

	At December 31 2018
<b>Exploration expenses</b>	<b>1 000</b>
<b><u>Deductions in Québec</u></b>	
Base deduction of <b>100 %</b> (25,75 % X \$1000)	258
Additional deduction <sup>(1)</sup> of <b>10 %</b> (25,75 % X (10 % X \$1000))	26
Supplementary deduction <sup>(2)</sup> of <b>10 %</b> (25,75 % X (10 % X \$1000))	26
Québec tax savings for the individual	<b>310</b>
<b><u>Federal deduction and credit</u></b>	
Federal investment tax credit for exploration <sup>(3)</sup> of <b>15 %</b> (15 % x \$1000)	150
Base deduction of <b>100 %</b> (33 % X (100 % - 16,5 %) X \$1000)	275
Tax on the credit of <b>15 %</b> (33 % X (100 % - 16,5 %) X \$150)	(41)
Federal tax savings for the individual	<b>384</b>
<b>Amount assumed by the governments</b>	<b>694</b>
<b>Net cost for the individual</b>	<b>306</b>
<b>After-tax profit threshold</b>	<b>356</b>

- (1) Additional deduction when exploration is conducted in Québec.  
 (2) Supplementary deduction when exploration is conducted from the surface in Québec.  
 (3) Mineral exploration tax credit (METC).

Explanations:

The company's \$ 1000 exploration expenses were renounced to the investor.

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

Maximum tax rate for an individual:

At the federal 33.00 %  
 In Québec 25.75 %

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

There is an exemption of 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

So the after-tax profit threshold:

\$ **306** / (100 % - 13.78 %) = \$ **356** (Minimum selling price)

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

Proof - Net cost of the investment by the individual:

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