

Ontario Diamond Royalty

The 2007 Ontario Budget introduced a diamond royalty.

- The royalty is similar to, and more competitive than, the Canada Mining Regulations (CMR), which apply to diamond production in other Canadian jurisdictions.
- The royalty is payable on net value, and only after significant deductions are taken.
- The regulation has a progressive or “stepped” rate structure.

The unique new deductions will benefit diamond miners.

- Ontario-specific deductions will result in effective royalty rates ranging from 4.0% to 10.4%.
- Royalty rates in Ontario will be lower than in other Canadian diamond mining jurisdictions.
- Companies can reduce their royalty rate even further by investing in local or Aboriginal communities.

Effect of Made-in-Ontario Allowances on Royalty Rates¹				
Net Annual Profit²	Diamond Royalty Before Allowances		Diamond Royalty After Allowances	
	Royalty Payable	Effective Royalty Rate³	Royalty Payable	Effective Royalty Rate^{1,3}
Up to \$10,000	\$0	0%	\$0	0%
\$5 million	\$250,000	5%	\$200,000	4.0%
\$56 million	\$5.6 million	10%	\$4 million	7.2%
\$225 million	\$29.3 million	13%	\$23 million	10.2%
\$281 million	\$36.5 million	13%	\$29.3 million	10.4%
> \$281 million	13%		10.40%	
¹ Illustrates the impact of the 15 per cent allowance on costs at the maximum 20 per cent of net profit. The effective rate of Ontario’s diamond royalty could be lowered further by the other Ontario-specific deductions, such as those for charitable donations or payments to aboriginal communities or municipalities.				
² Net profit for royalty purposes is gross revenue less permitted deductions. Diamond mining operations could be expected to deduct exploration and development costs in the early years of production, which would substantially reduce net profit in those years.				
³ Represents average effective diamond royalty rate calculated as royalty payable/net profit in a year.				

Ontario introduced 3 “made-in-Ontario” deductions.

- There is a 100% deduction for qualifying expenditures made under agreements with local or Aboriginal communities.
- There is a 100% deduction for qualifying donations in Ontario of a charitable, educational or benevolent nature.
- An additional 15% allowance for the cost of establishing and operating a diamond mine, limited to 20% of annual net profit applies to the above expenses, operating expenses and others.

For further information be see:

- News Release: McGuinty government announces made-in-Ontario diamond royalty system, <http://www.fin.gov.on.ca/english/media/2007/nr07-diamonds.html>
- Backgrounder: Improving competitiveness for diamond mining in Ontario, <http://www.fin.gov.on.ca/english/media/2007/bk07-diamonds.html>