

A STRATEGY TO IMPROVE CANADA'S MINERAL EXPLORATION INVESTMENT CLIMATE

Submission by the
Prospectors and Developers Association of Canada (PDAC)
to the House Standing Committee on Finance

Pre-Budget Consultations

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A Strategy to improve Canada's Mineral Exploration Investment Climate
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This submission is presented by the Prospectors and Developers Association of Canada (PDAC) on behalf of Canada's mineral exploration industry. The PDAC represents 7000 members - the majority of our corporate members are small and medium sized enterprises (juniors). Our members are engaged in the exploration and development of mineral resources.

The submission contains recommendations that form the underpinnings of a strategy to maximize investment in the mineral industry in Canada: a high-quality geoscience database; competitive tax policy; access to land; an efficient regulatory regime; and, a strategic approach to promoting Canada's advantages and expertise.

Recommended actions for improving Canada's Investment Climate:

1. Investment in geoscience

Recommendation 1: That the federal, provincial and territorial governments make a long-term commitment to investment in geoscience mapping through support for the Cooperative Geological Mapping Strategies (CGMS). The federal government share of \$25 million per year for ten years would trigger matching funds from the provincial and territorial governments for a total of \$50 million per year, thereby improving the geoscience database throughout Canada.

2. Tax policy for mineral exploration

Recommendation 2: That the federal government continue the Mineral Exploration Tax Credit (METC) federal tax credit, that exploration for base metals in the vicinity of existing and formerly operating mines be treated as Canadian Exploration Expense and modify the Income Tax Act so that a resource property on the site of a former mine that has been shut down or inactive for a continuous period of at least 60 months is deemed to be a "new mine."

3. Land access, mineral exploration and Aboriginal communities

Recommendation 3: That the federal government take measures to maximize the land base available in Canada for mineral exploration and development and minimize the impediments to carrying out exploration activities on Crown Land in an efficient and timely manner. The PDAC supports the federal government in its efforts to expedite the resolution of outstanding land claims and we encourage the federal government to develop resource revenue sharing agreements with Aboriginal peoples in order to promote sustainable communities.

4. Regulatory reform and efficiency in permitting

Recommendation 4: That the federal, provincial and territorial governments work with the mineral sector to continue to improve the regulatory environment in which the Canadian exploration and development sector operates.

5. Branding Canada in the world of mining

Recommendation 5: That the federal, provincial and territorial governments work with the mineral sector to promote Canada as one of the most attractive places to explore, to mine and to process minerals, and as a centre of excellence in geoscience education, training, financing, exploration, services, supplies, sustainable development and mining.

A Strategy to improve Canada's Mineral Exploration Investment Climate

The PDAC is a national organization with 7,000 members representing the range of companies and individuals in mineral exploration and development. Our corporate members include senior producing companies and junior companies (small and medium enterprises [SMEs]). Our individual members include prospectors, geoscientists, geological consultants, company executives, and junior exploration and senior mining companies. Our members also include people in the financial, legal, and academic communities, students, and those who supply services and equipment to the mineral industry.

Canada is in an excellent position to supply much of the global demand for commodities. Our rich endowment of natural resources and high mineral potential, together with a vibrant junior exploration sector, represents an excellent economic and social opportunity for Canada, its provinces and territories.

Factors that limit Canada's ability to benefit from these opportunities include: the levels of this country's mineral reserves which are being depleted faster than new discoveries are being made; intense global competition for exploration investment; and the cyclical nature of the mineral industry.

To overcome these challenges, Canada must institute and provide continuity to mineral and fiscal policies that will: ensure high levels of investment in grassroots exploration over an extended period; maximize the potential for discovering new mines in Canada; enable Canada to replenish its reserves; maintain its competitive position in mineral exploration; and retain this country's foremost position in global exploration and mining expertise.

Improving our investment climate involves establishing a balance between incentives that enable us to compete and removing barriers that impede investment and growth. Our recommendations address both.

Investment in geoscience

Recommendation 1: That the federal, provincial and territorial governments make a long-term commitment to investment in geoscience mapping through support for the Cooperative Geological Mapping Strategies (CGMS). The federal government share of \$25 million per year for ten years would trigger matching funds from the provincial and territorial governments for a total of \$50 million per year, thereby improving the geoscience database throughout Canada.

The PDAC believes that funding the Cooperative Geological Mapping Strategies is an integral element of the government's long-term strategy for supporting mineral exploration in Canada. Implementation of the CGMS is now more pressing than ever as our inventories are in decline and discoveries of new mineral deposits are needed to replenish them. Investment in mineral exploration depends on ready access to current, high quality geoscience information in order to maximize the potential for making new discoveries. Provincial and territorial governments, along with Natural Resources Canada, have indicated their strong support for CGMS; the federal government now needs to commit its funding in order to implement the strategy.

Benefits

Funding and implementation of the Cooperative Geological Mapping Strategies (CGMS) will attract and increase private sector investment in mineral and energy exploration, stimulate new discoveries, and promote sustainable economic development in rural and remote regions of Canada.

CGMS complements the federal government's science and technology strategy - Mobilizing Science and Technology to Canada's Advantage - by enhancing our knowledge of Canada's mineral and energy resource potential and by developing highly skilled knowledge workers in Canada to help drive the global resource businesses. This will ensure the continued economic and social development of the country's rural and remote regions.

Conducting new geoscience research in the Arctic is in the national interest as it demonstrates a long-term commitment to the area. Geoscience research directly benefits each province and territory by advancing the public's knowledge of our natural resources and encouraging new exploration activity.

A high-quality and easily accessible geoscience database (i.e. geological data and maps) is a key competitive advantage internationally, especially as jurisdictions overseas improve the quality of their geological databases.

Background

Implementing CGMS would involve a ten-year commitment of \$25 million annually by the federal government triggering matching contributions from provincial and territorial governments.

The total investment of \$50 million per year for ten years will result in the generation of new or updated geological information, particularly in the North, where the potential for new mineral discoveries is high and existing geoscience data are inadequate.

Tax policy for mineral exploration

Recommendation 2: That the federal government continue the Mineral Exploration Tax Credit (METC) federal tax credit, that exploration for base metals in the vicinity of existing and formerly operating mines be treated as Canadian Exploration Expense and modify the Income Tax Act so that a resource property on the site of a former mine that has been shut down or inactive for a continuous period of at least 60 months is deemed to be a "new mine."

The Mineral Exploration Tax Credit (METC) or "super" flow-through program will be expiring in March 2008. The METC program provides investors in companies exploring for minerals in Canada with a 15% tax credit on flow-through shares that they purchase. The PDAC regards the Mineral Exploration Tax Credit as fundamental to any strategy that aims to increase exploration activity in Canada.

In the March 2007 federal budget, the METC was extended by one year to March 31, 2008. Renewing the METC for longer periods will increase investor certainty, provide a more rational time-frame for planning and executing effective exploration programs and will position Canada as a premier destination for mineral exploration.

The METC program addresses the need for maintaining a high level of exploration investment in Canada across a broad spectrum of commodities, including base metals. It is designed to focus on grassroots exploration (the earliest stage of exploration), when the investment risk is high and the difficulty in raising funds is greatest. It is grassroots exploration that is most needed at this time to maximize our effectiveness in making new discoveries.

The program has encouraged a steady flow of capital for junior companies exploring in this country. From October 2000 to March 2006, companies raising capital for exploration in Canada through the issuance of flow-through shares raised close to \$1.9 billion.

The tax credit has stimulated exploration activity in Canada, providing direct and indirect employment opportunities in rural and northern communities and supporting the growth and development of many suppliers and service providers.

Base Metals

Canada's need to replenish its base metal reserves requires special measures to encourage companies to search for base metal deposits. The treatment of base metal exploration costs in the vicinity of former producing or operating mines (areas of known prospectivity) as CEE will give impetus to junior exploration and senior producing companies, financed through flow-through shares, to explore in those areas.

New Mine definition

Mines that have been shut down in the past often become exploration targets today. There is confusion as to whether this kind of exploration qualifies for CEE. If the property is deemed a "new mine," then it does. The *Income Tax Act* does not define "new mine." By modifying the *Income Tax Act* to define a resource property on the site of a former producing mine that has been shut down or inactive for a continuous

period of at least 60 months as a “new mine” would clarify this situation and would enable companies to categorize exploration and development expenditures in the assessment and development of a property correctly and assist in raising the required financing. The modification would also encourage exploration around former mines.

Land access, mineral exploration and Aboriginal communities

Recommendation 3: That the federal government take measures to maximize the land base available in Canada for mineral exploration and development and minimize the impediments to carrying out exploration activities on Crown Land in an efficient and timely manner. The PDAC supports the federal government in its efforts to expedite the resolution of outstanding land claims and we encourage the federal government to develop resource revenue sharing agreements with Aboriginal peoples in order to promote sustainable communities.

The mineral exploration industry relies on access to land in order to conduct its work and increase the likelihood of locating mineral deposits and developing new mines. Increasingly, through their work across Canada, mineral exploration and mining companies are providing Aboriginal peoples with opportunities for skilled jobs and creating the conditions necessary for developing sustainable communities.

In order to maximize these opportunities, Aboriginal peoples need access to training and information related to the industry, and they need to see a long-term benefit to working with mineral companies. A number of recent initiatives involving industry, Aboriginal organizations and the federal government are contributing to greater participation and awareness; however, more needs to be done.

Land claims

The PDAC supports the federal government in its efforts to expedite the resolution of outstanding land claims.

Consultation

The federal government, Aboriginal communities and the mineral industry should work together to develop a new consultation process that is efficient and effective and to promote greater participation by aboriginal peoples in grassroots exploration generally, including acquisition of mineral rights and formation of partnerships with companies conducting exploration.

Resource revenue sharing

The PDAC recently commissioned research into resource revenue sharing and it is our recommendation that such agreements with Aboriginal communities be developed by the federal government, in cooperation with provincial and territorial governments, in order to promote self-sustaining communities.

Regulatory reform and efficiency in permitting

Recommendation 4: That the federal, provincial and territorial governments work with the mineral sector to continue to improve the regulatory environment in which the Canadian exploration and development sector operates.

The PDAC believes that an efficient regulatory regime is a fundamental component of Canada's competitiveness. In order to promote economic development through mineral resources, governments must have a regulatory and planning regime that maximizes the landbase available for mineral exploration and development and provides security and certainty of mineral title.

The federal, provincial and territorial governments should work with the mineral industry to resolve issues with respect to: a) exploration permitting and consultation requirements, particularly on Aboriginal traditional lands and in the North; b) improving the efficiency of project review and environmental assessment; and, c) improving clarity by removing regulatory duplication between governments.

Branding Canada in the world of mining

Recommendation 5: That the federal, provincial and territorial governments work with the mineral sector to promote Canada as one of the most attractive places to explore, to mine and to process minerals, and as a centre of excellence in geoscience education, training, financing, exploration, services, supplies, sustainable development and mining.

National joint action is the best means for us to build the image of our mining industry. For the Canadian mining industry to have the highest potential impact internationally, we must marshal companies, associations, local and regional economic development groups, and provincial, territorial and federal governments to work together in a common effort. Natural Resources Canada should be our national coordinator in the branding of Canadian mining industry internationally. A key participant must also be Foreign Affairs and International Trade Canada.