A Promising and Unsuspected Potential

Québec, despite the vastness and richness of its 1.7 million km², has an immense potential that is still relatively unexplored. Still, oil and gas discoveries and geological studies have indicated the presence of promising sedimentary basins which, since 1990, have aroused new interest in explorers.

The greatest potential for hydrocarbon discovery is in Québec’s sedimentary zone, which covers more than 200,000 km², or 13% of Québec’s total surface area. This zone extends over the southern section of the province along the line of the St. Lawrence River, stretching from the border with Ontario to that with Newfoundland. Drilling conducted in this zone has led to the identification of six basins which display the best hydrocarbon potential in Québec.

Accessible Zones

In addition to having a promising geological potential, Québec possesses well-developed road and rail infrastructures that provide easy access to exploratory zones. Likewise, the St. Lawrence River gives Québec direct access to the Atlantic Ocean as well as to the Great Lakes, by way of the St. Lawrence, thus making it a prime entrance to both American and European markets.

The Basins

Among these basins, the St. Lawrence Lowlands and the eastern Gaspé Peninsula have seen the most intensive exploration. Two natural gas fields have been discovered to date, the first being at Pointe-du-Lac and the second, at Saint-Flavien.

1- St. Lawrence Lowlands
2- Lower St. Lawrence
3- Gaspé Peninsula
4- St. Lawrence estuary (Anticosti Basin)
5- St. Lawrence Gulf
6- Northern Québec
Obligations
The holder of an exploration licence must conduct geological, geophysical or drilling work. The first year, the mandatory value of this work is 50¢ per hectare, reaching $2.50 the fifth year.

An annual rent of 10¢ per hectare is required at the start of each year for the length of the licence. This annual rent is reduced to 5¢ in the case of annual rights applied to 100,000 or more hectares in marine environments.

These obligations ensure that an exploration licence will not go unused and that there will be no monopolizing.

The Exploitation Lease
The holder of an exploration licence who discovers an economically exploitable oil or natural gas field will be granted an exploitation lease.

The exploitation lease is granted for a 20-year period and can be renewed if the resource is found in sufficient amounts. The maximum surface area of the deposit that can be legally exploited with such a lease varies from 200 to 2,000 hectares.

Clear Rules for All

Free Mining
In Quebec, the rules for granting licences are described in the Mining Act. Likewise, the granting of exploration licences is based on the free mining principle, that is:
- everyone has access to a resource;
- the first applicant is granted the exploration rights;
- in the case of a discovery, the applicant is ensured of obtaining the resource exploitation rights;
- industry know-how determines how fields are discovered and developed.

Oil and Natural Gas Exploration Licences
- The holder of an exploration licence has an exclusive right to search for oil and natural gas.
- The exploration licence applies to a maximum of 25,000 hectares.
- The licence is valid for five years.
- The licence can be renewed for one year at a time for a total of another five years.
- The holder of several permits can group them all together when calculating expenses for statutory work.
- The licence is granted on the basis of a uniform grid system. Each delimitation parcel covers 2 minutes 30 seconds of latitude and three minutes of longitude, with a surface area of approximately 2,000 hectares.

Refundable Tax Credit
Making Exploration Easier
In order to make it easier to invest in oil and natural gas exploration in Quebec, the Government has introduced a refundable tax credit. This credit's base rate is 20%. This rate is increased to 40% of admissible costs when a company is not operating any oil or natural gas wells.

The refundable tax credit applies to oil and natural gas exploration expenses used to establish the existence of reservoirs.

Eligible Expenses
- Geological, geophysical and geochemical studies
- Drilling and completion of an oil or natural gas well
- Construction of a temporary access road or well site
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Production Royalties

- The holder of an oil or natural gas exploitation lease must pay an annual rent of $2.50 per hectare.
- The royalty for oil production varies from 5 to 12.5%, depending on the amount.
- The royalty for natural gas production varies from 10 to 12.5%, depending on the amount.

Corporate Tax Rate

In accordance with the Québec Taxation Act, the corporate tax rate is set at 9.04%. However, resource deductions of 25% of the profit made from petroleum or natural gas exploration can reduce this rate to 6.80%. Furthermore, 100% of the exploration costs can be deducted.

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Exploration in Québec is:

- a choice of promising sedimentary basins;
- more than 200,000 km² to be explored;
- a local natural gas market of more than 200 BCF;
- access to well-developed road and rail infrastructures;
- a transportation and distribution network more than 10,000 km long;
- direct access to the Atlantic Ocean and the Great Lakes through the St. Lawrence River;
- proximity to the market of the north-eastern United States;
- licence granting based on the free mining principle;
- the guaranteed right of explorers to exploit their discoveries;
- company income tax of 9.04% ;
- annual rent of 10¢ per hectare;
- production royalty varying from 5 to 12.5%;
- exploration financing made easier by an advantageous tax system.

For more information, contact:

Oil and Gas Branch
Ministère des Ressources naturelles
5700, Fourth Avenue West, Room A 412,
Charlesbourg, Québec, CANADA
G1H 6R1
Tel.: (418) 627-6390
Fax: (418) 644-1445
Web site: www.mrn.gouv.qc.ca/2/24