

THE MINING TAX ACT

THE INTERPRETATION OF "PRODUCTION IN REASONABLE COMMERCIAL QUANTITIES"

RE: SUBSECTION 1(1) "PREPRODUCTION EXPENSES"

GENERAL

On June 24, 1992 The Mining Tax Act definition of preproduction expenses was amended to include the aggregate of such expenses up to the date when production from the mine reaches reasonable commercial quantities.

The purpose of this bulletin is to outline in general terms the manner in which the Manitoba Finance - Taxation Division will interpret "production in reasonable commercial quantities".

PRODUCTION IN REASONABLE COMMERCIAL QUANTITIES

Preproduction expenses are those expenditures incurred, usually after the exploration phase, in the development of a mineral deposit for commercial production, regardless of whether the mine actually attains the production stage. Such expenditures incurred prior to the mine having reached production in reasonable commercial quantities are deemed to be capital in nature and qualify for an annual depreciation allowance.

Production in reasonable commercial quantities refers to the level of output not profit or loss. A mine will normally be considered to have attained production in reasonable commercial quantities on the first day of the first month of the consecutive three month period where the mill first operates at 60% of its rated capacity provided the mine is the sole source of ore to the mill. However, production in reasonable commercial quantities may also be deemed to have occurred where a mine, that is the sole source of ore to a mill, has operated consistently below 60% of the mill's rated capacity but has been in production for an extended period of time.

An alternative method of measuring output should be used in circumstances where the mill has considerable overcapacity, where the ore is custom processed or where the mill is processing ore from more than one mine. The determination of whether a particular mine has achieved production in reasonable commercial quantities will be based on the facts and circumstances of the particular mine.

This interpretation is provided as a general guideline only. If you have any questions or experience a situation not addressed by this bulletin, please contact:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll-Free 1-800-782-0318
Fax (204) 948-2087
E-mail: MBTax@gov.mb.ca
Web Site: manitoba.ca/finance/taxation

Westman Regional Office

Manitoba Finance
Taxation Division
314, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Fax (204) 726-6763