MiningWatch Canada
Mines Alerte

Why Ivanhoe Mines is Incorporated in the Yukon: Sanctions and the Taxation of Foreign Mining Investment in Yukon and Canada

Backgrounder
September, 2000

1. ***Sanctions do not include investment***. Investment is not included in the sanctions imposed by Canada on Burma in 1997. The sanctions were restricted to imports and exports. *According both the First Dynasty and Ivanhoe Mines Annual Information Returns 2000, "the sanctions in their current form do not affect the company's investments in Myanmar". US sanctions do include investment.*

2. ***No Residency requirement. A Corporation is a resident of Canada*** for tax purposes if its central management and control are located in Canada or if it is incorporated in Canada. A company incorporated in the Yukon is not required to have any directors resident in Canada.

3. Subsidiaries of foreign corporations operating in Canada are considered Canadian residents.

4. ***Protection of foreign source income.*** A corporation is exempt from double taxation (subjecting the same income to tax in the foreign country and the residence country) in the form of a foreign tax credit or exemption from tax in respect of foreign source income. However, for most of the tax benefits the Corporation enjoys in the foreign country (tax holidays, reduced rates etc.), no adjustment is made to Canadian tax. *Ivanhoe's agreement with the government of Burma exempts them from income tax for three years after the date of start of commercial production and provides for accelerated depreciation and other benefits.*

5. ***Special tax breaks***. A non-resident corporation in mining and oil and gas activities can gain access to special tax incentives by incorporating a Principal Business Corporation (PBC) in Canada. By incorporating a PBC, a non-resident investor can:

- Obtain additional domestic financing using flow-through shares;
- Receive a 100% write-off and indefinite carry-forward for its exploration and development expenses, and a 30% amortization of the cost of acquiring resources properties; and
- Gain access to the accelerated capital cost allowance for capital expenses on "greenfield" mines (a new site) or major expansions.

Suite 508, 250 City Centre Ave., Ottawa, Ontario K1R 6K7 Canada
tel. (613) 569-3439 – fax: (613) 569-5138
url: www.miningwatch.ca – e-mail: canada@miningwatch.ca

6. Where foreign operations are conducted through a subsidiary, the income earned by the subsidiary is generally not subject to taxation in Canada until dividends are paid out to shareholders in Canada, or until the subsidiary is disposed of.

7. Where ownership of the foreign subsidiary is greater than 50% of common shares and there is a tax treaty with the host country, "active business income" is classified as "exempt surplus", and dividends paid from it are free of additional taxes in Canada, based on an assumption that taxes were already paid on it in the host country. If there is no treaty, then the dividends are taxable in Canada, subject to foreign tax credits. *Canada does not have a tax treaty with Burma.*

8. Income from investments is considered to be "passive income", and must be included in the income of Canadian shareholders, subject to foreign tax credits.

9. ***Foreign Exploration and Development Expenses (FEDE).*** Canadian firms involved in foreign resource activities are allowed to build up a balance or "pool" of most of their foreign exploration and development expenses. Each year, they are entitled to deduct from this balance an amount up to their foreign resource income. If they have no foreign resource income, they can still deduct up to 10% of the balance against their Canadian source income.

10. ***The FEDE is transferable*** between subsidiaries, and can be transferred on amalgamation or to any number of successor companies. *First Dynasty has two wholly-owned subsidiaries in the Yukon: Dublin Gulch and Clear Creek.*

11. ***Capital Cost Allowance***. Capital costs are purchase costs of assets less government grants and assistance such as investment tax credits. Assets are depreciated for tax purposes (a portion of the capital cost can be claimed each year). Most capital costs in mining are Class 41 assets, which means 25% of the costs can be claimed on a declining balance basis each year.

12. ***Accelerated Capital Costs Allowance*. In addition to the 25% rate mentioned above, an additional amount up to 100% may be claimed in one year. This rate is available for assets acquired before production begins, for major expansions, or for investment expenditures in excess of 5% of the mine's gross income. The ACCA allows for the full recovery of pre-production costs before paying any income tax.**