



Prospectors & Developers Association of Canada

l'Association canadienne des prospecteurs et entrepreneurs

Submission by the
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Introduction

This submission is presented by the Prospectors and Developers Association of Canada (PDAC) on behalf of Canada's mineral exploration industry. In their letter of June 25, 2008, the federal, provincial and territorial ministers of Energy and Mines welcomed written briefs from associations on their priority issues. The following document offers an update for ministers on those issues that most affect our members and recommends actions that can be taken to ensure a vibrant mineral exploration industry in Canada.

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 company representatives. Our members also include people in the financial, legal, and academic communities, students, and those who supply services and equipment to the mineral industry.

Mineral Exploration and Social Licence

Social licence is the theme of the 2008 Energy and Mines Ministers' meeting, with a focus on the relationship of industry to communities and to Aboriginal communities in particular. The subject is timely and one which our members encounter each day, whether working in Canada or internationally.

The PDAC views environmental stewardship and social responsibility as essential aspects of the way mineral exploration and mine development should take place. Our members are aware that obtaining a social license to operate is essential to the survival and longevity of any project. The Canadian mineral industry has taken the lead in developing good practice guidance tools for community engagement and environmental stewardship and many companies are working to apply them on the ground at the sites of their operations.

PDAC Initiatives

The following is a brief summary of PDAC initiatives relating to social licence.

e3 Environmental Excellence in Exploration

e3 environmental excellence in exploration, launched in 2003, is a freely accessible, online information resource that raises awareness of environmental and community engagement practices and enhances the mineral industry's sustainability through improved company performance. Developed through the contributions of industry leaders, and managed by the PDAC, it is a comprehensive toolkit that offers leading examples of environmental and social responsibility in the minerals industry.

Sustainable Development Framework for Exploration

In 2005, the PDAC commenced discussions with its members on the development of a sustainable development framework for exploration that looked at a broad structure that would incorporate e3 as a key element. Our subsequent participation in the CSR National Roundtable process in 2006-07 informed our thinking and approach to this initiative. The PDAC is awaiting the federal government's response to the Roundtable recommendations.

The PDAC has embarked on the development of a *Sustainable Development Framework for Exploration* that will include high level principles, performance guidelines, performance criteria and indicators, reporting guidelines and a consideration of an assurance mechanism.

Memorandum of Understanding with the Assembly of First Nations

The PDAC actively promotes greater participation by Aboriginal peoples in the mineral industry as well as greater understanding and co-operation between communities and mineral exploration and mining companies. In March 2008, the Assembly of First Nations (AFN) and the PDAC signed a Memorandum of Understanding committing the two organizations to work together in support of the AFN Corporate Challenge to engage Corporate Canada to establish, enhance and increase their business activities with First Nations in order to realize the advantages of doing business with First Nations.

The PDAC and the AFN are preparing a joint two-year work plan to encourage, promote and facilitate increased engagement, partnerships, investments, education and employment opportunities for First Nations, First Nations companies and individuals who wish to be involved in the mineral industry.

Mining Information Kit for Aboriginal Communities

This kit, released in 2006 and now in its second printing, is designed to inform Aboriginal communities across Canada about the stages of the mining cycle, from early exploration to mine closure, helping Aboriginal peoples better understand the mining cycle and identify the many ways in which exploration and mining can promote community sustainability. The kit is a product of a partnership between the Government of Canada (Natural Resources Canada and Indian and Northern Affairs Canada), the PDAC, the Mining Association of Canada (MAC) and the Canadian Aboriginal Minerals Association (CAMA). The kit is now in use across Canada and internationally.

Recommended Government Actions on Social Licence

The PDAC recognizes that government is an essential partner in achieving industries' goals for social licence. The following recommendations are submitted for consideration and action.

a. Clarify consultation protocols and permitting requirements

Uncertainties regarding government consultation requirements, community engagement, and project permitting are a deterrent to mineral exploration investment and community growth. The complexity and length of permitting processes in Canada are significant barriers to the mineral sector's ability to successfully make the transition from an exploration project to an operating mine.

Many companies and communities are working together on formal and informal arrangements that lead to improved relations, regular engagement and business opportunities; however, government owes a constitutional duty regarding consultation to Aboriginal peoples. The PDAC believes it is essential that Canada's governments work towards clear regulatory procedures or policies that satisfy all affected parties and clarify industry requirements for community engagement.

b. Expedite the resolution of outstanding land claims

The PDAC believes that the successful conclusion of outstanding land claims will bring certainty to Aboriginal communities and the mineral industry, and help to create the conditions that are needed for communities to foster long-term, sustainable economic development. Progress on the settlement of land claims is a critical step towards the self-sufficiency of First Nations communities. In response to *Bill C-30, An Act to establish the Specific Claims Tribunal*, the PDAC expressed support to the federal government and the Assembly of First Nations for taking the initiative to establish an independent commission and to allocate additional funds to settle these claims.

c. Implement Government Resource Revenue Sharing

The PDAC recommends the implementation of government resource revenue sharing. The PDAC believes that greater participation by aboriginal peoples in the mineral industry in Canada will promote greater understanding and co-operation between aboriginal communities and mineral exploration and mining companies. The PDAC believes that, if governments shared a portion of revenues derived from natural resource extraction with Aboriginal peoples, these revenues would: provide economic benefits to Aboriginal communities; form a basis for Aboriginal communities to build towards economic self-sufficiency; facilitate direct participation in the mineral industry by Aboriginal peoples; and, encourage exploration on Aboriginal traditional lands.

Maintaining a Vibrant Exploration Sector

A vibrant mineral sector in Canada creates jobs, sustains communities, fosters new business opportunities and raises tax revenues that allow government to meet social needs.

Recommended Government Actions for Ensuring a Vibrant Mineral Sector

The following recommendations are intended to support a strong investment climate for the mineral industry in Canada through a competitive tax policy and the development and maintenance of a high-quality geoscience database.

a. Provide a permanent Mineral Exploration Tax Credit

The PDAC recommends that the federal government make the 15% Mineral Exploration Tax Credit (METC) a permanent feature of the income tax system. It is further recommended that provincial and federal Ministers of Mines communicate their support for making this federal and provincial tax program permanent by writing to their counterpart provincial and federal Ministers of Finance during the upcoming pre-budget consultations.

The METC program provides investors in companies exploring for minerals in Canada with a 15% tax credit on the eligible expenditures incurred which are financed using flow-through shares. PDAC believes that the Mineral Exploration Tax Credit is a fundamental component in any strategy to increase exploration activity in Canada. PDAC welcomed the one-year extension of the METC (to March 31, 2009) and recommends that the METC should become a permanent feature of the federal income tax system.

Benefits

- The METC program addresses the need for maintaining a high level of exploration investment in Canada across a broad spectrum of mineral resources, 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.
- The current METC 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. From January to April 2007, \$215 million was raised, an increase of 34% compared to \$160 million during the same period in 2006.
- The tax credit has stimulated mineral exploration activity in Canada, providing both direct and indirect employment opportunities, contributing to the discovery and development of new mineral deposits, and supporting the growth and development of many suppliers and service providers.

b. Clarify CEE Definition with respect to former Mine Sites

The PDAC recommends that the federal government, as part of a long-term strategy for mineral exploration, clarify that Canadian Exploration Expense definition includes the costs of carrying out exploration at former mine sites that have not operated for at least 5 years. The PDAC recommends providing a specific quantifiable test that would permit CEE to include eligible costs of exploring in the vicinity of old mines that have not been operating for at least 5 years.

Benefits

- An objective test would eliminate uncertainty in the application of the existing law, and encourage the discovery of new resources that could help maintain existing mining communities and revive ones that have low levels of activity.
- Treating costs associated with these activities as CEE will promote mineral exploration in Canada in areas that might otherwise be overlooked because of uncertainty about the tax treatment of the expenditures incurred.
- The change to a 5 year rule will also reduce the administrative and compliance burdens for both CRA and PDAC members while enhancing the fairness of Canada's tax regime in treatment of similar geological opportunities.
- The change will reduce uncertainties about the tax treatment of exploration costs which is particularly important when the costs have been financed through the sale of flow-through shares.

c. Provide Flow-Through Share Treatment for QETs

The PDAC recommends that the federal government allow specified costs related to the activities of a Qualified Environmental Trust (QET) to be eligible expenses that can be financed using flow-through shares.

The PDAC recommends that, as a minimum first step, the federal government should permit eligible site remediation costs incurred on orphan and abandoned mines to qualify as a CEE expenditure that could be financed using flow-through shares. These remediation expenditures are conceptually very similar to "preproduction mining expenditures" except that they are required to stabilize a mine site and restore it to an environmental acceptable condition for future generations.

The PDAC also suggests that the federal and provincial governments should consider whether the existing flow-through share mechanism could be utilized to develop suitable rules to permit deductions for contributions to QETs that cannot be utilized at the corporate level.

Benefits

- The benefit to governments of allowing FTS treatment for expenditures incurred at abandoned sites is that the costs of the program would be offset by the reduction and/or transfer of the government's financial or environmental liabilities at abandoned sites to the private sector.

PDAC Submission to the 2008 Mines Ministers Conference

- There will also be benefits from increased economic activity and tax revenues from increased exploration and reclamation and from economic development and investment from potential discoveries, particularly in remote northern communities.
- This proposal assists with addressing several major issues affecting the Canadian mining industry including: declining mineral reserves, the clean-up of abandoned sites and the difficulty for juniors to finance reclamation security.

d. Commit to Long-term Funding for Geoscience Mapping

Federal Budget 2008 provided \$34 million over the next two years to Natural Resources Canada for geological mapping, primarily focused in Canada's North, and for logistical support for mapping activities provided by the Polar Continental Shelf Project. The Budget further noted that resources allocated for geological mapping in southern Canada will be cost-shared with the provinces.

The PDAC strongly supports this initiative and recommends that the federal, provincial and territorial governments make a long-term commitment to investment in geoscience mapping.

Benefits

- Geoscience research directly benefits each province and territory by advancing the public's knowledge of our natural resources and encouraging new exploration activity.
- There remain significant areas, particularly in northern and remote regions in Canada, for which geological, geophysical, or geochemical maps are either non-existent or lacking sufficient detail to provide guidance to exploration.
- The value of previously acquired data decreases as scientific understanding advances and new, more precise survey technologies are introduced.
- A high-quality and easily accessible geoscience database (i.e. geological data and maps) is a key competitive advantage internationally, especially as other countries improve the quality of their geological databases.