tax payable by segment		
Profit margin	**Calculation**	**Mining profit (A)**	**Profit × rate**	**Mining tax (B)**	**Effective rate (B/A)**
Segment from 0% to 35%	$\frac{35\%}{42.5\%}$ × $85 million	$70 million	$70 million × 16%	$11.2 million	16.0%
Segment from 35% to 50%	$\frac{(42.5\% - 35\%)}{42.5\%}$ × $85 million	$15 million	$15 million × 22%	$3.3 million	22.0%
Segment from 50% to 100%	—	—	—	—	—
TOTAL		**$85 million**		**$14.5 million**	**17.1%**

Accordingly, the effective cumulative rate will reach:

— 16.0% for an operator whose profit margin does not exceed 35%;

— 17.1% for an operator whose profit margin is 42.5%;

— 17.8% for an operator whose profit margin is 50%;

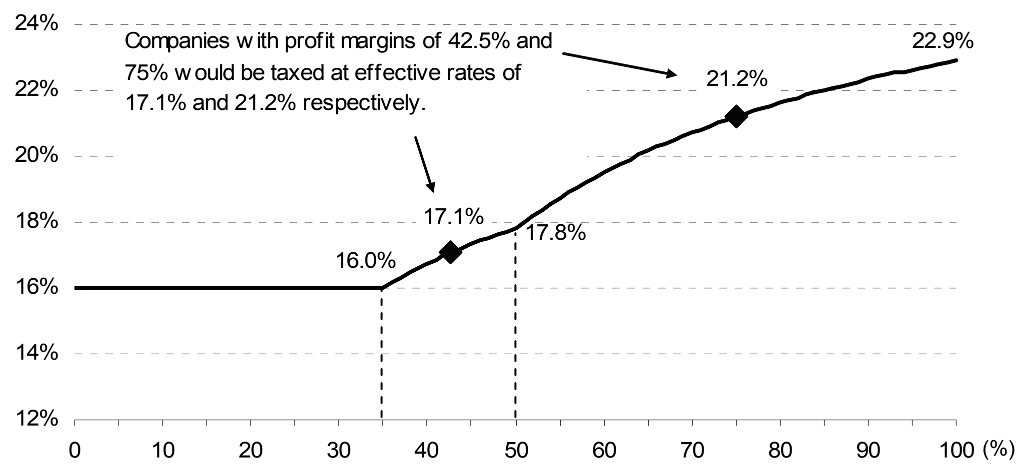
— 21.2% for an operator whose profit margin is 75%;

— 22.9% for an operator whose profit margin is 100%.

The minimum mining tax paid may be applied against the mining tax on future profit as a non-refundable credit.

CHART 4

Effective rates of the mining tax on profit according to the company's profit margin



Non-refundable minimum mining tax credit

With the new mining tax regime, the minimum mining tax paid for a fiscal year may be carried forward to be applied against the mining tax on future profit as a non-refundable minimum mining tax credit.

However, the use of amounts carried forward will be limited each year so that the corporation always pays an amount of mining tax on profit equivalent to the minimum mining tax calculated for such fiscal year.

An example

The following example illustrates how the non-refundable minimum mining tax credit works.

In this example, a corporation that paid a minimum mining tax of $5 million in its first year of operation may apply against its mining tax on future profit a maximum of $4 million, i.e. the difference between the minimum mining tax ($5 million) and the mining tax on profit ($1 million).

In its second year of operation, the corporation may reduce its mining tax on profit ($11 million) by part of the minimum mining tax paid in year 1, i.e. $2 million. This minimum mining tax credit many not exceed the difference between the mining tax on profit ($11 million) and the minimum mining tax ($9 million) for this year.

In its third year of operation, the corporation may apply the unused balance of the minimum mining tax, i.e. $2 million, to reduce its mining tax on profit by $2 million.

Illustration of the carry-forward of the minimum mining tax and its application against the mining tax on future profit
(millions of dollars)

	Year 1	Year 2	Year 3
Output value at the mine shaft head	180	290	290
Profit	6	70	125
Minimum mining tax	5	9	9
Mining tax on profit	1	11	20
Maximum difference between the minimum tax and the tax on profit	5	11	20
Less: non-refundable minimum mining tax credit	—	–2	–2
Mining tax payable in the year	**5**	**9**	**18**
Minimum mining tax balance carried forward	4	2	—

1.3 Royalties that will further benefit all Quebecers

Had the new regime applied from 2000 to 2011, the government would have received $559 million more in mining tax than what was collected during that period, i.e. 55% more.

Of the additional $559 million, the minimum mining tax accounts for $265 million and the mining tax on profit, $294 million.

In all, for the period from 2000 to 2011, Québec collected mining royalties of $1.0 billion. The new mining tax regime would have generated almost $1.6 billion.

TABLE 4

Additional mining tax arising from the application of the new regime from 2000 to 2011
(millions of dollars)

			Difference		
	Existing regime	New regime	Minimum mining tax	Mining tax on profit	Total
Mining tax	1 022	1 581	265	294	559

❑ Additional revenue sources

The difference is attributable both to the implementation of the minimum mining tax and the progressive nature of the mining tax on profit.

— The first component of the new mining tax regime – the minimum mining tax – would have resulted in an additional $265 million being collected during the period from 2000 to 2011.

— The second component of the new tax mining regime – the mining tax on profit – would have increased the royalties collected by the Québec government by $294 million compared with what was actually collected during this period.

❑ Impact of the minimum mining tax

From 2000 to 2011, almost half of the increase in revenue from the mining tax – more specifically 47.4% – would have resulted from the implementation of a minimum mining tax.

There is a simple explanation for this: for each year during this period, roughly one out of every two mining corporations paid no royalties, because of relatively small profits or the allowances these corporations could apply against their revenue.

Under the new regime, all mining corporations would have been subject to a minimum royalty, which could, however, have been applied against future mining tax.

TABLE 5

Producing mining corporations according to whether or not they paid mining tax

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Corporations that paid mining tax	12	13	14	15	15	9	7	9	11	12	9	10
Corporations that did not pay mining tax	14	10	11	10	10	13	12	11	9	6	11	10
TOTAL	**26**	**23**	**25**	**25**	**25**	**22**	**19**	**20**	**20**	**18**	**20**	**20**

❑ A significant increase in expected revenue

The new mining tax regime will enable Quebecers to receive a larger share of the wealth generated by mining operations.

A minimum mining tax and a progressive mining tax on profit will produce significant royalties for Québec, regardless of the prices of raw materials on world markets.

For 2020, the royalties collected under the new regime have been estimated using various scenarios for profit margins and price levels.

— According to the unfavourable scenario – average prices and average margin –, Québec would receive royalties of $566 million in 2020. The gain compared to the existing regime would be $91 million, with the minimum mining tax accounting for almost half the gain ($39 million).

— In the case of the favourable scenario – high prices and high margin –, royalties collected would reach $911 million. The gain compared to the existing regime would amount to $221 million, with the progressive structure of the mining tax on profit accounting for three quarters of the gain.

TABLE 6

Illustration of the gains arising with the revision of the mining tax regime
(millions of dollars)

	2015		2020 – after revision of the regime			
			Average prices		High prices	
	Existing regime	New regime	Average margin	High margin	Average margin	High margin
Mining tax – existing regime	**320**	**320**	**475**	**550**	**600**	**690**
Impact of revision of the regime						
– Minimum mining tax	—	25	39	39	49	49
– Mining tax on profit	—	31	52	102	102	172
Impact of revision of the regime	**—**	**56**	**91**	**141**	**151**	**221**
TOTAL – MINING TAX	**320**	**376**	**566**	**691**	**751**	**911**

1.4 A regime ensuring the growth of mining development

The challenge as far as a mining tax regime is concerned is to define a formula under which the public obtains a fair share from the development of natural resources, without jeopardizing the investments needed to carry out such development.

The new mining tax regime meets this challenge: the government is defining a regime that is competitive, stable and predictable.

❑ A competitive regime

It is essential that the regime be competitive because of the fierce competition among producers of mining resources. Investment financing has also become globalized. It is not possible to design a royalty regime that ignores the regimes in place in the major ore-producing countries.

Québec's leeway regarding the mining tax is constrained by several factors.

— In this battle of competitiveness, Québec must overcome a certain disadvantage because of the geological nature of its deposits. The costs of exploration, extraction and development of mining resources are higher than for our major competitors because ore is less concentrated.

— Moreover, it should be recalled that adjustments were made to the mining tax regime over the last two years. The new regime applies to a mining tax system that is already relatively high because of the tightening adjustments made since 2010. The royalty rate was increased and restrictions were placed on the allowances mining corporations can claim. Transferring losses from one mine to another was banned and a mine-by-mine regime put in place.

Chart 5 illustrates the competitiveness of the combined tax rate on the profits of mining corporations. The calculated rate reflects the new mining tax on profit as well as Québec and federal corporate income tax.

— For a low margin, the effective tax rate on profits is 38.6%.

— This rate would rise to 39.4% for a profit margin of 42.5%.

— It would reach 42.4% for mining corporations with a profit margin of 75%.

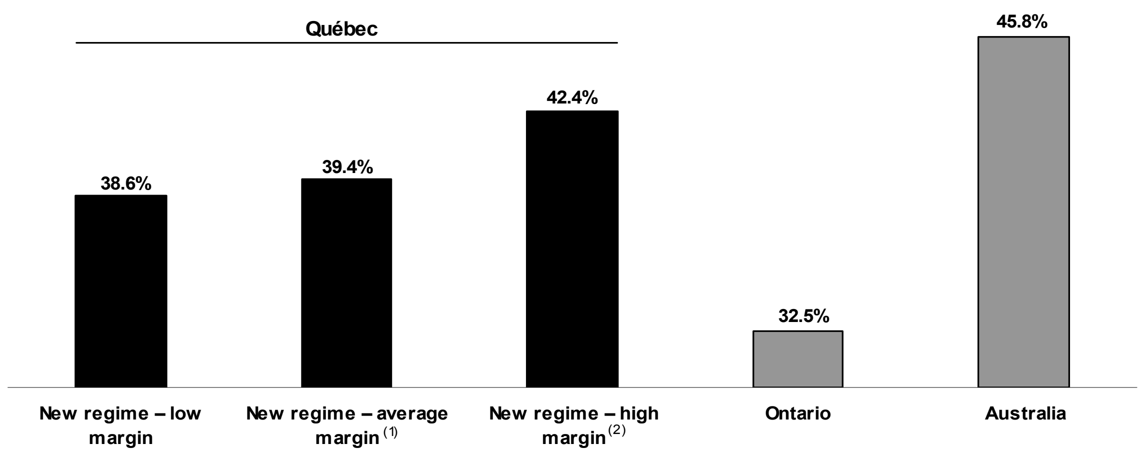
— These rates are compared with the tax rates in Ontario (32.5%) and Australia (45.8%).

The chart illustrates the impact of the progressive structure of the new mining tax on profit. It also makes it possible to assess the competitive nature of the new regime.

The box on page 20 assesses the competitiveness of the new regime compared with those of the other provinces, this time using a typical case. Québec's new mining tax regime appears to be the most demanding in Canada, mainly because of its progressive structure. However, the government considers that the greater demands of the new system are within the leeway available to Québec and should not jeopardize mining investments.

CHART 5

Combined tax rates of corporate income tax and the mining tax regime



(1) An average margin corresponds to a profit margin of 42.5%.
(2) A high margin corresponds to a profit margin of 75%.

TABLE 7

Combined tax rates of corporate income tax and the mining tax on profit

	Québec – new regime				
	Low margin	**Average margin(1)**	**High margin(2)**	**Ontario**	**Australia**
Federal corporate income tax	15.0%	15.0%	15.0%	15.0%	30.0%
Provincial corporate income tax	11.9%	11.9%	11.9%	10.0%	—
Mining tax on profit	16.0%	17.1%	21.2%	10.0%	22.5%(3)
Deductibility of the mining tax for purposes of calculating income taxes	– 4.3%	– 4.6%	– 5.7%	– 2.5%	– 6.8%
Combined tax rates – income taxes and mining tax on profit	**38.6%**	**39.4%**	**42.4%**	**32.5%**	**45.8%**

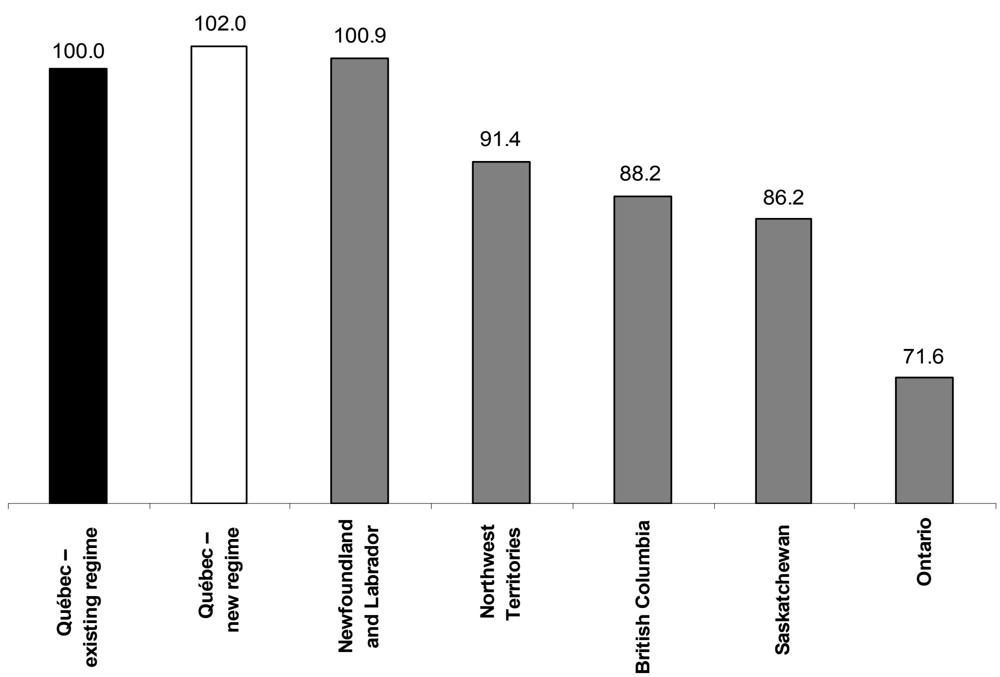
(1) An average margin corresponds to a profit margin of 42.5%.
(2) A high margin corresponds to a profit margin of 75%.
(3) Minerals resource rent tax.

Illustration of the impact of the new mining tax regime on competitiveness

The following chart shows an index of competitiveness of the tax system applying to the mining sector, for a typical mine.

The index shows that with the new parameters of the mining tax regime, Québec will henceforth be the most demanding jurisdiction in Canada in terms of taxation applicable to the mining sector. This is mainly because of the progressive structure of the rates applicable to mining profit, which rise with the operator's profit margin.

Index of competitiveness of taxation applicable to the mining sector for a typical mine(1)
(Québec's existing regime = 100)



(1) Gold mine operated for 10 years following exploration and development investments made over three years. The mine has an average profit margin of 46% over the 10 years of operation. The index represents the proportion of cash flows over the life of the mine dedicated to the payment of the mining tax and Québec and federal corporate income taxes.
Source: Ministère des Finances et de l'Économie du Québec.

❑ A stable regime with predictable rules

The government is defining fair and transparent rules of the game allowing investors to forecast the return they can expect on their investment, depending on the results of exploration work and the situation on world markets.

Predictable rules are particularly important in a sector that can be highly cyclical. The prices of metals produced in Québec have been trending down since 2011. However, the medium-term outlook remains promising.

The downward trend in prices of metals produced in Québec is attributable to a series of factors, including:

— the difficulties facing the world economy,

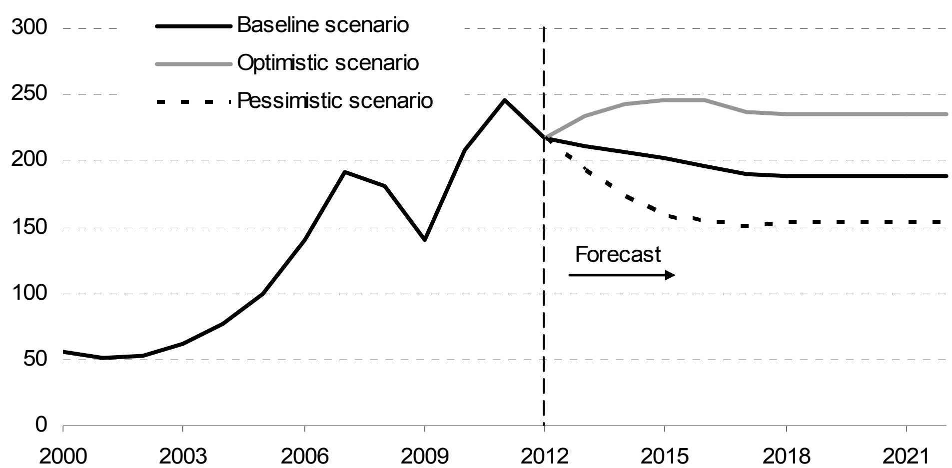
— rising world production of metals and minerals.

The median scenario for the outlook of the Québec metal price index, based on private sector forecasts, shows a slight drop in metal prices over the next few years.

However, over a ten-year period, this index should remain 33% higher than the low reached in the last recession and almost four times higher than the levels of the early 2000s. Growth in emerging economies should continue to support world demand for metals in the medium term.

CHART 6

Québec metal price index
(index, 2005 = 100)



Sources: Bloomberg, Consensus Forecasts (April 2013) and Ministère des Finances et de l'Économie du Québec.

The mining tax regime and value-added related to processing

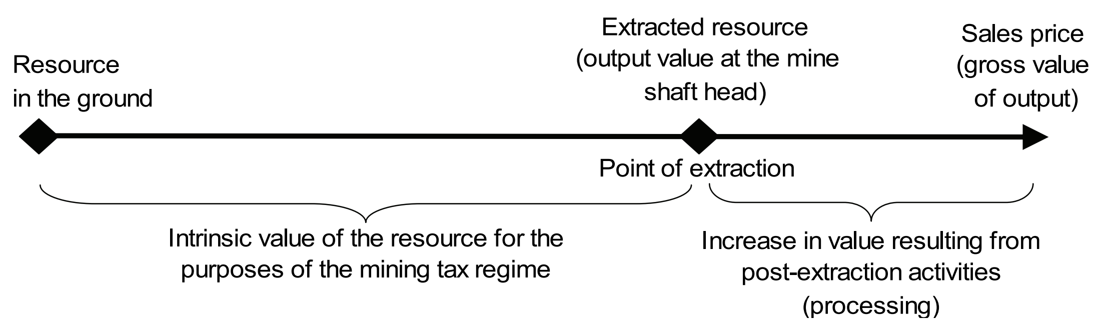
The objective of the mining tax regime is to tax the resource while exempting the value-added arising from activities downstream from extraction.

The value of the resource that belongs to Quebecers corresponds to the value at the time of its extraction at the mine shaft head. At this stage, the value of the resource has not been affected by the increase in value resulting from processing activities.

This increase in value has no relation to the economic value of the resource and should not be subject to the mining tax regime.

The increase in value resulting from processing activities is not, however, exempt from tax. It is subject to the general corporate income tax system, like all other manufacturing activities.

Extraction process and value of the resource for the purposes of the mining tax regime



2. ENHANCED ENVIRONMENTAL PROTECTION AND MORE TRANSPARENT ACTIVITIES

The implementation of the new mining tax regime will soon be accompanied by new provisions that better protect the environment and enhance the transparency of mining operations.

The impending *Mining Act* will include provisions aimed at both objectives.

2.1 Enhanced environmental protection

❑ Mine site restoration

On February 13, 2013, a draft regulation was published concerning mine site restoration. The draft regulation comprises the following provisions:

— the financial guarantee demanded of mining corporations would be increased from 70% to 100%;

— the guarantee would cover the entire mine site;

— it would be provided during the first years of operation and not over a period of up to 15 years as is now the case.

The government is announcing its intention to integrate the different requirements into the future *Mining Act.*

❑ The issuing of mining leases

The future *Mining Act* will include another provision aimed at protecting the environment and linked to the issuing of a mining lease.

At present, a mining lease may be issued without the mining corporation's having obtained the requisite environmental authorizations. The future *Mining Act* will stipulate that the issuing of mining leases will from now on be subject to obtaining environmental authorizations.

❑ Ensure prompt processing of applications for environmental authorizations

The Québec *Environment Quality Act* stipulates rigorous procedures for the evaluation and examination of the impact on the environment and the social environment of development projects.

The procedures, which are essential for the attainment of the common objectives of sustainable development must, however, be achieved within reasonable time limits.

Accordingly, to ensure prompt processing of applications for environmental authorizations, additional resources will be devoted to bolstering the response capability of the Ministère du Développement durable, de l'Environnement, de la Faune et des Parcs (MDDEFP). The resources will, in particular, make it possible to accelerate the acquisition of knowledge of the northern territory, enhance expertise and ensure more effective guidance for businesses in the development of their projects.

— To support this initiative, the MDDEFP will receive up to $10 million over the next five years. The funds will be drawn from the Fonds du développement nordique.

2.2 Social acceptance strengthened

The *Mining Act* will establish new tools to ensure the social acceptance of mining projects.

- The Act will make provision for the creation of follow-up committees through which individuals and mining corporations can share information on a mining project as the project proceeds.
- The *Mining Act* will include provisions aimed at taking into account the choices of the RCMs as regards mining operations in their territories.

2.3 A transparent regime

It is essential that Quebecers be able to assess the benefits that they derive from mining operations.

Throughout the world, a growing number of jurisdictions are adopting new legislative provisions to disclose the payments made to governments by mining corporations operating businesses in their territory.

In Québec, most of the information of a financial and a tax nature that the government possesses in respect of mining corporations is protected by the *Mining Tax Act* and the *Act respecting access to documents held by public bodies and the Protection of personal information.*

Quebecers are entitled to know the benefits due to them stemming from the exploitation of their natural resources. The future *Mining Act* will include provisions that significantly enhance the transparency of mining operations:

— the annual mining tax paid by each mining corporation will be made public;

— information on the tonnage mined will also be made public.

3. MAJOR MEASURES TO PROMOTE THE PROCESSING OF ORE

Independently of the increase in royalties collected, the government is implementing the means necessary to ensure that Quebecers benefit more extensively from mineral resource development by promoting the processing of ore in Québec.

— The government is bolstering incentives to process ore in Québec by enhancing the allowance for the processing of ore.

— The government is providing direct support to investments in processing by focusing on their financing and electricity rates.

3.1 Enhancement of the processing allowance

The processing allowance reduces mining profit by granting a return on processing assets. The allowance recognizes the added value stemming from processing. The current yield allowed is 7% or 13%, depending on the type of asset. The allowance is capped at 55% of the annual profit of the mine.

To further stimulate ore processing in Québec, the government is enhancing the allowance.

— When a mine operator engages solely in concentration operations (including smelting activities and gold and silver refining), the rate of the allowance applicable to eligible assets in Québec will be increased by 3 percentage points, from 7% to 10%.

— When a mine operator engages in processing operations in Québec (smelting, refining, the production of metal powder and billets), the rate applicable to eligible assets in Québec will be increased by 7 percentage points, from 13% to 20%.

— The maximum processing allowance will increase from 55% to 75% of the annual profit of the mine.

The enhancement, which promotes processing in Québec, complements two important existing tax measures:

— the 10-year tax holiday for large investment projects (THI);

— the investment tax credit on manufacturing and processing equipment.

Impact on the mining tax on profit of the enhancement of the processing allowance

With the enhancement of the processing allowance, a corporation engaged in processing activities in Québec will benefit, depending on the type of asset, from an increase of 7% to 10% or from 13% to 20% of the applicable rate in respect of its processing assets.

For illustrative purposes, for $300 million in smelting and refining assets, the enhancement represents a mining tax saving of nearly $3.4 million. Based on the assumption that the corporation carries out a new investment of $250 million in year 2, the enhancement of the processing allowance represents a mining tax saving of $28.0 million after five years of operation.

Illustration for a mining corporation of the impact on the mining tax on profit of the enhancement of the processing allowance
(millions of dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Total – 5 years
Value of processing assets	300	300	550	550	550	
Addition of processing assets(1)	—	250	—	—	—	
Processing allowance						
– Existing regime (13%)	39.0	71.5	71.5	71.5	71.5	**325.0**
– New regime (20%)	60.0	110.0	110.0	110.0	110.0	**500.0**
Difference	**21.0**	**38.5**	**38.5**	**38.5**	**38.5**	**175.0**
Value of the allowance in mining tax(2)						
– Existing regime	6.2	11.4	11.4	11.4	11.4	**52.0**
– New regime	9.6	17.6	17.6	17.6	17.6	**80.0**
Mining tax saving	**3.4**	**6.2**	**6.2**	**6.2**	**6.2**	**28.0**

(1) Smelting and refining assets.
(2) Based on the assumption that the mining tax rate on profit is 16%.

TABLE 8

Description of the steps in metal processing

Steps in processing	Extraction and processing of ore	**Primary metal processing**	**Secondary and tertiary metal processing**
Operations	Extraction – Dynamiting – Machine mining – Drilling Comminution – Crushing – Milling – Sieving Concentration – Gravimetry – Magnetic separation – Electrostatic separation – Flotation	– Smelting and refining – Hydrometallurgy – Alloying – Rolling – Drawing – Extrusion	– Turning – Milling – Forging – Stamping – Bending – Assembly – Food processing – Pharmacology
Products	– Concentrates – Iron pellets	– Anodes and cathodes – Ingots – Powders – Billets – Plates and sheets – Strips, stems and bars – Wires and tubes	– Food supplements – Drug products – Sheet metal and framing components – Motors and turbines – Industrial machines – Batteries and storage cells (lithium)

3.2 Financing of investments and electricity rates

❑ The Capital Mines Hydrocarbures fund

The government may acquire interests in mineral processing projects in Québec through the Capital Mines Hydrocarbures fund.

One of the objectives of the fund is to promote more extensive processing of Québec's resources. The November 2012 Budget documents emphasized that the processing of ore in Québec will allow for the development of know-how, the hiring of Quebecers in the regions, and the realization in Québec of a significant portion of the value added to ore.

The Capital Mines Hydrocarbures fund has a budget allowance of $750 million. As indicated when the 2013-2014 Budget was tabled last November, the fund is intended to build on and increase the allocation credited to it through investments and equity interests in the mining sector. Of the budget allowance of $750 million, $500 million will be invested in equity interests in corporations mining mineral substances located in the northern territory.

❑ Electricity rates

For mining projects, electricity must normally be charged at marginal cost. However, the government may grant blocks of electricity at the preferential rate to promote the processing of ore in Québec.

The government notes that it may determine electricity rates in the case of projects involving 50 MW or more related to processing activities.

CONCLUSION

By making public the new mining tax regime, the government is acting upon its commitments.

❑ Commitments fulfilled

The implementation of a minimum mining tax and a mining tax on profit at progressive rates will increase the royalties collected for the benefit of all Quebecers. In 2020, the implementation of the new regime will generate from $73 million to $201 million more than the current regime, depending on the hypotheses adopted concerning the price of resources and the profit margin. Between 2014 and 2025, using the same hypotheses, the new regime will generate between $770 million and $1.8 billion more than under the current regime.

The government is doing so by ensuring the competitiveness of the new rules in relation to the royalty regimes adopted by our main competitors. It is important that Québec benefit from private investments in mining corporations, which are essential to the development of its resources.

The investments must be carried out in a spirit of respect for the environment with the utmost transparency. The future *Mining Act* will include the appropriate provisions.

The government is accentuating initiatives already undertaken to increase the processing of mineral resources in Québec's territory to create more jobs and added value by means of the potential of the deposits available.

❑ An economic vision based on the role of private investments

The new mining tax regime reflects the government's economic perspective presented in the 2013-2014 Budget: private investments are the key to future growth and mining resource development is one the best illustrations of this observation.

TABLE 9

Illustration of the gains stemming from the revision of the mining tax regime after the enhancement of the processing allowance
(millions of dollars)

	2015		2020 – after revision of the regime			
			Average prices		High prices	
	Existing regime	New regime	Average margin	High margin	Average margin	High margin
Mining tax before the processing allowance – existing regime	**361**	**361**	**545**	**620**	**670**	**760**
– Processing allowance	-41	-41	-70	-70	-70	-70
Mining tax – existing regime	**320**	**320**	**475**	**550**	**600**	**690**
Impact of the revision of the regime before the enhancement of the processing allowance						
– Minimum mining tax	—	25	39	39	49	49
– Additional mining tax depending on profitability	—	31	52	102	102	172
Subtotal	**—**	**56**	**91**	**141**	**151**	**221**
– Impact of the enhancement of the processing allowance	—	-6	-18	-19	-19	-20
Impact of revision of the regime	**—**	**50**	**73**	**122**	**132**	**201**
TOTAL – MINING TAX	**320**	**370**	**548**	**672**	**732**	**891**