



**Department of Finance, Canada**

**Ottawa, Ontario**

**Sent via email: [consultation-legislation@fin.gc.ca](mailto:consultation-legislation@fin.gc.ca)**

**Re: Concerns regarding legislative proposal related to the *Income Tax Act* – amendments to Canadian Exploration Expense (CEE) rules**

The Prospectors & Developers Association of Canada (PDAC) is the leading voice of the mineral exploration and development industry. Representing over 8,200 individual and corporate members in Canada and around the world, PDAC's work centers on supporting a competitive, responsible, and sustainable mineral industry. The mineral industry supports more than 700,000 people in direct and indirect employment, contributed \$159 billion to Canada's GDP in 2023, and is the largest group of public issuers in Canada, accounting for approximately one third of all companies listed on Canadian exchanges.

We value the opportunity to comment on the proposed amendments to the Canadian Exploration Expense (CEE) provisions of the Income Tax Act that define eligible activities under the Flow-Through Share (FTS) regime, which is the source more than two thirds of all investment in Canadian mineral exploration each year.

We understand government's objective to provide greater clarity on the scope of eligible activities under the CEE rules. Clear statutory language is needed for investors, issuers and government to ensure consistent interpretation.

However, we are concerned that the proposed amendments may not achieve that objective and may instead have unintended consequences. In particular, they do not address - and may further entrench - the structural financing gap between mineral exploration and mine construction. They also diverge from the Government's stated commitment to expand CEE eligibility to include technical and feasibility studies.

In addition, the introduction of new (and potentially confusing) terminology risks increasing interpretive uncertainty and compliance challenges for FTS issuers, Qualified Persons (QPs) and Canada Revenue Agency (CRA).

**Policy Inconsistency with Prior Commitments**

The proposed amendments point in a completely opposite direction when compared to the commitments made by Prime Minister Carney in the [Canada Strong](#) platform from Spring 2025, which stated:

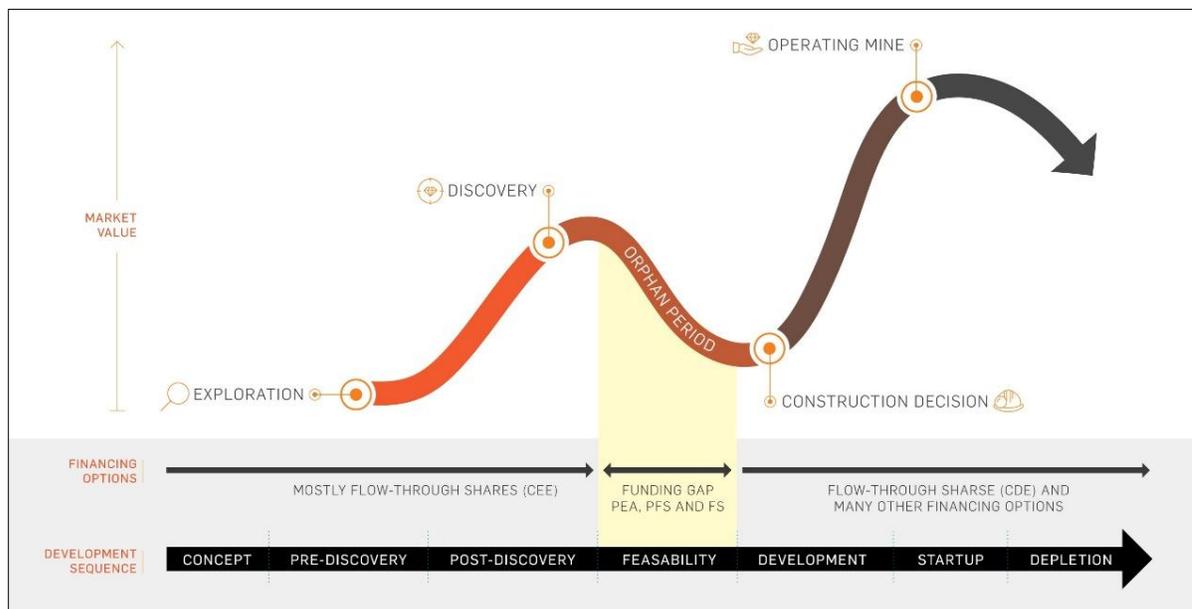
*“Expanding eligible activities under the Canadian Exploration Expense to include the costs of technical studies, such as engineering, economic and feasibility studies.”*

These studies are a critical component of advancing mineral projects and enabling investment decisions.

## Failure to Address the Major Financing Gap in Mineral Development

There is a well-recognized structural gap in mineral project financing, even for the most compelling development scenarios, between early-stage exploration and mine construction. This gap is often described as the “valley of death” or an “orphan period” where risk capital, debt and other financing mechanisms are extremely difficult to attract. During this stage, projects require significant technical and engineering work to be completed to advance towards a build decision. This stage currently can only be straddled with limited pools of ‘hard dollars’ from investors as FTS funds are not currently eligible to be spent on economic / feasibility assessment work.

Figure 1 clearly illustrates this dynamic by showing how project valuation evolves through the mineral development sequence.



*Figure 1: Valuation Along the Mineral Development Sequence*

Addressing this financing void is essential to maintain Canada’s competitiveness as a destination for mineral investment, to see new mines built here at home and position our nation to capture the generational opportunity associated with critical minerals and the energy transition.

A central policy objective should be to close this financing gap, ensuring that projects can advance through the technical and engineering stages of development. While expanding the scope of eligible CEE is one possible way to address this gap, an alternative approach could be to establish a distinct class of eligible expenses designed specifically to bridge the period between CEE-eligible activities and Canadian Development Expense (CDE), which applies after a decision to bring a mine into production has been made. The specific mechanism is less important than the outcome: providing a workable pathway for projects to progress through this stage.

While a solution that supports all mineral projects through this funding gap would be preferable, we note that at a minimum, measures of this nature should apply to critical mineral projects, where advancing projects through the development sequence is particularly important for strengthening domestic supply chains and supporting Canada’s role in the energy transition.

Importantly, measures aimed at addressing this gap would not necessarily be cost prohibitive or fiscally burdensome. With careful design, expanding eligibility for FTS expenditures can drive mineral projects forward and preserve fiscal discipline while still ensuring that support is directed to critical activities.

### Proposed Amendments Increase Uncertainty and Administrative Risk

In addition to the risks associated with ignoring a structural funding gap in developing new mineral deposits, we are also very concerned that the proposed amendments will introduce additional uncertainty in practice, both for Qualified Persons (QPs) that administer exploration programs, and the CRA. We anticipate that the replacement of the term “*quality*” with “*inherent natural qualities*” as part of the CEE purpose test will widen the knowledge gap between QPs and CRA and make it difficult for practitioners to clearly understand what exploration expenses are CEE-eligible.

The Explanatory Notes to the proposed CEE changes create further uncertainty as they do not refer to or describe what are “*inherent natural qualities*” and instead uses the terminology “underlying or inherent physical characteristics”. We view the “*inherent natural qualities*” of a mineral resource as being broader than its physical characteristics and would appreciate if Finance could clarify this point.

Put simply, the proposed amendments will increase compliance costs and also have potential to spark delays, litigation and ultimately discourage investment at a stage where capital is already scarce.

Without attention from Government, the structural funding gap in mineral exploration will persist. PDAC will continue to advocate for changes to eligible activities within the FTS regime that will close this gap as we know mine development in Canada is falling well short of meeting our national goals in building new critical mineral mines as Figure 2 shows below.



Figure 2 – Critical Mineral Mine Development in Canada (source: NRCan)

We welcome the opportunity to discuss these issues with government, House of Commons standing committees and relevant departments as we aim to outline practical solutions that support advancement of Canadian mineral projects while maintaining fiscal discipline.