

Quartz Mining Act **Royalty regulation guidelines**

August 2023

Quartz Mining Act Royalty Regulation guidelines

Note: *This guideline is intended to provide guidance on the interpretation of section 102 of the Quartz Mining Act and its royalty regulation. The guideline has no legal status. For the specifics of any aspect of the royalty requirements, refer to the [Quartz Mining Act](#) and [Quartz Mining Act Royalty Regulation](#).*

1. Introduction

This guideline provides a summary description of the royalty regulation and an outline of the basis for the calculation of royalty. The Government of Yukon may revise these guidelines from time to time. These guidelines do not address or discuss all aspects of the royalty requirements.

Mining in the Yukon is administered under the Quartz Mining Act (QMA) (S.Y.2003, C.14), enacted by the Government of Yukon in 2003. Section 102 of the QMA specifies an annual royalty on mining profits payable to the Yukon Commissioner. The royalty regulation, issued in 2010 pursuant to the QMA, specifies the form and basis for the quantum of the royalty.

This guideline is divided into the following sections:

- A summary description of the royalty
- Information of a general nature
- The royalty ladder calculation
- The value of output of the mine
- The value of the minerals produced by the mine
- The various allowances and deductions and any pre-production expenditures of the mine

Where applicable, general information on the purpose of each part of the regulation is presented at the beginning of the section. More specific information and sample calculations for the various costs, allowances and values follow.

If you have any questions regarding the royalty regulation, the information presented in this guideline or the correct way to complete a royalty return, please contact us at mining@yukon.ca.

2. Summary description of the royalty regulation

The following describes the primary aspects of the QMA royalty:

- It is a net profits royalty.
- The royalty is based on annual mineral production and sales on an individual mine basis.
- There is no royalty on the first \$10,000 of output.
- After \$10,000 of output, the royalty rate varies with the quantum of the output of a mine up to a maximum rate of 12% on the output of greater than \$35 million.
- The value of output of a mine is determined by subtracting eligible expenses and allowances, as defined in the regulation, from the value of minerals produced by a mine during the calendar year.
- The value of minerals produced by a mine is preferentially determined from receipts of actual sales for arm's length transactions; where minerals are sold or transferred in non-arm's length transactions, the value of those minerals is specified to be determined through a valuation process.
- Deductible, eligible expenses and allowances include:
 - Deductions – costs of production in the year, including operating and maintenance costs of the mineral production, related exploration and development costs at the mine in the year, costs of preparing and transporting mineral produced, and reclamation costs in the year.
 - Development allowance – eligible exploration and development costs to bring a mine into production, incurred before the commencement of commercial production, may be accumulated into a development allowance pool to be deducted as development allowance on an amortization basis related to the proportion of the initial mining reserves (at the time of commencement of operations) produced in each operating year.
 - Depreciation allowance – the original capital costs of eligible assets acquired and put in use by a mine are to be deducted as depreciation allowance on a straight-line basis at the rate of 15% of the original capital costs of the assets until the subject capital costs are fully deducted.
 - Community and economic development expense allowance – qualifying expenditures by a mine for community and economic developments are pooled and deducted at the lesser of the remaining undeducted balance, 15% of the amounts claimed in the year as deductions, development allowance and depreciation allowance, or 20% of the value of output of a mine after other deductions in the year; such qualifying expenditures being subject to prior ministerial approval.

- Where minerals from a mine are co-produced, commingled or blended with minerals from another source, co-production apportionment procedures are required to specify parameters for determination and apportionment of the value of minerals produced and of the eligible deductions and allowances; such co-production apportionment procedures are subject to prior ministerial approval.
- The annual royalty return for a mine must be filed on or before April 1 of the year immediately following the calendar year to which it relates.
- Royalty is required to be paid on or before October 1 immediately following the calendar year to which it relates, whether an official notice of assessment has been received or not.

3. General information

Do I have to file a royalty return?

Under subsection 103(1) of the regulation, you must file a return if any of the following apply:

- If you are the official operator of a licensed mine where the value of the minerals produced has exceeded \$10,000, you must file an **annual royalty return** (see Part 13 of the regulation).
 - For the calendar year in which the mine commences production (see section 117),
 - For each calendar year after the mine commences production until and including the calendar year in which the mine terminates production, and
 - For each calendar year after the mine commences production and enters care and maintenance status.
- If you are the operator of a mine for which a quartz mining license has not been issued but has produced minerals with a value exceeding \$10,000, you must file a **pre-production royalty return** (see Part 12 of the regulation).

What is a pre-production royalty return (Part 12)?

This is a separate return which must be filled out by any operator of a mine or advanced exploration project for which a quartz mining license has not been issued but which has produced minerals from activities such as trenching, bulk sampling or test pits. If the value of minerals produced exceeds \$10,000, a pre-production return is required, regardless of whether the production resulted in a profit. The value of minerals produced is either the actual sale value to an unrelated party or the market value if the minerals are unsold or sold/transferred to a related party, as per section 7 of this guideline. If no net benefit is realized after the deduction of allowable pre-production costs set out in section 98 of the Regulation, then no royalty is

payable. If a profit over \$10,000 is realized on a bulk sample or similar, royalty shall be paid under the pre-production royalty provisions of section 95. The information required as part of a pre-production royalty return is also set out in section 104 of the regulation and will ensure proper recording of the production, its value, and related costs and deductions.

Where do I file a royalty return? Can I file online?

Royalty returns can be filed at the Whitehorse offices of EMR located at:

Government of Yukon
Energy Mines and Resources
c/o Director,
Mineral Resources Branch
400-211 Main Street
Whitehorse, YT
Y1A 2B2

Completed returns can also be filed electronically by attaching them as .xls or .pdf files and emailing them to mining@yukon.ca.

What information should I include with my return?

In order to expedite the review process, it is recommended that you provide the following information as part of the annual return (if possible, in electronic format):

- The trial balance for the reporting entity at December 31 of the filing year
- Chart of accounts listing
- Annual financial statements of the reporting entity
- Copies of contracts for the sale of mineral resources and notification if the purchaser is a related party
- Reconciliation of invoices to total amount subject to royalty showing shipment date, method of shipping, metal produced, weight, net value per ton, total value (US dollars), forex conversion used, total value Canadian and deduction from the invoice and the net revenue
- Copies of all sales invoices for the sale of mineral resources (if final invoices are not available, then provisional invoices should be provided)
- Copies of invoices or valuation of inventory subject to royalty calculation
- Breakdown of accounts showing account number, department, account description, and aggregate amount for each category of costs listed below:
 - Operations and maintenance costs of mining
 - Operations and maintenance costs of processing (milling) minerals

- Costs to purchase assets costing less than \$10,000 used in the operation of the mine
- Exploration costs
- Mine development costs
- Insurance costs
- Costs of storing and handling the minerals
- Costs of sorting, valuing and selling the minerals
- Costs of reclamation
- Copy of the calculation of the depreciation allowance and continuity of capital assets
- Copies of the calculation of the development allowance and continuity of the pre-production expenditure pool
- Backup for any community development allowance claimed
- Summary of wages by position reconciled to wage expense claimed in the breakdown of accounts listed above

Once the department has received the return, it is forwarded to our accountant, who will follow up with enquiries and information requests. The department has six years to provide a **notice of assessment** of the return, either agreeing with the return as filed or assessing it on an adjusted basis. The department will send the notice of assessment once the accountant has completed their review of the return. The notice of assessment does not need to be provided before the royalties are due to be paid on or before October 1. Once your company receives the assessment, you will have 90 days from the date of mailing to respond with any additional information to request a change to the assessment.

What date is the royalty return due?

The annual royalty return is due on or before April 1 of the year immediately following the calendar year for which it is due. For example, the royalty filing for the year ending December 31, 2023, would be due on or before April 1, 2024. The payment of the royalty would be due on or before October 1, 2024. It should be noted that if the proceeds of sale are used to file the royalty return due on April 1 are not final, the filing must be updated if there is a final determination of the proceeds of sale to an unrelated party subsequent to filing the return (see below). The amount of royalty owing on the filing must be paid by October 1, even in the absence of receiving a final notice of assessment. If the payment is not made by October 1, penalties and interest may be added to the royalty owed.).

What are the penalties or interest charged?

Penalties are assessed for failure to file a return on time and making false statements in a filed return. The penalty for failure to file a return is equal to 5% of the royalty payable plus an

additional 1% for each complete month between the due date and the actual filing date for up to a year. The penalty for false statements in a return is the **greater** of \$100 **or** 50% of the amount the royalty would have been reduced by the false statement. Penalties will also be assessed for filing misleading information about the non-revenue parts of the mining operation. This can include such things as omitting information under a return, filing incorrect operator name or information, or failing to file a notice other than the annual return on time.

Penalties of 10% are also assessed on the unpaid royalty owing as of October 1 following the calendar year for which the royalty is due. An additional 10% of the royalty owing is assessed at October 1 of each subsequent year.

Any penalties owing will be included in the notice of assessment sent to the company as part of the royalty payable for the calendar year. Any penalties will be considered to be due the day they are assessed.

Interest on unpaid royalties and penalties will be assessed at the Bank of Canada rate detailed under section 126 of the regulation plus 2%. This interest accrues daily until the amount in arrears is paid in full. Unpaid interest and penalties are deemed to be royalties under section 128 of the regulation.

Are there any circumstances where penalties and interest would not be assessed?

The Commissioner may waive penalties or interest in the event of a natural or man-made disaster, a civil disturbance, strike or other disruption of public services, a serious illness or accident suffered by the person responsible for performing the duty to which the penalty relates and the provision of incorrect or misleading information by the Minister.

How do I make a payment, and what are the acceptable forms of payment?

Payment of royalty must be in cash or cash equivalent (e.g. corporate cheque or wire transfer) made out to the Government of Yukon. Payment must be sent to the Government of Yukon, Energy, Mines and Resources, Mineral Resources Branch at the address on page 4. The penalty for dishonoured cheques is the same as the penalty for nonpayment of royalty outlined in sections 102 (17)-(23) of the Quartz Mining Act and Part 14 of the regulation.

Can I change a royalty return after it has been filed?

The Government of Yukon will allow a company to provide additional information to support a filed return that has been submitted. This is in recognition of the fact that certain revenue information may have to be estimated by the company in April, but final figures should be available by the end of August (see section 7 below). The filing submitted by the company in

April should be complete and accurate to the level of information available at that time, with payment being due on or before the 1st of October. After the notice of assessment is issued, the process for appealing the assessment is outlined in section 134 of the regulation.

How do I appeal a royalty assessment?

Provision has been made in section 134 for a company to file an objection to an assessment or reassessment within 90 days of the date of mailing of the assessment or reassessment. The notice of objection shall be in writing and must set out the reasons for the objection and documentation supporting the objection. The notice should be mailed to the address on page 4 or emailed to mining@yukon.ca.

Can the Government of Yukon request a reassessment of a royalty return that has already been filed?

Under section 119, the Minister has the power to request that a previously filed royalty return be reassessed for the amount of royalty, interest or penalties payable if the Minister has grounds to believe that there has been a misrepresentation in the return or in supplying any of the other information required under the regulation. In this case, the company will receive a notice of reassessment which details the reasons for the reassessment. Reassessments will only be done for returns completed within six years of the end of the calendar year.

In the event that the reassessment of the royalty covers multiple years of filings, each year will be reassessed individually along with any penalties or interest owing for that year. The final amount of royalty will be the cumulative amount for all the years being reassessed. If the company is found to be owed royalty as a result of overpayment determined by the reassessment, it will be entitled to a refund.

What if I am owed a refund?

If a royalty filing has been assessed or reassessed, either by the Minister under subsection 119(1) or 119(2) of the regulation or as part of a filing of a notice of objection under section 134, and the operator has been found to have consequently overpaid the royalty the operator may be entitled to a refund of a part of the royalty paid. If the operator is entitled to a refund, section 129 outlines the interest due on a refund of royalty. The interest will be calculated from the date the refundable amount of the royalty was paid to the date of the actual refund. The rate of interest will be the Bank of Canada rate plus 2%.

What other notices or returns must I file?

Other notices which must be filed include the following:

1. notice of commencement of production and
2. notice of change of operations.

A **notice of commencement of production** must be filed within 10 days after the commencement of production.

The information required by the notice is set out in sections 117 (1) and (2) of the regulation. The regulation provides for the determination of the actual date of commencement of production (see below). A mine operator will need to determine when the mine has been "in production" for 30 days (see below) and will then need to file a notice of commencement of production within 10 days of the end of that 30 days period, as specified in the QMA (s. 102(8)). It should be noted that the date of commencement of production for the purposes of the royalty regulation may differ from the dates stipulated in the production license for other notices or notifications.

A mine will be considered to be producing minerals in "reasonable commercial quantities" when the output of a mine includes minerals or processed minerals in a saleable form and commercially recognizable quantity or when that output has been removed from the mine. The date taken as the commencement of production is the first day of the first 30 days period the mine operates at an average of at least 60% of its rated daily capacity.

Under subsection 117(3) of the regulation, a mine operator operating a heap-leaching facility or other processing plants producing minerals in reasonable commercial quantities must file tax when the mine produces minerals in reasonable commercial quantities. In this case, the date considered as the commencement of production is the first day of the first 30 days. The information required by the notice is detailed in the regulation under section 117. The form for the notice is available online at the webpage [File a royalty return for your quartz mining operation](#).

Part of the requirement for the notice is an estimate of the start-up mineral reserves of the mine at the time of the commencement of production. This estimate must be consistent with the technical reports and feasibility studies provided to the Minister or filed with the government or securities regulators in connection with bringing the mine into production.

The date of the commencement of production provides the closing date for pre-production expenditures qualifying for inclusion in the development allowance. Any development expenditures incurred after the commencement of production are deductible only in the year they are incurred.

A **notice of change of operations outlined in section 118** must be filed if any of the following apply:

- A change in the official operator of the mine
- A change in the mining property (e.g. claims added or removed from the property)
- A change in other land used in the operation of the mine
- A change of any owner, manager, holder, tenant, lessee, occupier or operator of the mine or other land used in the operation of the mine
- Suspension of production by the mine
- Re-commencement of production by the mine
- Termination of production by the mine

A change in the "life of mine," as it relates to the amortization of any remaining undeducted development allowance, would be reported in the annual royalty return under the provisions of subsections 110(2), (3) and (4) of the regulation which applies. The term used for "life of mine" in the regulation is the estimate of the remaining start-up mineral reserves of the mine.

A notice of change in operations will give the date the change is to take effect and the reasons for the change. No change will take effect until the notice has been received by the Minister. The form for the notice of change of operations is available online at <https://yukon.ca/en/doing-business/file-royalty-return-your-quartz-mining-operation> or contact mining@yukon.ca to request a form.

What if the mine suspends production for all or part of the year?

If a mine undergoes a period in a calendar year where the production of minerals is suspended for 90 days or longer, the operator may file a notice of change in operations with respect to the suspension. The operator may then elect to defer deduction of certain costs incurred during the period the mine is suspended. The provisions for a mine under suspension relate to allowing certain development expenses incurred during the suspension (such as for opening up additional reserves for mining, removing overburden, and other mine development works) to be accumulated and added to the development allowance pool for deduction over the remaining life of the mine instead of requiring such to be fully written off in the year. Section 91 of the regulation details what allowances and deductions an operator may elect to claim (due to possible ongoing exploration, development or reclamation at the mine). It should be noted that the depreciation allowance is not deductible for the period of suspension since normal mine operations are suspended. The election to claim qualifying costs as development allowance must be made in the royalty return for the calendar year.

Under a suspension of production, the costs related to the production of concentrate inventory would be deductible in the calendar year since the concentrate would have been produced before the suspension. This would apply regardless of whether the inventory is sold. Note that at year-end, the remaining inventory must be valued for royalty purposes, creating a value for imputed revenue.

Note on co-production

Co-production occurs when any of the minerals produced by the mine are extracted from a source other than the mining property as defined in the quartz mining license. Sources other than the mine property include exempt land, another mine, or any land other than the mining property. Co-production includes commingling of ore from sources other than the mine property with minerals from the mining property. In these cases, the mine operator(s) must apply to the Minister to have co-production apportionment procedures put in place to adjust the value of output of the mine to exclude the value of minerals originating off the mining property. If co-production occurs without apportionment procedures in place, the value of all the minerals produced by the mine, including those from any co-production sources, will be included in the determination of the value of output of the mine. On the other hand, only the costs of production from the mine itself (that is, costs related to minerals from any source other than the mine would be excluded) would be eligible for deduction in determining the value of output of the mine for the calculation of royalty.

When determining co-production apportionment for a mine, a number of factors should be considered. It is usually not sufficient to split costs based on simple proportioning on the quantity of input ores or output minerals. The co-production revenue and cost apportionment procedures should reflect the effective contributions from all ore sources to revenue and relevant cost categories. The apportionment of costs may need to be broken down into cost categories or sub-categories within which different, respective rates might apply, and depreciation allowance, development allowance, and community and economic development expense allowance deductions might have to be adjusted. Considerations in determining cost apportioning would include:

- The type and grade of valuable constituents and deleterious constituents in the respective ores
- Grindability of the ores
- Recovery factors for the different minerals and ore streams
- Ease or difficulty of processing (e.g. the grain size of the milled ore might affect flotation chemical usage or the need to recycle in-plant)

- Any special processing requirements (e.g. additional plant activities, like extra water cycling or heavy media circuits)

All of these can affect the processing costs and, therefore, the eligible deductions for determining the value of output for the mine. The apportionment proposal submitted to the Minister should consider all factors that may be relevant to the situation.

4. Identification

When submitting a royalty return, certain information about the mine is required under Part 13 of the regulation. This information is required to enable the Minister to maintain essential data on the mine operation and ownership. Penalties will be assessed for late filing or filing false statements as detailed in the section on General information (above).

The royalty return submitted by the company should include the Canada Revenue Agency business number issued to the company, the year for which the royalty is being filed, the name of the mine, and the name and full mailing address of the official operator. The official operator is defined in the regulation as being the person named as the official operator in either a notice of commencement of production or a notice of change of operations. The name and contact numbers of the person to contact regarding the mine should be given if they are different from that of the operator. The return must also include the names and addresses of all of the owners, managers, holders, tenants, lessees, occupiers or operators of the mine.

A description of the mine property is required and should include the names and numbers of the mineral claims that constitute the mine property as well as the location and description of any other land used in the operation of the mine (e.g. mine access roads, airstrips). The dates of commencement of production or termination of production must be given if either occurred during the calendar year of the royalty filing.

The location of the operator's books and records must be included in the return. Section 132(1) of the regulation specifies what books and records must be kept by the mine operator. A copy of these books and records must be kept at an office in the Yukon and be available to the Minister to substantiate information included as part of a royalty return. Should any doubt arise about the location of the records, section 132(2) states that the Minister may determine where the records referred to in section 132(1) must be kept. Section 133 of the regulation specifies the time limits that an operator must keep the records.

The return must also include financial statements for the mine. This can present a problem if the fiscal year-end for the company is not December 31. As an interim solution until the formal audited financial statements become available, EMR will accept financial worksheets which

support the allocations and determination of final figures presented in the return and copies of such documents as sales invoices and sales agreements. The formal financial statements should be submitted as soon as possible after they are received and will be reviewed and appended to complete the royalty filing.

The estimated royalty payable must be included as well as a signature and statement under oath by the individual filing the return that the information contained in the return is complete and correct, and consistent with any feasibility studies or technical reports provided to the securities regulators or the government in connection with the mine. The signature should be dated, and the printed name and official title of the signing officer of the operator should be included.

The Government of Yukon recognizes that the conditions of the currently operating mine will be different than the information contained in earlier documents, such as feasibility studies. For this requirement, it is only necessary that the information attested to by the proponent be broadly consistent with earlier documents, which will be considered only if necessary, as supporting documents for information in the return. The main document Government of Yukon uses when reviewing submitted returns is the mine's quartz mine license.

5. Royalties payable

The royalty payable is based on the royalty ladder calculation found in section 102(3) of the *Quartz Mining Act*. The royalty is based on the value of output of the mine as calculated in the return. The calculation of the amount owing will depend on where the value of the mine's output falls on the royalty ladder (see below). Each increment of the royalty ladder which applies to the value of output of the mine should be calculated separately and the results added together to calculate the total royalty owing.

Table 1: Quartz Mining Act royalty rate table	
Value of output (\$)	Rate of royalty payable on that portion of the value
\$10,000 or less	0%
In excess of \$10,000 but not exceeding \$1 million	3%

In excess of \$1 million but not exceeding \$5 million	5%
In excess of \$5 million but not exceeding \$10 million	6%
In excess of \$10 million but not exceeding \$15 million	7%
In excess of \$15 million but not exceeding \$20 million	8%
In excess of \$20 million but not exceeding \$25 million	9%
In excess of \$25 million but not exceeding \$30 million	10%
In excess of \$30 million but not exceeding \$35 million	11%
In excess of \$35 million	12%

For example, for a mine where the value of output equals \$4 million, the royalty ladder calculation would work as follows:

- For the first \$10,000, there is no royalty charged.
- For the amount of the value of output exceeding \$10,000 up to \$1.0 million, the royalty rate is 3%. Since the value of output is greater than \$1.0 million, the amount which is subject to royalty is \$1.0 million minus the \$10,000 for which there is no royalty charged, that is \$990,000. At 3%, the royalty owing on this amount is \$29,700.
- The amount remaining would fall into the bracket in excess of \$1.0 million up to \$5.0 million and assessed at the 5% royalty rate. For the purposes of the calculation, this would be the remaining \$3.0 million and at 5%, the incremental royalty owing would be \$150,000.
- The total royalty owing for the mine would equal \$29,700 plus \$150,000 for a total of \$179,700.



In an effort to simplify the calculation of royalty, Table 2 has been provided below with the cumulative amounts owing from the lower royalty brackets already included in the calculations for the various increments of the royalty ladder. For example, if a mine has a value of output of \$21 million, then the calculation that should be used to determine the royalty amount is the line for amounts exceeding \$20 million, on which a base royalty amount of \$1,279,700 applies, plus the incremental royalty on the output value in excess of \$20 million at the rate of 9%.

Table 2: Yukon quartz royalty payable per year		
Value of output		Royalty
Less than or equal to \$10,000		nil
OR		
Greater than \$10,000 and not greater than \$1 million: TOTAL [value of output MINUS \$10,000]	x 3%	\$-
OR		
Greater than \$1 million and not greater than \$5 million: PLUS: [value of output MINUS \$1 million] TOTAL	x 5%	\$29,700 \$ \$-
OR		
Greater than \$5 million and not greater than \$10 million: PLUS: [value of output MINUS \$5 million] TOTAL	x 6%	\$229,700 \$ \$
OR		
Greater than \$10 million and not greater than \$15 million: PLUS: [value of output MINUS \$10 million] TOTAL	x 7%	\$529,700 \$ - \$
OR		



Greater than \$15 million and not greater than \$20 million: PLUS: [value of output MINUS \$15 million] TOTAL	x 8%	\$879,700 \$ - \$
OR		
Greater than \$20 million and not greater than \$25 million: PLUS: [value of output MINUS \$20 million] TOTAL	x 9%	\$1,279,700 \$ - \$ -
OR		
Greater than \$25 million and not greater than \$30 million: PLUS: [value of output MINUS \$25 million] TOTAL	x 10%	\$1,729,700 \$ - \$ -
OR		
Greater than \$30 million and not greater than \$35 million: PLUS: [value of output MINUS \$30 million] TOTAL	x 11%	\$ 2,229,700 \$ - \$ -
OR		
Greater than \$35 million: PLUS: [value of output MINUS \$35 million] TOTAL	x 12%	\$2,779,700 \$ - \$ -

6. Value of the output of the mine

General information

The value of the output of the mine under Part 2 of the regulation is the value of the minerals produced by the mine as determined under Part 3 of the regulation **minus** the following:

- The deductions for the mine for the calendar year as determined under Part 4.
- The development allowance for the mine for the calendar year as determined under Part 5.



- The depreciation allowance for the mine for the calendar year as determined under Part 6.
- The community and economic development allowance for the calendar year as determined under Part 7.

The resulting value of output of the mine is to be used to calculate the royalty using the royalty rate table described above in section 5 of the Guideline.

Note on hedging

Any gains, losses or costs from hedging are not included when calculating the value of the minerals produced by the mine, hedging being a financial transaction or practice not related directly to the profits from mineral production upon which this royalty is based. For greater clarity, examples of transactions that are considered to be "hedging" and are excluded from consideration in determining royalty include:

- The fixing of a price for minerals produced by a mine before delivery by means of a forward sale or a futures contract, on a recognized commodity exchange or otherwise.
- The purchase or sale forward of currency, whether or not related to the proceeds of the minerals produced by a mine.
- Speculative currency hedging, whether or not the hedging transaction affects the final price or proceeds for the minerals produced by a mine.
- The purchase, sale, trade or exchange of derivatives or similar financial instruments, whether based on minerals or otherwise.
- Any similar activity undertaken purportedly to reduce the business risk of a mine by engaging in financial transactions to limit its exposure to a change in the price of a commodity or the value of a currency.

The prohibition on the inclusion of gains, losses and costs of hedging in royalty determination does not apply to contracted sales of minerals from a mine which may have prices or price-setting parameters covering multi-year periods.

Note on allowances

It should be noted that the allowances for development, depreciation, and community and economic development expenses are not discretionary and the eligible allowance deductions for a year must be claimed in the year. The regulation allows eligible undeducted portions of these allowances to be carried forward in succeeding years.



7. Value of minerals produced

General information

The value of minerals produced by a mine under Part 3 of the regulation is determined from the actual proceeds of sale for arm's length transactions. Where minerals are sold or transferred in non-arm's length transactions or retained in inventory, the value of minerals is determined through the specified valuation process explained below.

The "proceeds from the sale" referred to in section 12 of the regulation would be the proceeds net of transportation and processing if such costs are borne by the mine. Processing costs may include such things as treatment, smelter and refining charges incurred off the mining property, again, if borne by the mine. Sales receipts or invoices must clearly identify the basis of the charges, and any deductions from a base (including further treatment and transportation charges) should be identified and described. It should be noted that not all deductions that may be shown on sales invoices necessarily qualify in calculating the value of the minerals. If, for example, proceeds are subject to financing terms or discounts, such as for early payment, these are not eligible deductions (see section 19 of the regulation for more details).

Arm's length sales of minerals

The value of minerals sold to an unrelated party under section 12 of the regulation will need to be documented with itemized invoices and/or receipts as appropriate, identifying the specific items and the basis of valuation/pricing. For example, it must be clear that an invoice or receipt does not include any excluded costs, such as ineligible discounts or premiums.

Currency exchange rate

The currency exchange rate (the Bank of Canada noon exchange rate) related to a mineral sale for which there is more than one payment date, or when the date of the transaction is otherwise unclear, is to be calculated as of the date on which the title to the minerals was transferred.

Related party sales of minerals

As per sections 13 and 14 of the regulation, when minerals are sold or transferred to the parties related to the official operator of the mine, the market value should be used for the value of minerals for the purpose of the royalty calculation. The Minister will accept the market value to be used as the basis for the calculation to be the trading prices set at the close of trading on the shipment date by the London Metals Exchange for the commodities covered (copper, zinc, lead, aluminum, nickel) and the afternoon fixing price on the shipment date set by the London Bullion Market Association for gold and silver. If the commodity in question is one such as

ferroalloys, industrial minerals, uranium, and gemstones, with a specific commodity price tracking and reporting agencies, the specific agency used to set market value will be subject to approval by the Minister. It should be noted that the market value determined by the commodity exchange rate is the base from which respective transportation, processing and treatment charges will be deducted. Validation of these charges (e.g. smelter records) should be submitted with the royalty return.

Note: In the case of precious stones, the value of minerals produced is the amount determined by the mining royalty valuer under sections 141 and 142 of the regulation.

Valuation of minerals in inventory

Under section 15 of the regulation, the change in the value of inventory is the amount derived from the market value of any unsold inventories of minerals produced by the mine at the end of the calendar year minus the market value of any unsold inventories of minerals produced by the mine on hand at the beginning of the calendar year.

The regulations set a clear framework for the valuation of inventories:

- Minerals in inventory at the calendar year-end must be valued for inclusion in the determination of royalty for the calendar year.
- Minerals are considered to be in inventory if they are in a saleable state and still on the mining property. (If they have been removed from the mining property, they are considered sold or transferred to a related party).
- The amount subject to royalty is the change in inventory value from the beginning of the year to the end (two points in time, not a continuum).
- The valuation is done on a market value basis.

Minerals in inventory are included in the valuation of minerals for royalty purposes even though they may not yet have generated revenue for the mine because such minerals may be sold in a later year than they were mined. As a result, actual sales revenues would not be reportable for royalty until the later date, while the costs of extracting and producing the minerals are required to be deducted in the year they are incurred.

The value of shipments and inventory on December 31 will be viewed as an interim value until the actual total is verified, presumably before April 1, adjustments will be allowed at any date up to August 31. This means that if some of the mine production has been shipped from the mine but not sold or had a final price determined at year end, then that volume is considered to be sold or transferred to a related party, as per section 5(1) of the regulation, and a market valuation estimate applied. If it is subsequently sold and a final price determined or value received before April 1, then the royalty return should be based on the actual sales revenue. If

the final price is set or the value received for additional quantities that were in inventory on December 31 before August 31, the value of that inventory amount should be amended before payment on October 1 to include the actual value received as the best estimate of the market value at December 31.

The guidance above applies also to year-end inventories of precious stones. The regulation requires that the valuation of precious stones be done by a mining royalty valuer on a routine basis. The valuation of year-end inventories is specified to be the market value of those precious stones the last time they were valued by the mining royalty valuer. EMR will allow such valuations to be adjusted to update the valuation at year-end by open market sales of the subject minerals up to August 31.

As mentioned above, under section 13(2)(b) of the regulation, minerals that have been sold or transferred to related parties and, within one year after the end of the production (calendar) year, are sold or transferred to an unrelated party, the minerals are considered to have been sold to an unrelated party. The provisions outlined in section 12 of the regulation would then apply. In this case, the royalty return should be amended, even after the October 1 payment date.

Insurance proceeds

The value of insurance proceeds receivable by the mine in section 16 refers to the insurance proceeds on lost minerals and losses for the types of the tangible personal property specified under section 16(b). The amount to be entered is the sum of all insurance proceeds received or receivable. The total includes amounts receivable since the value of lost minerals and personal property relates to items that are expensed in the year.

Note that the insurance proceeds for lost capital assets for which the original capital costs were included in the development or depreciation allowance pools are taken into account only when they have been received in the year and should be applied to the appropriate deductions or allowances (see sections 23, 33 and 43 of the regulation).

It should be noted that business interruption insurance is a financing mechanism, any proceeds of such are not subject to the royalty, and related costs are not deductible.

Other amounts

The royalty regulation also makes provisions for other amounts that are required to be added to the value of minerals under section 11(e). These provisions are found in the following sections, subsections and sections of the regulation: 22(2), 22(3), 23(1)(b), 32(2)(b), 34(2)(b), 43(1)(b), 44(b), 51(2), 78(2), 79(2), 80(2) and 100(3).

Where a reimbursement is or has been received that exceeds the amount of the deduction or allowance it was claimed against, it is considered part of the value of the minerals produced. The sections of the regulation dealing with reimbursements are sections 22(2), 34(2), 44, 51(2) and 100(3).

Reimbursements also include grants from the Yukon government, or loans from the Yukon government or the Government of Canada, to cover a cost for which an allowance or deduction has been claimed. With regard to Investment Tax Credits, refundable investment tax credits are considered reimbursements for the determination of royalty, while non-refundable investment tax credits would likely not be considered reimbursements.

For a mine operating under co-production apportionment procedures, any amount claimed for an allowance that exceeds the amount for that allowance for the mine as set out in the co-production apportionment procedures is considered to be part of the value of the minerals produced. The sections of the regulation dealing with the co-production apportionment of allowances are 78(2), 79(2) and 80(2).

Calculation of value of minerals produced

The value of the minerals produced by the mine is the **sum** of the following:

- The value of minerals sold or transferred to persons **not** related to the official operator of the mine as determined under sections 12 or 14 of the regulation.
- The value of minerals sold or transferred to persons related to the official operator of the mine as determined under sections 13 or 14 of the regulation.
- The change in the value of mine inventory as determined under section 15 of the regulation.
- The value of insurance proceeds receivable as determined under section 16 of the regulation.
- Any other amounts required to be added under other provisions of the regulation.

The resulting value of the minerals produced by the mine is to be used to calculate the value of output for the mine as described above in section 6 of the Guideline.

8. Deductions

General information

Deductions claimable under Part 4 of the regulation relate to eligible costs of production, including:

- operating and maintenance costs of mineral production and processing



- related exploration and development costs at the mine
- costs of preparing and transporting mineral products
- reclamation costs

Only costs incurred during the year and after the date the mine has officially commenced production are eligible for deduction. Any costs incurred prior to the commencement of production are dealt with as part of the pre-production expenditures and development allowance (Part 5). The regulation contains an itemized list of allowable deductions (section 20) and prohibited deductions (Part 8) to avoid confusion when filing a royalty. It should be noted that Section 61 of Part 8 is a general prohibition against a double deduction of costs.

The deductions under this section can only be claimed in the year they are incurred. There is no carry forward or carry back provision for these costs.

Eligible costs of operations and maintenance for mining and processing are covered by sections 20(a) and (b) of the regulation. The operation and maintenance costs must be incurred during the actual mining and processing of the mineral produced. Eligible operating and maintenance costs for processing minerals include smelting and refining charges incurred by the official operator as part of the mine operations. Smelting and refining charges not directly paid by the mine operator, but applied in the determination of the value of the product at a point of sale before the smelting or refining, effectively as reductions to the price for refined product, are not actual costs of the mine and do not enter the royalty determination, except as information supporting the point of sale price or proceeds.

Eligible costs under section 20(c) are assets, other than land, with an original capital cost under \$10,000, located in the Yukon and used in the operation of the mine. The full cost of such qualifying acquisitions must be claimed in the year of acquisition. Depreciation of capital costs of tangible assets not fully claimed in the year of acquisition are deductible only under depreciation allowance (see section 10). The rent of buildings and other structures is deductible. Rents, leases and acquisition costs for a mine property are not deductible. A First Nation royalty, as with any other private royalty, is considered a cost of "acquiring the mineral property." This cost is not deductible in determining the royalty to the original owner of the mineral rights (the Crown). For similar reasons, the costs of buying a mineral property or staking a claim are not eligible for deduction.

Eligible exploration costs deductible under section 20(d) of the regulation include, but are not limited to, the cost of such work as prospecting, geological, geochemical or geophysical surveys, drilling, trenching or sampling. These costs must be incurred on the mining property.

Eligible development costs deductible under section 20(e) of the regulation include, but are not limited to, the cost of such work as stripping overburden, sinking, excavating or extending a

mine shaft or similar underground work, constructing adits, constructing mine service roads, constructing tailings disposal structures or preparing technical, environmental and socio-economic assessments and reports. These costs may be incurred on the mine property or on other property used in the operation of the mine (e.g. service roads, airstrips).

Eligible costs for insurance premiums under section 20(f) of the regulation include insurance against injury, loss or damage to a third party, damage to or loss of depreciable assets of the mine, damage to improvements made to the mining property, or other land used in the operation of the mine, loss of minerals produced from the mining property, or damage to or loss of tangible personal property of the mine. Insurance for property, machinery, liability and loss of minerals are deductible since they are directly related to the operation of the mine. Such things as contingent liability expenditures and business interruption insurance are not deductible under this regulation. (See section 60(1)(k) and 60(1)(m))

Section 20(g) of the regulation refers to the allowable costs for storing and handling minerals, including any costs for shipping minerals to a processing plant or to the person to whom the minerals were sold or transferred where such costs are paid directly by the mine. Costs for shipping of minerals after sale or transfer are not actual costs of the mine and do not enter the royalty determination except as information supporting the point-of-sale price or proceeds.

Section 20(h) of the regulation covers only those costs related to sorting, valuing and selling minerals. The costs to be included here do not include promotional costs. Section 58 of the regulation contains a listing of the expenses that are considered promotional costs and are therefore not allowable for deduction.

Under section 20(i), any actual reclamation done in the calendar year in accordance with the mine reclamation plan of the mine license is deductible. This includes, but is not limited to, such things as decommissioning and removing site infrastructure, revegetation, stabilizing slopes, removal of contaminated soil to land treatment facilities, and contouring and covering waste rock or tailings piles. Eligible reclamation costs can be incurred on both the mine property or other land used in the operation of the mine as long as the land is part of the mine license. Contributions to a Qualifying Environmental Trust are considered a financing mechanism and are therefore not deductible under this regulation.

Section 55 of the regulation provides that fuel, lubricants or other consumables, or spare parts that have not been consumed or used in the year are not deductible costs. These costs should, therefore, be deducted as costs in the year of consumption or use. This would be consistent with the typical accounting treatment of having an amount of inventory of fuel, lubricants or other consumables, and spare parts at the end of the calendar year, to be deducted as a cost in the subsequent years when the items are consumed or used.

Section 56 of the regulation provides that costs for goods or services cannot be deducted until the goods are used or the services are provided. These costs should, therefore, be deducted as costs in the year of use or the year the service is provided. This would be consistent with the typical accounting treatment of having an amount of prepaid expense at the end of the calendar year to be deducted as a cost in the subsequent years when the goods are used or the service is provided.

A company may incur costs that are treated for accounting purposes as work in process or construction in process and not expensed in the year but rather expensed when the asset or development is put into use in a future year. These costs may include development costs, reclamation costs and the cost of tangible capital assets. The regulation provides under section 20(1)(e) that development costs are to be deducted in the calendar year incurred rather than deducted in a subsequent year when the development asset is used. Similarly, reclamation costs as provided under section 20(1)(i) are deducted in the calendar year that the costs are incurred with no deferral of the deduction to a subsequent year. The tangible capital assets would be deducted as outlined in section 10 of this guideline.

Calculation of deductions for the mine

The total of mine deductions is the **sum** of all of the previously described costs, as incurred in the year, and as listed below:

- Operations and maintenance costs of mining
- Operations and maintenance costs of mineral processing
- Costs of tangible assets other than land, located in the Yukon, with a capital cost of less than \$10,000 and used in the operation of the mine
- Exploration costs on mining property
- Development costs on mining property or other land used in the operation of the mine
- Cost of insurance premiums
- Cost of storing and handling minerals
- Cost of sorting valuing and selling the minerals
- Costs of reclamation on the mine property or other land used in mine operations

9. Pre-production expenditures of the mine and development allowance

General information

The types of expenses eligible as pre-production costs are listed in subsections 30(2) to (4) of the regulation. These costs may be included as pre-production expenses only if incurred by a mine prior to commencement of production by the mine. The phrase "as constituted on the date of commencement of production" in section 30(1)(a) of the regulation refers to the mining property and limits the eligible pre-production expenses to those incurred on the property as it was on the date of commencement of production. Cost restrictions are dealt with in section 31 of the regulation.

Pre-production expenditures of the types eligible for inclusion are not limited for inclusion in the development allowance pool by the date incurred, so long as they were incurred on the mine property and before the commencement of production. In order to be eligible for deduction, expenses must not have been previously deducted for QMA royalty (e.g. for another mine or an earlier incarnation of the mine). Expenditures may also increase subject to qualifying amounts incurred on claims subsequently added to the mine and brought into production, and amounts incurred during a suspension of mine operations.

The criteria for eligible pre-production exploration expenses are listed in subsection 30(2) of the regulation. It should be noted that underground exploration is treated the same as any other exploration cost for the purpose of this royalty calculation. Engineering, environmental or socio-economic studies specifically related to securing approval for other exploration works are considered part of the specific works – prospecting, geological surveys, drilling, trenching, etc. Technical, environmental and socio-economic assessments related to development of the mine are included in development costs.

The criteria for eligible development expenses are listed in subsection 30(3) of the regulation. They include the capital costs of service roads (and other means of accessing the property), tailings and mine waste disposal facilities, surface water control and impoundment facilities, and technical, environmental and socio-economic assessments and analyses as allowable development expenses under this subsection. It should be noted that the service roads and tailings and mine waste facilities costs noted above are generally considered to be development costs, not depreciable asset costs. Note that if a company were to implement mechanical dewatering of tailings, such dewatering assets (plant and equipment) would be depreciable assets of the mine. Similarly, pump houses, etc., are depreciable assets.

To be eligible as deductible expenses, any operation and maintenance costs must be incurred during the actual mining of minerals in the pre-production period. Similarly, any mineral processing, smelting and refining charges incurred by the official operator as part of the pre-production mine operations are deductible.

Any insurance costs for property, machinery, liability and loss of minerals incurred in the pre-production period are included as pre-production expenditures since they are directly related to the operation of the mine. Such things as contingent liability expenditures and business interruption insurance are not included as pre-production expenditures under this regulation (see sections 60(1)(k) and 60(1)(m)).

Any pre-production costs of storing, handling and transporting minerals are also eligible expenditures, including any costs for shipping minerals to a processing plant or to the person to whom the minerals were sold or transferred. The eligible pre-production costs of sorting and valuing minerals under section 30(4)(e) of the regulation do not include promotional costs. Section 58 contains a listing of the costs that are considered promotional costs and, therefore, not allowable for deduction.

Any actual reclamation done in the pre-production period is deductible. Payments or contributions to a Qualifying Environmental Trust are considered financing mechanisms and are therefore not deductible under this regulation.

Costs related to claims added to the mine and incurred by predecessor companies not related to the operator are limited to **the lesser** of the purchase price paid for the claim or the market value of any consideration paid or received (section 31(2)(a)) **or** the allowable pre-production costs incurred on the claim within the 3 years prior to the date of purchase (section 31(2)(b)) provided the costs have not already been deducted under the QMA by the previous owners of the claim. If the claims added to the mine are acquired from a person related to the official operator, the amount that can be claimed as a pre-production expenditure is limited to those allowable costs under section 30 and subsection 31(1) that were incurred while the person was related to the official operator. Costs incurred at the time the person was not related to the official operator are not eligible. Option or acquisition payments, including trailing royalties, other than those specified in section 31 are not deductible under section 60(1)(o). Corporate restructuring costs are not deductible under subsection 60(1)(c)(iv).

Calculation of pre-production expenditures

The following costs must be incurred prior to the official commencement of production of the mine and subject to the conditions described above. Commencement of production is the first day throughout a 30 day period the processing capacity of the plant reaches 60% of its rated



daily capacity, or if there is no processing plant, the mine produces minerals in reasonable commercial quantities.

Pre-production expenditures are the **sum** of the following:

- Operation and maintenance costs of mining
- Operation and maintenance costs of processing minerals
- Exploration costs incurred on the mine property
- Development costs incurred on the mine property
- Cost of insurance premiums
- Cost of storing, handling and transporting minerals
- Cost of sorting and valuing minerals
- Cost of selling minerals produced
- Cost of reclamation on the mine property

Less:

- The **lesser** of any proceeds of, or development allowance claimed, for land or an interest in land that has been disposed of prior to commencement of production
- Any insurance proceeds for all or part of a cost to be included in the development allowance
- Reimbursement for all or part of a cost to be included in the development allowance
- The value of minerals sold or transferred to persons not related to the official operator of the mine as determined under sections 12 or 14 of the regulation
- The value of minerals sold or transferred to persons related to the official operator of the mine as determined under sections 13 or 14 of the regulation
- The market value of mineral inventory at the time of commencement of production
- Proceeds received at any time from insurance on minerals produced prior to commencement of production

Development allowance

The amount that can be claimed as the development allowance is limited to pre-production expenses only. Any development or exploration costs incurred after the commencement of production are to be included as deductions under Part 4 of the regulation. The amount of pre-production expenses used to calculate the development allowance is the amount derived from section 9 (above).

Under the regulation, eligible pre-production development costs are pooled and amortized over the life of the mine's ore reserves as defined at the commencement of production. The pooled pre-production development costs are not deductible in equal annual amounts over the life of



the mine. They **are** deductible in amounts that are proportional to the utilization of the "start-up mineral reserves." The proportion of the undeducted development allowance pool (i.e. pre-production development costs) that is to be deducted in a year is equal to the proportion of start-up mineral reserves mined during the year as compared to the start-up mineral reserves available at the start of the year. The remaining start-up mineral reserves of the mine are defined as the remaining balance of start-up mineral reserves of the mine at the end of the calendar year, as specified in the annual royalty return (Section 110(1)(h)).

Since development costs are not deductible in equal amounts over the mine life, it is possible for the development allowance to fluctuate considerably from year to year. For example, the mine's reserves can be increased by exploration, decreases in rate of production, or adding new property (claims) with mineral reserves to the mine (section 63). The opposite is also true, i.e. increasing the rate of production or dropping claims from the mine property would decrease the start-up reserves. The undeducted balance of the development allowance can also be increased, even if the mine is in production, if qualifying exploration or development on the mine property takes place during a period when the mine operations are suspended (sections 91 and 92). The balance of the development allowance can also be increased as a result of the commencement of production on mineral claims added to the mine, provided there had been previous pre-production development expenditures which qualify for deduction.

Calculation of the development allowance

To calculate the development allowance, the sum of all development allowances and the undeducted balance of pre-production expenditures must be calculated first.

- The sum of all development allowances is equal to the development allowance for the calendar year plus the sum of all development allowances claimed for the mine as carried forward from the previous year.
- To determine the undeducted balance of pre-production expenditures of the mine for a calendar year, subtract the sum of all the development allowances claimed for the mine at the end of the year from the total pre-production expenditures calculated above.

Take, as an example, a mine with an undeducted balance of pre-production expenditures at the beginning of the year of \$1 million, a balance of start-up mineral reserves from the end of the previous calendar year of 200,000 tonnes, and 25,000 tonnes of ore processed or sent for processing over the course of the calendar year. The formula for calculating the development allowance for the calendar year would be as follows:



The undeducted balance of the pre-production expenditures of the mine at the beginning of the calendar year from the previous year	\$1,000,000
MULTIPLIED BY	
Amount of start-up mineral reserves represented by ore mined and processed or sent for processing by the mine in the calendar year	25,000 tonnes recoverable copper
DIVIDED BY:	
The remaining balance of start-up mineral reserves of the mine at the end of the immediately preceding calendar year	200,000 tonnes recoverable copper
EQUALS	
Current year's development allowance use to calculate the value of mine output	$\$1,000,000 \times (25,000 / 200,000)$ = \$125,000

Change in ownership prior to production

Under the regulation, pre-production expenditures (e.g. exploration and construction of a mine) can be transferred to a subsidiary corporation providing that pre-production expenditures allowable under section 31(3) of the regulation do not include those incurred by a person prior to the date they are related to the official operator. The definition of a related person under section 4(2) of the regulation is a corporation and a subsidiary within one year before and one year after the production, transfer, sale of the minerals. See section 4 subsection (1) for a detailed explanation of a related person.

It is important to note that, pursuant to section 32 of the regulation, where pre-production expenditures are to be reduced by the proceeds of a disposition of land or interest in land to a person related to the official operator, the proceeds of the disposition are to be determined as



the amount that could reasonably be expected to be realized from the sale to a person not related to the official operator.

Deductions claimable under Part 4 of the regulation relating to eligible costs of production are stated above (see page 20). Only costs incurred during the year and after the date the mine has officially commenced production are eligible for deduction. Any costs incurred prior to the commencement of production are dealt with as part of the pre-production expenditures and development allowance. Pre-production expenditures (e.g. exploration and construction of a mine) are allowed to be pooled and carried forward, with the deductions amortized over the life of the mine.

10. Depreciation allowance

General information

Depreciable asset means tangible property, other than land, used in the operation of a mine acquired or constructed before the commencement of production or, if acquired during production, having an original capital cost of over \$10,000 and an expected useful life of more than one year. Eligible capital asset original costs are deductible as depreciation allowance at the annual rate of 15% until the original capital cost of the asset is fully claimed. Note that in the final year of claiming a depreciation allowance for any individual asset, the remaining undeducted balance of the original cost to be claimed as depreciation allowance would be less than 15%. There is no provision for terminal loss for items purchased in the last years of mine life since it is assumed that equipment purchased near the end of mine life would have a salvage value.

All infrastructure costs within the territory to service a mine are deductible under either the depreciation allowance or development costs, respectively, as appropriate. Assets outside of the Yukon will be considered a depreciable assets if they are essential to the operation of the mine and their inclusion in the royalty calculations is approved by the Minister as per section 39(2). The eligibility of shared infrastructure costs is covered in subsection 39(3). Intangible assets or intellectual property are not considered depreciable assets since they are not tangible property. They may be considered as operating costs or development costs if they were developed for the purpose of the operation of the mine. Any inventory or capital spares are not depreciable until the assets are put into use.

If a mine asset for which depreciation is to be claimed is purchased or otherwise transferred from a person related to the official operator of the mine, the original capital cost of the asset

shall be taken as the amount which could have reasonably been paid by the operator to acquire the asset from a third party.

In the case where the disposal, loss or damage of an asset for which depreciation was claimed results in proceeds from either the disposal or insurance, that amount will be subtracted from the accumulated undeducted balance of depreciable assets. If the proceeds exceed the undeducted balance, the excess will be considered part of the value of minerals produced under section 11(e) of the regulation. In the case where the depreciable asset was sold or otherwise disposed of to a related party, the amount subtracted from the balance of depreciable assets must be equal to the amount that a willing buyer on an arm's length basis would have agreed to apply for such asset at the time it was offered for sale, as determined by the Minister (see subsection 43(2) of the regulation).

Any reimbursements for capital costs of assets included in the depreciation allowance pool must be applied to reduce the accumulated balance of depreciable assets. If the proceeds from the reimbursement exceed the balance in the asset pool, the excess must be considered as part of the value of minerals produced under section 11(e) of the regulation.

The depreciation allowance for the year a mine commences production must be prorated for the days the mine is in operation after the date specified in the notice of commencement of production as a percentage of the full calendar year. For example, if a mine commences production on October 1, the depreciation allowance would be calculated as follows:

92/365 (days in production divided by days in the year) x 15% (depreciation allowance from s. 40(1)) = 3.78%

The calculated percentage is then multiplied by the allowable undeducted depreciation allowance costs from the partial calendar year to give the value of the depreciation allowance for the year.

Similarly, for the year production ceases, the depreciation allowance must be prorated for the days the mine is in operation prior to the date of termination of production as set out in a notice of change in operations or as part of a determination by the mine inspector that the mine has terminated production. If mine operations are suspended for a period of 90 consecutive days or more, the depreciation allowance for the calendar year must also be prorated to reflect the number of days mine operations were suspended (subsection 91(1)(c)).

Calculation of the depreciation allowance

The depreciation allowance for the first calendar year a depreciable asset is used in the operation of the mine is 15% of the original capital cost of the asset, prorated as noted above

for the actual duration of production in the year. After the first year of use, the depreciation allowance for the asset is calculated as the **lesser** of:

- 15% of the original capital cost of the asset or
- the accumulated, undeducted balance of the depreciable assets of the mine.

The accumulated undeducted balance of depreciable assets is calculated by subtracting the sum of all of the depreciation allowances claimed for all years prior to the calendar year from the sum of the original capital costs of the depreciable assets that a depreciation allowance will be claimed on for the current year.

For example, a mine has a total of all depreciation allowances claimed of \$1 million and a total of all original capital costs for depreciable assets of \$5 million. Assets acquired in the current calendar year and still owned by the company at the end of the year come to \$300,000. Proceeds from the disposal of assets previously claimed for depreciation total \$10,000, with no insurance proceeds or reimbursement received on a depreciable asset for the current calendar year. Proceeds from the disposal of assets which have been claimed for depreciation in the current calendar year equal \$50,000. The formula for calculating the depreciation allowance for a calendar year would be as follows:

The sum of all depreciation allowances claimed for all years prior to the current calendar year is calculated as follows:

The sum of the original capital costs of depreciable assets at the end of the previous year	\$5,000,000
PLUS	
Cost of depreciable assets on which a depreciation allowance is to be claimed, acquired during the calendar year and still owned by the mine at the end of the calendar year	\$300,000
EQUALS	
Accumulated original capital costs of depreciable assets at the end of the current year	\$5,300,000

LESS	
The net sum of all the depreciation allowances claimed for all years prior to the current calendar year	\$1,000,000
LESS	
Proceeds on disposal of depreciable assets for which a depreciation allowance has been claimed	\$10,000
LESS	
Insurance proceeds received in respect of loss of or damage to a depreciable asset for which a depreciation allowance is to be claimed	\$0
LESS	
Reimbursement received in the current calendar year for all or part of the capital cost of a depreciable asset for which a depreciation allowance is to be claimed	\$50,000
EQUALS	
The accumulated, undeducted balance of depreciable assets of the mine	\$4,540,000

Once the undeducted original capital costs for both types of depreciable assets have been determined, the calculation of the current year's depreciation allowance is as follows:

The depreciation allowance in respect of depreciable assets already used in the operation of the mine in a prior calendar year after the commencement of production	$\$5,000,000 \times 15\% = \$750,000$
TIMES	

The number of days in the calendar year that the mine was in production	365
DIVIDED BY 365	365
EQUALS	
Current year's depreciation allowance	\$750,000
PLUS	
The full-year depreciation allowance for depreciable assets first used in the calendar year after the commencement of production in which the assets are used in the operation of the mine	$\$300,000 \times 15\% = \$45,000$
TIMES	
The number of days in the calendar year that the mine was in production	365
DIVIDED BY 365	365
EQUALS	
The current year's depreciation allowance	\$45,000
EQUALS	
Current year's depreciation allowance used in the calculation of the value of output of the mine	\$795,000

Since the depreciation allowance is the **lesser** of 15% of the original capital cost of the asset or the accumulated, undeducted balance of the depreciable assets of the mine, \$795,000 is the amount that will be used in the calculation of the value of output of the mine.



11. Community and economic development expense allowance

General information

In order for expenses to qualify for inclusion in the Community and Economic Development Allowance (CEDEA), they must first be approved by the Minister. Expenditures qualifying for CEDEA are pooled and deducted as **the lesser** of:

- The accumulated undeducted balance of qualifying expenditures for the mine for the calendar year
- 15% of the sum of all amounts claimed for the mine as deductions, development allowance and depreciation allowance
- 20% of the amount that would be the value of output of the mine for the year after all other deductions

In a year when the value of output of the mine is zero or negative, there would be no CEDEA.

The types of expenses considered eligible for CEDEA fall under the following categories:

- Capital costs for constructing or repairing community infrastructure works
- Capital costs for constructing or repairing other community facilities
- Operation or maintenance costs of community infrastructure or other community facilities
- Cost of equipment used in a community facility
- Cost of economic development or education programs
- Cost of environmental cleanup programs for land not included in the mine property

The list above is meant to serve as a guideline for possible allowable expenses. It is not a definitive list of allowable or excluded expenses. Ministerial approval is required to allow oversight of the process to ensure the expenses applied for under the allowance are valid under the regulation.

The types of expenditures that are included in this allowance are those that would not qualify as normal operating or capital costs otherwise eligible for deduction under development allowance or depreciation allowance. Any costs that have already been claimed as deductions or allowances in the calendar year or any previous year are not eligible for CEDEA. For further information, section 50(2) of the regulation contains a list of expenses prohibited under CEDEA. The allowance is intended to provide mine operators with limited deductibility of expenses incurred in providing certain special benefits to local communities.

It should be noted that, for the purposes of the regulation, "qualifying expenditures" and "community and economic development expense allowance" are separate items and are dealt with differently in the calculation below. "Qualifying expenditures" refer to those expenditures which have been approved by the Minister as qualifying for CEDEA. The "community and economic development expense allowance" refers to the actual expense allowance, which may include a combination of qualifying expenditures and amounts based on deductions and allowances or the value of mine output as specified above.

A company must apply for prior written approval to the Minister for a CEDEA expense. As part of that application, the company needs to document the details of the proposed project, the recipient of the expense, a copy of any agreements with the recipient regarding the approved funding and the disbursement and use of the funding, and the anticipated timeframe of the project.

The company must provide to the Minister written confirmation, in the form of invoices, sales receipts or other auditable documents, that the qualifying expenditures approved by the Minister have been spent on the projects for which they were approved. The company is responsible for accounting for the disbursement and use of the qualifying expenditures to Yukon on behalf of the recipient to ensure that the money has been spent for the approved purpose. Any multi-year projects which qualify for CEDEA will be re-evaluated within five years to determine if they still comply with the original project description that was approved by the Minister. If, upon review, it is found that the money allotted for the project has not been spent for the approved purpose, the Minister may reassess the project and require that the deductions allowed for the project under CEDEA be reimbursed to the Yukon government by the company.

Expenditures the Minister will consider related to community infrastructure are capital costs and the operations, maintenance, repair and equipment costs related to:

- Water or wastewater treatment, distribution and storage
- Electrical generation and distribution
- Telephone, television and internet connectivity
- Airports, roads, bridges, walkways and culverts

Examples of expenditures the Minister may consider related to community facilities are capital costs and the operations, maintenance, repair and equipment costs related to buildings for the delivery of the following categories of services:

- Governance
- Public works
- Protective services

- Emergency management and preparedness
- Education from early childhood to adult
- Health and wellness
- Recreation
- Culture
- Economic development and tourism

Examples of expenditures the Minister will consider related to economic development or education programs will be for program materials, wages for human resources, office accommodation costs, and scholarships or training allowances related to the delivery of:

- Post-secondary or occupational training for adults
- Early childhood education and K-12 studies
- Business development training and assistance

Typically, the expenditure would be made by a municipality, unincorporated community, or First Nation government and reimbursed by a contribution of money from the company, or an asset may be constructed and then contributed to the municipality, unincorporated community or First Nation government.

Expenditures related to the cost of environmental cleanup programs unrelated to any reclamation requirements of the mine license or reclamation that is the direct responsibility of the mine operator will be assessed on a case-by-case basis by the Minister.

Calculation of CEDEA

Take, as an example, a mine with a value of output (after all other deductions except CEDEA) of \$5M, claimed deductions, development allowance and depreciation allowance of \$1.5M, a remaining undeducted balance of CEDEA qualifying expenditures of \$850,000 at the start of the year, and CEDEA approved incremental qualifying expenditures for the year of \$500,000. The mine has no co-apportionment procedures in place and has accumulated \$150,000 of CEDEA allowances for previous years. They have not received any reimbursements for any of their qualifying expenditures. The formula for calculating the CEDEA for a calendar year would be as follows:

The sum of the undeducted qualifying expenditures of the mine at the end of the previous year	\$850,000
PLUS	



Qualifying community and economic development expenditures made in the current calendar year net of reimbursements for costs incurred during the current year	\$500,000
LESS	
Reimbursements for costs incurred in a prior calendar year	\$0
EQUALS	
The sum of the qualifying expenditures of the mine	\$1,350,000
LESS	
The sum of all the community and economic development expense allowance for all years prior to the current calendar year	\$150,000
EQUALS	
Accumulated undeducted balance of qualifying expenditures prior to deduction of the current year community and economic development expense allowance	\$1,200,000

If the number above is negative due to reimbursements, the value must be added to the value of output calculations as described in section 3.

The sum of all the amounts claimed in respect of the mine for the calendar year under Parts 4, 5 and 6	\$1,500,000
TIMES 15% EQUALS	\$225,000

Value of the output of the mine for the calendar year after deductions, development allowance and depreciation allowance, but without the deduction of the community and economic development expense allowance	\$5,000,000
TIMES 20% EQUALS	\$1,000,000

The community and economic development expense allowance for the calendar year (the LEAST of the amounts calculated above)	\$225,000
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QMA Royalty Regulation – Annual Return Checklist

Note: this checklist has been derived from Part 13 of the Quartz Mining Royalty Regulation under the Yukon Quartz Mining Act.

Annual return information		Checked
Is this an initial filing (for the year)?		
Is this an amended filing (for the year)?		
Date of this amendment		
Date of the initial filing		
The name, phone number and email address of the person to be contacted for questions about this filing		
	Included	Checked
Ownership and management information		
The name of the mine		
Description of the mine		
The name of the official operator		
The official operator's address		
The official operator's Canada Revenue Agency business number		
The name and address of every person who is an owner, manager, holder, tenant, lessee, occupier or operator of the mine or any part of the mining property or other land used in the operation of the mine		
Production information		
For the calendar year and for each month of the calendar year, the amount and value of minerals		
(i) produced by the mine		
(ii) removed from the mining property or other land used in the operation of the mine		
(iii) sold or transferred		
The design capacity of any processing plant at the mine		
When any minerals produced by the mine were sent during the calendar year to a processing plant		
(i) the name and locality of any processing plant		
(ii) the unit cost for transportation of minerals to the processing plant		
If minerals have been sold or transferred during the calendar year, the expenses of making the sale or transfer and by whom they were paid or borne		
The unit cost for processing plant charges paid to others during the calendar year and by whom they were paid or borne		

The amount of ore processed or sent for processing by the mine during the calendar year and during each month of the year		
If the source of any of the minerals produced by the mine is exempt land, another mine or any other land other than the mining property		
(i) the quantity of minerals from each source, including the mining property, processed at the mine during the calendar year and during each month of the year		
(ii) the value of the minerals from each source shipped during the calendar year and during each month of the year, calculated in accordance with the approved co-production apportionment procedures		
Royalty particulars and calculations		
The information required and calculations used to determine the value of the minerals produced by the mine under Part 3 or Part 12		
The information required and calculations used to determine the deductions and allowances for the mine under Parts 4 to 7 and Part 12		
Reimbursements received during the calendar year respecting costs that are claimed during the calendar year under Part 4 or Part 12 or that have been claimed during a prior calendar year		
Sales information		
The names and addresses of persons to which minerals have been sold or transferred during the calendar year		
The names and addresses of all persons to whom minerals have been shipped during the calendar year		
The addresses to which the minerals were shipped		
Particulars of any relationships of persons to which minerals have been sold, transferred or shipped during the calendar year to the official operator		
The amount, grade and value of the minerals produced by the mine that were		
(i) sold or transferred during the calendar year of the mine to persons not related to the official operator		
(ii) sold or transferred during the calendar year of the mine to persons related to the official operator.		
Inventory information		
The amount, grade and value of the minerals produced by the mine that were in the inventory of the mine at the beginning of the calendar year		
The amount, grade and value of the minerals produced by the mine that were in inventory of the mine at the end of the calendar year		



Development allowance information		
The undeducted balance of the pre-production expenditures of the mine at the beginning of the calendar year		
Particulars of any amounts added to the undeducted balance of pre-production expenditures during the calendar year under Section 63, together with particulars of the applicable claims		
Particulars of any amounts deducted from the undeducted balance of pre-production expenditures during the calendar year under Section 64, together with particulars of the applicable claims		
Particulars of every disposition during the calendar year of land or an interest in land (other than a claim that is a part of the mining property) in respect of which a development allowance has been claimed		
Particulars of any reimbursement received during the calendar year of a cost that is to be or has been included in the pre-production expenditures of the mine		
The amount of the development allowance claimed, together with particulars of the calculations made to determine the amount		
The undeducted balance of the pre-production expenditures of the mine at the end of the calendar year after the deduction of a development allowance		
An estimate of the remaining balance of start-up mineral reserves of the mine at the end of the calendar year, together with particulars of the factors taken into consideration in making the estimate		
Depreciation allowance information		
The accumulated undeducted balance of depreciable assets of the mine at the beginning of the calendar year		
Particulars of additions to the depreciable assets of the mine during the calendar year		
Particulars of the disposition of depreciable assets of the mine during the calendar year, including their original cost		
Particulars of insurance proceeds received during the calendar year respecting the damage or loss of depreciable assets of the mine		
Particulars of any reimbursement received during the calendar year of the cost of depreciable assets of the mine		
The accumulated undeducted balance of depreciable assets at the end of the calendar year prior to the deduction of a depreciation allowance		
The amount of the depreciation allowance claimed, together with particulars of the calculations made to determine the amount		
The accumulated undeducted balance of depreciable assets at the end of the calendar year after the deduction of a depreciation allowance		

Community and economic development expense allowance information		
The accumulated undeducted balance at the beginning of the calendar year of costs eligible for a community and economic development expense allowance		
Particulars of expenditures made during the calendar year that have been approved under Section 50		
Particulars of any reimbursement received during the calendar year for all or part of a cost that may be or has been included in the calculation of the community and economic development expense allowance for the mine		
Particulars of the costs and calculations made to determine the amount of the community and economic development expense allowance claimed		
The accumulated undeducted balance of costs eligible for a community and economic development expense allowance at the end of the calendar year prior to the deduction of a community and economic development expense allowance		
The accumulated undeducted balance of costs eligible for a community and economic development expense allowance at the end of the calendar year after the deduction of the community and economic development expense allowance		
Accompanying documents		
The financial statements for the mine or, if the mine has no financial statements, the financial statements of the official operator of the mine		
A reconciliation of the financial statements for the mine, or of the official operator of the mine as per the requirement above, to the annual return		
The financial statements of every person who receives payment or other value from the sale or transfer of minerals by the mine		
A copy of every agreement purporting to fix the price or other consideration to be received by a mine from the sale or transfer of minerals produced by the mine		
Additional information and documents the Minister has required		
Signature and affirmation		
Affirmation and signature by the individual or by an officer of the corporation filing the return that		
The financial statements are complete and correct		
The information set out in the annual return is consistent with feasibility studies and other technical reports provided to any securities regulator or government in connection with the mine		



