

**Written Submission for the Pre-Budget Consultations in Advance of
the 2024 Federal Budget**

By: The Prospectors & Developers Association of Canada (PDAC)

August 2023



**PROSPECTORS &
DEVELOPERS
ASSOCIATION
OF CANADA**

**ASSOCIATION
CANADIENNE DES
PROSPECTEURS ET
ENTREPRENEURS**



Recommendation 1: That the government renew the Mineral Exploration Tax Credit for a minimum of 5 years beyond the current expiry date of March 2024, and extend eligibility of the Critical Mineral Exploration Tax Credit by 2 years, from 2027, thereby aligning the periods for the two incentives.

Recommendation 2: That the government create a mechanism to allow for the suspension or deferment of expenditure timelines associated with flow-through shares to respond to acute situations (e.g. wildfires) that may create unintended tax consequences for companies and individuals and that can apply to a specific company, region or nationally.

Recommendation 3: That the government adjust the capital gains tax treatment for Flow-Through Shares to reflect the issue price of the security versus the current nil cost base approach to expand participation in this funding mechanism by a broader base of investors within Canada.

Recommendation 4: That the government expedite direction of the \$1.5 billion committed in Budget 2022 for critical mineral supply chain infrastructure, as well as funds from the Canadian Infrastructure Bank and Canadian Broadband Fund to fast track the development of energy, transportation, and telecommunications infrastructure in the north, particularly in the territories and First Nations communities.

Recommendation 5: That the government put in place a one-window approach to facilitate access to available funding to Indigenous Peoples and communities for early engagement and community capacity building with First Nations to support Indigenous participation in critical mineral projects, Canada's critical mineral strategy and initiatives like the development of the National Benefits Sharing Framework.

Recommendation 6: That the government expand the funding provided to the Geological Survey of Canada and co-fund provincial and territorial geoscience organizations to collaboratively develop comprehensive, regional-level mineral and energy potential models for application in evidence-based land management and conservation planning, and to create a mechanism through which these models can become more widely available to the public.



About the Prospectors & Developers Association of Canada

The Prospectors & Developers Association of Canada (PDAC) is the leading voice of the mineral exploration and development industry, which contributes more than \$100 billion to Canada's GDP every year and is proportionally the largest private-sector industrial employer of Indigenous Peoples in Canada. Our work centers on supporting a competitive, responsible, and sustainable mineral industry, as well as ensuring our sector can access the people, lands and capital needed to close gaps in our domestic supply chains, drive Canada's climate action strategies and continue to generate significant economic and social benefits from coast to coast to coast.

Maintaining Canada's Competitive Advantage in the Global Marketplace

The potential for domestic mineral discovery is virtually unrivaled and represents a unique Canadian advantage. Incentivizing new discoveries will provide the means for Canada to electrify and others to follow our lead. To capitalize on this social imperative and economic opportunity, we must sustain investment in mineral exploration and downstream processing capacity to ensure Canadian minerals and metals can reach markets within realistic timeframes.

With only about 1 in every 10,000 mineral showings historically becoming a new mine in Canada, the high-risk nature of mineral exploration makes attracting investment for typically non-revenue generating companies extremely difficult. Canada's globally renowned flow-through share (FTS) mechanism has generated more than two-thirds of all funds raised for domestic exploration on Canadian Exchanges over the last decade and represents a primary source of new capital in down markets.

The additional 15% non-refundable Mineral Exploration Tax Credit (METC) combines with FTS to specifically attract investments in early-stage, grassroots exploration in Canada by helping to offset some of the significant investment risks and high costs involved in operating in remote regions with limited infrastructure. Grassroots exploration has declined materially from approximately 45% of Canadian activity in 2008 to only 29% in 2022, and this trend is leading us towards a precipitous decline in new mines and our future capacity to produce minerals and metals.

The Critical Mineral Exploration Tax Credit is only eligible for 14 minerals (including REEs) out of the 31 critical minerals identified on Canada's list, which means the METC represents the only grassroots exploration incentive for more than half of our critical list. By allowing the METC to expire in March of 2024, Canada is effectively disincentivizing exploration for half of our critical mineral list, which will have negative carry over implications for Canadian competitiveness and our critical mineral strategy as a whole.

As illustrated in Figure 1, government estimates the cost of the METC to the public is roughly \$425 million from 2019-2022. This is more than offset by the nearly \$3 billion in capital raises that incorporated the METC for companies to explore for minerals in Canada and based on government



evaluation, translates to roughly \$8.5 billion in incremental expenditures across the country, or a 20x positive impact on the Canadian economy.

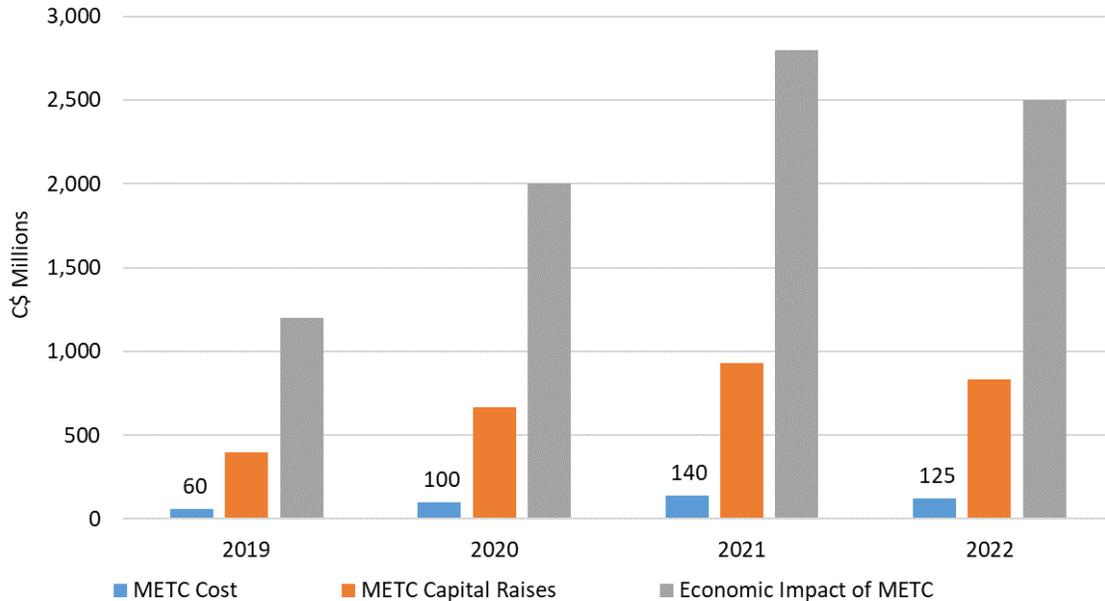


Figure 1: METC Cost vs. METC Capital Raises vs. Economic Impacts

Developing Canadian critical minerals relies on the economies of scale and robustness of the broader mineral exploration industry, from established equipment manufacturing and distribution channels to leading educational programs, professional talent pools and a highly evolved financial ecosystem. Contraction of the broader mineral exploration industry risks loss of crossover benefits and will constrict growth of Canada’s burgeoning critical mineral industry.

As such, PDAC recommends renewing the METC for a minimum of 5 years and extending Critical Mineral Exploration Tax Credit eligibility by an additional 2 years, thereby aligning these two incentives. Additionally, we recommend government create a review and renewal process for these two incentives prior to 2029 that ensures eligible activities under both regimes reflect relevant mineral exploration and development best practice (**recommendation 1**).

Central to the FTS regime is the requirement to spend all funds raised in a given year within 12 to 24 months, on exploration activities that are reconcilable with Canadian Exploration Expenses (CEE). The COVID-19 pandemic proved how events entirely outside of the control of companies could completely halt exploration activities, including the loss of an entire field season, which can create significant tax liabilities for both companies who have issued FTS and the individual or institutional investors who have participated in FTS offerings. A similar situation is manifesting in 2023 with the severity of the wildfire season. While the total impact on site access and exploration programs across Canada remains



unknown, PDAC is aware of members experiencing material delays. In 2020 the government passed legislation allowing the deferral of FTS expenditures, giving companies an additional year to spend funds raised prior to the onset of the pandemic. While industry is grateful for this temporary amendment, the process was lengthy, and hinged upon successful passing of legislation.

To improve responsiveness and mitigate unintended tax implications for Canadians when uncontrollable and acute situations arise, PDAC recommends government create a mechanism (e.g. Order in Council or Minister's directive) to allow for the suspension or deferment of expenditure timelines associated with FTS that can apply to a specific company, region or nationally (**recommendation 2**).

The FTS regime as currently administered is primarily attractive to very high net-worth individuals, and as a result, a relatively small group of investors generates a disproportionate amount of FTS funding. To expand investor participation in FTS issuances, we recommend that the government adjust the capital gains tax treatment of FTS to reflect the issue price versus the current nil cost-base treatment (**recommendation 3**). This adjustment would make FTS more appealing to a broader cohort of investors and boost the competitiveness, thus enable larger participation and higher amount to be fundraised for mineral exploration. Such a change could also counterbalance a potential drop in FTS investments that could stem from a proposed increase to the Alternative Minimum Tax in Budget 2023.

Ensuring the Inclusion of Indigenous Communities in the Mining Life Cycle.

Improving the effectiveness of regulatory regimes is paramount for the success of mutually beneficial partnerships that allow Indigenous communities to meaningfully participate and maximize the social and economic opportunities generated by the mineral industry.

The mineral industry is the largest private-sector industrial employer on a proportional basis of Indigenous Peoples in Canada and a key partner of Indigenous businesses from coast to coast to coast. PDAC is keen to engage throughout implementation of Bill C-15: *An Act Respecting the United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP) and in developing the Action Plan.

Action Plan consultation must reach Indigenous communities and affected industry stakeholders in all parts of Canada. PDAC urges the government to allocate sufficient resources to engage with the mineral exploration sector throughout the consultation processes to ensure holistic development of the Action Plan.

A significant barrier for equitable inclusion of Indigenous communities in engagement with the mineral exploration and development industry, particularly in remote and northern regions, is a lack of reliable high-speed internet and communication infrastructure. Given the significant logistical challenges of operating in a remote region of Canada, in-person consultation can be extremely challenging. PDAC strongly recommends the immediate dispensation of previously earmarked funds to create new, and bolster existing high-speed broadband infrastructure across Canada's north (**recommendation 4**). These efforts should focus on Indigenous communities to increase the opportunities to participate more actively in all stages of mineral exploration and development. This will have a secondary benefit of



providing junior exploration companies with better access to broadband infrastructure, which would support modern exploration activities and potentially alleviate some of the cost burden associated with operating in remote areas.

PDAC calls on government to establish a one-window approach to add clarity on how communities can apply for funding under Budget 2022 commitments regarding *Partnering with Indigenous Peoples in Natural Resource Projects* to ensure programs are well advertised and utilized. Government should also commit to periodic evaluation of the program to gauge effectiveness, capacity and expand available funding if needed (**recommendation 5**). Furthermore, we recommend that the government consider PDAC's own [Social](#) and [Economic](#) Impact studies and invest in further federal research on these topics.

We urge the Federal Government to implement the Truth and Reconciliation Commission's Calls to Action and National Inquiry into Missing and Murdered Indigenous Women and Girls' Calls for Justice. We encourage the government to deliver on promises to invest in education, health and critical infrastructure such as housing, water and high-speed internet. Specifically, we recommend the government provide additional funding for training and educational services for Indigenous leaders and communities to build capacity in order to ensure meaningful and equitable participation in the mineral industry and future regulatory consultation processes.

As a proven leader in Indigenous engagement, the mineral industry understands that knowledge of regulatory regimes, access to education opportunities and increased capacity lead to collaborative partnerships. Equitable participation in future regulatory consultation processes will foster integration of traditional knowledge into mineral industry activities and create mutually beneficial relationships between industry and Indigenous Peoples in Canada.

Increasing public access to data and modeling for land management decision-making

Funding for public geoscience programs has proven to be economically effective with research showing that every \$1 in public geoscience spending, is estimated to generate more than seven times that in overall economic benefit to Canada (Ernst & Young, 2019).

As such, PDAC recommends that the government increase funding for the Geological Survey of Canada to support comprehensive mineral potential modelling, based on geoscientific data and best practices (**recommendation 6**). This process is the only way to accurately understand mineral potential and make land management decisions that are evidence-based. Without taking such an approach, we invite uninformed decision-making and risk abandoning economic development opportunities and the inputs needed to transition to net zero. Funding is also required to create a mechanism through which these models and accompanying data can be more widely available to the public, government departments and other levels of government to be used in all levels of land management decision making.