

Flow-Through Share Regime

Net cost of \$1,000 invested by an individual in a company undergoing surface exploration in Québec

	On January 31, 2024	On January 31, 2024
	For specified critical minerals	For minerals OTHER than specified critical minerals
Exploration expenditures	1,000	1,000
<u>Deductions in Québec</u>		
Basic deduction of 100% (25.75% x \$1,000)	258	258
Additional deduction ¹ of 10% (25.75% x (10% x \$1,000))	26	26
Supplementary deduction ² of 10% (25.75% x (10% x \$1,000))	26	26
Québec tax savings for an individual	310	310
<u>Federal deduction and credit</u>		
Mineral exploration tax credit ³ of 30% or 15% (30% x \$1,000) ou (15% x \$1,000)	300	150
Basic deduction of 100% (33% x (100% - 16,5%) x \$1,000)	275	275
Tax on the credit of 30 or 15% (33% x (100% - 16.5%) x \$300) or (33% x (100% - 16.5%) x \$150)	(83)	(41)
Federal tax savings for the individual	492	384
Amount assumed by governments	802	694
Net cost for an individual	198	306
After-tax profit threshold	230	356

- (1) Additional deduction when exploration is conducted in Québec.
- (2) Supplementary deduction when exploration is conducted on the surface in Québec.
- (3) Mineral exploration tax credit of 15% (scheduled until March 31, 2024) or 30% if exploration expenditures target specified critical minerals (scheduled until March 31, 2027). According to the 2022 Federal Budget Speech, specified critical minerals are: copper, nickel, lithium, cobalt, graphite, rare earth elements, scandium, titanium, gallium, vanadium, tellurium, magnesium, zinc, platinum group metals and uranium.

Explanation:

The company's \$1,000 exploration expenditures were renounced to the investor.

The exploration work is carried out in Québec on the surface, thus giving the right to the additional deduction of 10% and the supplementary deduction of 10%, for a total of eligible exploration expenditures amounting to 120%.

Maximum tax rate for an individual:

Federal	33.00%
Québec	25.75%

The 16.5% represents the abatement provided to Québec residents and applied against the basic federal tax rate.

There is an exemption of deemed capital gain in Québec (Capital gains deduction on resource property).

Profit threshold calculation:

Federal taxable capital gain (TCG) = (selling price x 50%)

Federal tax on TCG = TCG x 33% x (100% - 16.5 %) = 13.78% of selling price

Thus, the after-tax profit threshold:

- For the exploration expenditures targeting specified critical minerals (note 3)
 $\$198 / (100\% - 13.78\%) = \230 (minimum selling price)

Tax on TCG = 13.78% x \$230 = \$32

- For the exploration expenditures targeting minerals OTHER than specified critical minerals
 $\$306 / (100\% - 13.78\%) = \356 (minimum selling price)

Tax on TCG = 13.78% x \$356 = \$50

Proof – Net cost of the investment by an individual, for specified critical minerals or others:

Minimum selling price to recover its net investment	\$230	\$356
Less: Federal tax on taxable capital gain (N/A Qc)	\$32	\$50
Net cost of the investment by an individual	\$198	\$306