

Financial Incentives for Mineral Exploration and Prospecting in Canada

This compilation is of all financial incentives available for exploration at both levels of government (federal and provincial/territorial) and includes tax incentives, grants and direct and indirect financial assistance. The compilation includes information on each jurisdiction below and a summary in the form of an Excel Spreadsheet. It includes information available from government and private sources as of December 13, 2013. Some government officials, that I obtained information from, are listed, but regional association representatives are not.

Federal Incentives

(As can be seen below many of these incentives are subject to phase-out)

Canadian Exploration Expenses (CEE)

This provision of the federal Income Tax Act provides a deduction of 100% of eligible exploration expenses against taxable income. Eligible CEE expenses include grassroots exploration expenses, as defined in sub-section 66.1(6)(f) of the Income Tax Act and pre-production development expenses, as defined in sub-section 66.1(6)(g) of the Income Tax Act. However, it must be noted that the 2013 federal budget proposed the phase-out of the CEE treatment for pre-production development expenses. Instead, these expenses will be gradually changed to receive Canadian Development Expense (CDE) treatment, which is a deduction of 30% of expenses on a declining balance basis. The change will be made according to the following table:

	2013 and 2014	2015	2016	2017	After 2017
CEE	100%	80%	60%	30%	0%
CDE	0%	20%	40%	70%	100%

Flow-Through Shares (FTS)

The FTS provision, is outlined in sub-section 66(15) of the Income Tax Act and allows an investor to claim a CEE or CDE (or a Canadian Renewable Energy and Conservation expense) deduction earned by a publically listed company against their taxable income. However, the expenses must be reduced by any provincial or federal assistance received and, in that flow-through shares have a zero adjusted cost base, when the share is sold the entire income from the sale is subject to capital gains tax.

The Mineral Exploration Tax Credit (METC)

METC is a temporary 15% tax credit, linked to flow-through shares, that can be claimed on a more limited part of grassroots expenses, for exploration conducted “from or above the surface of the earth” as defined in sub-section 127(9) of the Income Tax Act as “flow-through mining expenditures”. This tax credit can be claimed in addition to the CEE deduction, but the expenses for CEE must be reduced by any provincial or federal assistance and the tax credit applied to the reduced amount. In addition the

tax credit must be taken into income in the following year. Under current Legislation this tax credit will terminate for new investment on March 31, 2014.

Prospector's and Grubstaker's Shares Deduction

This provision, as defined in sub-section 110(1) (d.2) of the Income Tax Act, allows a deduction from income of 50% of the value of shares, received and included as income, for that year.

The 10% Corporate Mineral Exploration and Development Tax Credit

This tax credit is being phased out. The credit has been divided into two for the phase out:

The tax credit will apply at a rate of 5 % for **exploration expenses** incurred in 2013. The credit will not be available for exploration expenses incurred after 2013.

The tax credit will apply at a rate of 10% for **pre-production development expenses** incurred before 2014, at a rate of 7% for such expenses incurred in 2014, and at a rate of 4 % for such expenses incurred in 2015. The credit will not be available for pre-production development expenses incurred after 2015. Additional transitional relief will be provided in recognition of the long timelines involved in developing mines. For grandfathered projects, the credit will apply at a rate of 10% for pre-production development expenses incurred by a taxpayer before 2016.

Provincial Incentives

1. Newfoundland and Labrador

Junior Exploration Assistance Program (JEA).

The Junior Exploration Assistance program is designed to support junior exploration companies in the discovery of new prospects, defray the cost of exploration in the province and carry mineral prospects to more advanced stages.

Funding under the Junior Exploration Assistance Program is in the form of a non-repayable grant, and has two components:

The program provides 50% of eligible general exploration costs up to \$100,000 per project on the Island of Newfoundland and up to \$150,000 per project in Labrador.

The program allocates approximately \$500 000 of the program budget for "green- fields" exploration projects to provide enhanced assistance of 66% of eligible costs up to \$100,000 per project on the Island of Newfoundland and up to \$150,000 per project in Labrador.

The approved budget for this program for 2013-2014 is \$1.9 million (reference: J Clarke – Manager Mineral Incentive Program).

Prospecting Grants

Direct financial assistance is provided to eligible residents, who are at least 19 years of age and involved in independent mineral exploration activities. Approved projects on crown land or the proponents'

registered claims are supported by grants of up to \$6,000 for grassroots prospecting. Up to a maximum of \$6,000 is also available for air (float plane or helicopter) support to remote properties with no other means of access. Assistance, to a maximum of \$12,000 may be available for prospects considered to be at an advanced stage. Sixty percent of the grant is paid in advance and the remainder is paid upon satisfactory completion of the project and submission of an approved final report.

The budget for 2013-2014 for these grants is \$400 000 (reference: J Clarke – Manager Mineral Incentive Program).

Prospector Training

The Department of Natural Resources also supports an educational component, by providing professional instruction and other resources towards a two-week comprehensive training course in basic prospecting skills. The tuition-based course is delivered through the provincial community-college system and is open to all residents of the province, over the age of 19.

2. Nova Scotia

Nova Scotia Mineral Incentive Program (NSMIP)¹

The NSMIP has two components:

Prospector Grants up to \$15,000 that are intended to fund activities by prospectors on grassroots projects, and;

Advanced Project Grants of up to \$100,000 that provide up to 50% of eligible costs and are an industry-government cost-shared initiative, designed to fund exploration and evaluation activities beyond the grassroots level.

In addition there is a marketing program which consists of grants to prospectors to allow them to attend trade shows such as PDAC and towards an online training course for prospectors, which is being developed in conjunction with the Mining Association of Nova Scotia.

The budgets for 2013-2014 are \$200,000 for the Prospector Grants and \$400,000 for the Advanced Project Grants, with an additional \$100 000 for marketing. (Reference: Mick O’Neil – Program Co-ordinator).

3. New Brunswick

Junior Mining Assistance Program (NBMAP)

Up to 50% of project costs to a maximum of \$100,000 per project per year.

The 2013-2014 budget for the program is \$500,000. (Reference: Maurice Mazerolle – Co-ordinator Energy and Mines).

¹ <http://www.novascotia.ca/natr/meb/nsmip/nsmip1.asp>

Prospector Assistance Program (NBPAP)

Financial assistance of up to \$15,000 is available to eligible prospectors.

The 2013-2014 budget for the program is \$350,000 (reference as above).

Prospector Promotion

This program is intended to facilitate the process of optioning New Brunswick mineral prospects to both junior and major mining companies. The program sponsors prospectors attending either the Cordilleran Roundup in Vancouver or the Prospectors and Developers Association Conference in Toronto.

The 2013-2014 budget for the program is \$50,000 (reference as above).

Advanced Exploration Grant

This grant is intended to encourage the use of advanced technologies, such as deep-penetrating geophysical surveys, it is a jointly funded (on a fifty-fifty percent basis) by government and industry. There are currently no active projects.

New Brunswick Exploration Tax Deduction

The New Brunswick Metallic Minerals Tax Act provides a deduction of 150% of eligible New Brunswick exploration expenses for mineral-producing companies.

4. Prince Edward Island

No incentives available for mineral exploration.

5. Québec

Flow-Through Share Tax Deductions

Québec's Taxation Act provides a basic deduction of 100% of the cost of flow-through shares. For shares acquired after March 30, 2004, an extra 25% deduction is granted if the expenses are incurred in Québec by a non-operating company. An additional 25% deduction is allocated if the exploration is conducted from the surface, which gives a total possible deduction of 150% of the amount invested. Since March 31, 2004, two additional modifications apply to flow-through shares:

When the flow-through share is sold, the investor may benefit from an exemption of the deemed capital gain, in other words the portion of the sale price between the purchase price of the shares and their adjusted cost base, which is zero.

The investor can also deduct certain issue expenses that have been foregone in his favour, and this, over a period of five years.

Tax Credit relating to resources

Eligible exploration expenses incurred may qualify for a refundable tax credit in the percentages listed below. However, these credits are subject to the decreases, announced in the 2013 Québec Budget and listed in brackets, beginning in 2014.

- 35% (decreasing to 25% on January 1, 2014) of eligible exploration expenses incurred by non-operating corporations; 38, 75% (decreasing to 28, 75% on January 1, 2014) when expenses are incurred in Québec Near-North and Far-North;
- 15% (decreasing to 10% on January 1, 2014) for corporations operating a mineral resource; 18, 75% (decreasing to 13, 75% on January 1, 2014) when expenses are incurred in Québec Near-North and Far-North.

To qualify, companies must have an establishment and operate a business in Québec. The tax credit for resources is taxable under the Taxation Act, the Income Tax Act and the Mining Duties Act.

Corporations that incur exploration expenses in the mining sector may claim an increase in tax assistance, in exchange for an option to the state to acquire an equity stake in the development. This option will be managed by Ressources Québec. The increase in the tax assistance relating to mining resources will consist of a rise in the rate of the refundable tax credit for resources. The rise in the rate of the tax credit for corporations that develop no mineral resource will be 10% while the rise in the rate of the tax credit for other corporations will be 5%.

Investment Tax Credit for Pre-production Mining Expenditures

The investment tax credit for pre-production mining expenditures is available to companies that directly incur eligible exploration expenses. This credit is non-refundable and may give entitlement to a reduction of income tax up to 10% of the eligible expenditures.

Pre-production mining expenditures (unlike the federal Income Tax provisions) include expenses incurred for the purpose of determining the existence, location, extent or quality of a mineral resource in Canada, and those incurred for bringing a new mine in a mineral resource in Canada into production in reasonable commercial quantities.

Venture Capital for Mineral Exploration and Development

Available from Québec government organizations such as SIDEX (English translation of title is Diversification of Exploration Investment Partnership), which obtains funding from Ressources Québec, that has \$750 million reserve.

The Caisse de dépôt et placement du Québec announced, on June 20, 2013 the creation of Sodémex Développement, a \$250-million fund. This new fund, will make investments of \$5 million to \$20 million in Québec companies in the natural resources sector that are in the development stage. A flexible, hybrid financing structure that can take the form of a debenture, a convertible debenture or equity will be introduced to meet the needs of Québec companies while ensuring an acceptable level of risk.

Aboriginal Exploration Boards and Funds

The Québec Ministry of Natural resources and Wildlife provides funding to aboriginal exploration groups such as the Cree Mineral Exploration Board.

Exploration Deduction for Producing Companies

Exploration costs in the North can be expensed at 125% for provincial mining/royalty purposes.

6. Ontario

Flow-through Share Tax Credits

The Ontario Focused Flow-through Share Tax Credit is a refundable tax credit of 5% of eligible Ontario exploration expenses. It is payable to individual investors in flow-through shares, who pay Ontario income tax. The credit can be applied to reduce Ontario income tax payable and any unused amount of the credit will be refunded to the individual. The tax credit program unlike the federal METC has no automatic expiry date.

Prospector Grants

The Ontario Exploration Corporation (OEC) offers grants of up to \$85,000 to qualified prospectors with properties with high economic potential. The OEC completes a purchase agreement with the prospector for a 1% Net Smelter Royalty (NSR) for \$10,000 in the first phase. The second phase is \$25,000 for a further 0.25% NSR and the third phase is \$50,000 for a final 0.25% NSR. The program started in 2002, when the Ontario Prospectors Assistance Program (OPAP) ended. The program is not popular when other financing is available, as the value of a 1% NSR in their mineral properties is considered, by prospectors, to be far more than \$10,000. However there is a partial buy-back provision. To date no NSRs are paying out. The program has \$1.5 million in the treasury and several applications, due to the current difficult environment for raising high risk exploration funding.

Gary Clarke the Executive Director of the Ontario Prospectors Association, which has a role in administering the program, indicates that the association and Ontario are looking at revising the upfront NSR. He is also looking at ways to get the program more profile and interest.

Assistance to Aboriginal communities related to exploration

The Ministry of Northern Development and Mines is working to deliver community-based funding and training in cooperation with the provincial government, federal government and industry. This funding supports the needs identified by eligible communities and provides flexibility for them to assess and prioritize for the potential opportunities arising from mineral exploration and development.

The Ministry of Northern Development and Mines is also supporting many of the communities closest to potential development with community communication liaison officer positions and mineral exploration development consultants. These positions are intended to provide individuals with knowledge about the

mining sector and help communities at large engage with industry and government. In addition week long prospector training courses are provided.

(References: Mary Rocca – Ontario Ministry of Northern Development and Mines (MNDM), and Gary Grabowski – District Geologist MNDM)

7. Manitoba

Manitoba Mineral Exploration Tax Credit (MMETC)

The MMETC is a 30% non-refundable personal income tax credit for Manitoba residents who invest in eligible flow-through shares of qualifying mineral exploration companies. Earned credits can only be applied against Manitoba income tax payable. There is no cap on the maximum eligible investment by an individual investor, and no limit on the maximum amount of the tax credit. The MMETC will be available for flow-through share agreements entered into by March 31, 2015.

(Reference: Chris Beaumont – Smith- Manager, Mineral Policy and Business Development)

Mineral Exploration Assistance Program (MEAP)

MEAP provides financial assistance for non-fuel mineral exploration in Manitoba. The program is available to companies or individuals proposing mineral exploration projects in Manitoba. The program provides assistance of up to 25% of approved eligible expenditures. A higher percentage is offered for projects conducted in the Lynn Lake/Leaf Rapids and the Northern Superior and other Northern areas of Manitoba. In these areas the program provides assistance of up to 35% of approved eligible expenditures. A maximum of \$200,000 per recipient per fiscal year is available.

The 2013-2014 budget for MEAP is \$1.5 million. However, Manitoba has announced its intention to double the budget to \$3.0 million for 2014-2015 (reference-November 19, 2013 press release by John N. Fox, Assistant Deputy Minister , Manitoba Mineral Resources) .

Manitoba Prospectors Assistance Program (MPAP)

MPAP provides grants to prospectors exploring on either their own properties or open Crown mineral land of 50% of approved eligible costs, to a maximum of \$7,500 per fiscal year, upon completion of the field projects and submission of an acceptable technical report.

Qualified applicants with projects in remote areas can also receive 80% of approved charter air transportation in Manitoba, to a maximum of \$1,500. Applicants must hold a Manitoba Prospecting Licence, be self-employed, experienced prospectors, and have a bona fide prospecting project within Manitoba (reference Chris Beaumont-Smith).

Off-site Exploration Allowance

Mining companies that increase their exploration activities in search of new mines in Manitoba are entitled to a deduction equal to 150% of exploration expenditures for the purposes of provincial mining taxes/royalties. Eligible exploration expenditures in a given year must exceed the average of expenditures in the previous three years (reference Chris Beaumont-Smith).

Work Assessment Credits

For the calendar years 2014 and 2015 Manitoba has announced its intention of introducing double work assessment credits for eligible exploration expenses undertaken in those years (reference-November 19, 2013 press release as for MEAP).

Other

On November 19, 2013 Manitoba Mineral Resources announced the following investments in support of its mineral industry:

- New funding of \$3 million in 2014-15 for the Mineral Exploration Assistance Program (MEAP), which delivers financial assistance for companies carrying out mineral exploration in Manitoba (double the 2013-14 levels).
- New funding of \$125,000 in 2014-15 for the Manitoba Prospectors Assistance Program (MPAP), which offers incentives annually to encourage mineral prospecting.
- Mineral Resources is also recommending to Treasury Board the following administrative changes:
 - MEAP will offer a 40% rebate (up from 25%) in established camps and a 50% rebate (up from 35%) for remote areas, to a maximum of \$200,000 per company. There would be one April offering.
 - MPAP will provide up to \$11,500 (up from \$7,500) to individuals. There would be two, 6-week application periods starting May 1, 2014 and Nov 1, 2014.
 - Assessment work conducted in calendar years 2014 and 2015 on claims and MELs would receive double assessment credits.

In a welcome acknowledgment of the capital crisis, Minister Chomiak [noted in a press release\[4\]](#) that “The doubling of work assessment credits will help companies continue exploring during these challenging economic times.”

8. Saskatchewan

Saskatchewan Mineral Exploration Tax Credit Program (SMETC)

The SMETC offers a non-refundable 10% tax credit to Saskatchewan taxpayers who invest in eligible flow-through shares issued by mining or exploration companies after March 31, 2012. This provincial tax credit follows the eligibility rules of the federal Mineral Exploration Tax Credit (reference: Victor Zhang – Saskatchewan Ministry of the Economy)

Saskatchewan has phased out its assistance programs for prospectors and small exploration companies (reference: Mike O’Brien – Mining Recorder)

9. Alberta

Alberta currently has no incentives for mineral exploration.

10. British Columbia

Mining Exploration Tax Credit

The mining exploration tax credit is available for eligible corporations and corporations that are active members of partnerships, conducting grassroots mineral exploration in B.C.

An active member of a partnership includes a corporation that is engaged in a business similar to that carried on by the partnership. Limited partners are not eligible to claim the credit. The corporation or partnership must incur qualified mining exploration expenses before January 1, 2017, for determining the existence, location, extent or quality of a mineral resource in B.C. The credit applies to exploration for all base and precious metals, coal and some industrial minerals.

The credit is refundable and is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. An enhanced rate of 30% is available for qualified mineral exploration undertaken in prescribed Mountain Pine Beetle affected areas.

B.C. Mining Flow-Through Share Tax Credit

The B.C. mining flow-through share tax credit allows individuals who invest in flow-through shares to claim a non-refundable tax credit of 20% of their B.C. flow-through mining expenditures. B.C. flow-through mining expenditures are specific exploration expenses incurred after July 30, 2001 and renounced by a corporation issuing the flow-through shares.

The expiry date for the tax credit is December 31, 2013.

Territorial Incentives

1. Nunavut

Nunavut Prospector's Program (NPP)

Qualified prospectors may apply for a contribution of up to \$8,000 per year to cover basic expenses while exploring for new mineral occurrences in Nunavut. This financial support applies to project-related expenses such as fuel, vehicle maintenance, food allowance while in the field, assistant wages, prospecting supplies, and mineral assay costs.

Resident Geologists based in Cambridge Bay and Arviat administer the NPP, and are available to advise prospectors on their individual projects. The Resident Geologists also offer introductory prospecting courses in every Nunavut community. Completion of the Prospecting Course will fulfill the experience requirement for NPP support.

The 2013-2014 budget for the NPP is \$100,000 (reference: Hugh Mc Isaac – Resident Geologist).

Fuel Tax Rebate – Mineral Exploration

Every person or entity who is engaged in mineral exploration may be eligible for a fuel tax rebate on fuel used in unlicensed machinery, equipment and registered snowmobiles and ATV's used in mineral exploration. The rebate applies to fuel purchased and consumed on and after April 1, 2006. To be eligible the applicant must have a current Prospection License, and the fuel must have been purchased in Nunavut or have been imported into the territory as per section 3, 4 and 5 of the Petroleum Products Tax Act of Nunavut (reference as above).

Contribution Agreements

Contribution Agreements can be sought with the government for mutually beneficial development e.g. advanced exploration and mining projects that might need help with road building to a site (reference as above).

2. North West Territories

Prospectors Grubstake Program (PGP)

The PGP provides funding to NWT prospectors to help defray costs for a wide range of prospecting activities. Individual prospectors may be eligible to receive grubstakes of up to \$5,000 over 5 years. There appears to be no dedicated budget to the PGP as it is funded through the SEED (Support for Entrepreneurs and Economic Development) program. However, the North West Territories Mineral Development Strategy, for which an implementation plan will be released in early 2014, indicates that: *“The GNWT should institute a Mining Incentive Program (MIP) comprising a revamped prospector’s assistance grant scheme and mineral exploration tax credits. The MIP could be modelled on successful programs in other jurisdictions, but funding levels should take into account the intrinsically higher costs of doing exploration in the NWT. The costs associated with Aboriginal and community consultation should be considered as eligible exploration expenses for the purposes of the MIP as well as for work requirements for assessment purposes.”*

3. Yukon

The Yukon Mining Incentives Program (YMIP)

This program contains three modules:

Grassroots – Prospecting

Qualified prospectors may apply for a contribution of up to \$15,000 per year to cover basic operating expenses while searching for new mineral occurrences in Yukon. 100% of approved expenses are reimbursed.

Focused – Regional

Individuals, sole proprietors, partnerships, limited partnerships and corporations undertaking basic exploration work, directed at exploring for and appraising the potential of an under-explored area, may apply for a contribution of up to \$15,000 per year. 75 % of approved expenses are reimbursed

Target Evaluation

Individuals, sole proprietors, partnerships, limited partnerships and corporations undertaking basic exploration work, directed at appraising the potential of an under-evaluated occurrence or target, may apply for a contribution of up to \$35,000 per year. 50% of approved expenses are reimbursed. The intent of this funding is to enable the recipient to carry out exploration work aimed at developing a mineral project to an advanced exploration stage.

The 2013 funding level for YMIP is \$770 000. However, this budget has been raised to \$ 1.17 million according to Derek Torgerson- Mineral Development Geologist.