

A STRATEGY TO ENSURE THE LONG-TERM COMPETITIVENESS OF THE CANADIAN MINERAL INDUSTRY

Submission by the PDAC

Finance Committee Pre-Budget Consultations

October 19, 2006

This submission, presented by the Prospectors and Developers Association of Canada (PDAC) contains three sections. The first examines the current state of the mineral exploration industry. The second reiterates the case, proposed in 2005, for Canada to adopt a long-term mineral exploration strategy that will assure Canada's competitiveness now and into the future, and the third discusses additional issues of strategic importance that, without resolution, will negatively affect this country's mineral exploration sector going forward.

CURRENT STATE OF THE INDUSTRY

Canada is one of the world's principal destinations for mineral exploration investment and a dominant player in the global exploration industry in terms of activity and as a source of funds for exploration. High global demand and consequent high commodity prices have spurred mineral exploration activity in Canada and abroad. Exploration expenditures in Canada are expected to increase to \$1.4 billion in 2006. World exploration spending has also increased, reaching \$US 5.1 billion in 2005, of which Canada attracted 19%. Junior companies (small and medium enterprises) accounted for 62% of total exploration spending in Canada in 2005. Since October 2000, when the federal exploration tax credit was implemented, close to \$1.9 billion has been raised by companies issuing flow-through shares for exploration in Canada. In 2004 \$11.4 billion, or 48% of total global equity financing, was raised on Canadian markets for exploration and development. Canadian companies are financing 7,895 exploration projects, 4,385 of which are in Canada and 3,510 abroad.

THE CASE FOR CANADA TO ADOPT A LONG-TERM MINERAL EXPLORATION STRATEGY

Because of this country's rich endowment of natural resources and high mineral potential, Canada is in an excellent position to supply much of the global demand for commodities. This, together with a vibrant junior exploration sector, represents an excellent economic and social opportunity for Canada. Among the principal challenges that could potentially compromise Canada's ability to benefit from these opportunities are: 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 a long-term strategy that will: assure high levels of investment in grassroots exploration over an extended period; further the potential for discovering 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. The strategy proposed contains two major elements: a) investment in geoscience; and b) exploration incentives.

1. Investment in geoscience

Recommendation 1: That the federal government fund the Cooperative Geological Mapping Strategies (CGMS) without delay.

The Cooperative Geological Mapping Strategies (CGMS) is a plan developed by the federal, provincial and territorial governments to improve Canada's geoscience knowledge base, i.e., geological data and maps. A ten-year commitment of \$25 million annually by the federal government would trigger matching contributions from provincial and territorial governments. The total investment would be \$50 million per year for ten years. Once implemented, the CGMS will generate new or updated geological information, particularly in the North, where the potential for new mineral discoveries is high.

2. Investment in exploration incentives

Recommendation 2: That the federal government establish the Mineral Exploration Tax Credit in a series of rolling three-year phases, supplemented with annual reviews of the program's benefits.

The Mineral Exploration Tax Credit or "super" flow-through program will be expiring in March 2007. This tax credit, which has been in place for most of the time since October 2000, is credited with increasing exploration investment in Canada. Because of its focus on grassroots exploration, the program has also made a significant contribution to new mineral discoveries in Canada, from a low of 15 in 1999 to a high of 268 in 2005. While the program was originally introduced to stimulate exploration in Canada during a period of very low investment, it is now needed to maintain Canada's competitiveness in a period of fierce global competition for exploration investment.

Recommendation 3: That the federal government, as part of a long-term strategy for mineral exploration, clarify, by legislative amendment if necessary, that Canadian Exploration Expense includes the costs of community consultations, environmental baseline studies and feasibility studies.

Currently, the costs of community consultations (including those consultations with aboriginal communities), baseline environmental studies, and feasibility studies do not qualify for Canadian Exploration Expense, even though such activities are recognized as good business practices and are recommended or required by governments in Canada as a pre-condition to permit approval. The costs of consultation, particularly in the North, can be very high. Junior companies undertaking these activities must pay for them with funds raised by means other than flow-through shares, and for many this imposes an onerous and unnecessary financial burden.

Recommendation 4: That exploration for base metals in the vicinity of existing and formerly operating mines be treated as Canadian Exploration Expense.

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.

Recommendation 5: That the federal government 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."

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.

Recommendation 6: That the federal government implement a 20% deep drilling tax credit to encourage exploration below 300 metres, to discover deep ore deposits and extend the reserve life of existing mines.

The PDAC continues to support the Mining Association of Canada's recommendation for a 20% deep drilling investment tax credit for exploratory drilling below 300 metres. The tax credit would encourage companies to make the large investments necessary to search for deeper mineral deposits and to replenish reserves.

SUSTAINING THE MINERAL EXPLORATION INDUSTRY IN CANADA

1. The mineral industry and Canada's aboriginal peoples

Mineral exploration and new mines, particularly in the North, offer great potential for the creation of wealth and prosperity for aboriginal communities. While there are a number of current initiatives designed to inform aboriginal communities about the mineral industry, governments can contribute by taking the lead in the continuing development of the aboriginal workforce and by improving access to essential skills and industry training for aboriginal peoples.

Impact Benefit Agreements (IBAs) are negotiated between specific communities and companies. However, some jurisdictions are ensuring that a broader range of communities benefit from the resource sector through revenue sharing agreements. The result is a greater degree of certainty and cooperation among all affected parties and support for mineral development within the region.

The PDAC supports aboriginal peoples and governments in their efforts to speed up the land claim resolution process. Communities and companies are doing their best to accommodate one another, but governments in Canada must act expeditiously to resolve land jurisdictional issues and must provide direction on consultation in order to clarify the approval process and help reduce the potential for disputes.

2. Northern issues

Canada's North is very important in the search for new mineral deposits. However, the complexity of much of the North's policy and regulatory regime is having a

negative impact on the region's investment climate. Economic development ranks lower in importance than aboriginal and environmental affairs for Indian and Northern Affairs Canada (INAC). This issue of balance should be addressed by a re-activated Northern Mines Ministers Conference.

Improvements to the NWT regulatory system must be a top priority. INAC's actions concerning prospecting permits in the NWT during its negotiations with First Nations contravened the Canada Mining Regulations. Industry calls for more effective management of land claim negotiations and a more open, transparent, and inclusive process that takes industry's needs into consideration.

3. Improving Canada's system for mobility of professional geoscientists

Canada's current system for mobility of professional practice among provinces and territories is not satisfactory. Bureaucratic procedures and costs are deterring many geoscientists from joining the professional associations, leading to low compliance with existing systems and compromising the ability of the Self Regulatory Organizations to maintain standards and protect the public interest. The PDAC is working with others towards an internationally recognized, Canada-wide approach to professional practice that would, ideally, comprise a Canada-wide system of registration that is provincially/territorially administered. To this end, the association calls on all governments to work collaboratively in the harmonization of the necessary statutes and regulations.

4. Streamlining Fisheries and Oceans Canada's procedures

The interpretation of legislation by Fisheries and Oceans Canada (DFO) has sometimes caused delays to mineral exploration projects. A resource industry group is working with DFO to generate a list of low impact work practices that will not require a specific DFO permit. A compilation of exploration best practices will assure those companies in compliance with a timely and streamlined permitting process.

5. Ensuring an adequate labour force for the mineral industry

The PDAC is in the preliminary planning stages for a strategy to address the labour requirements of the mineral exploration sector. The strategy's aims are: a) to create awareness of the kinds of employment opportunities that the mineral industry offers; b) to attract young people to careers in prospecting, geosciences, mineral deposits geology, and the exploration business; and c) to ensure that those who have already chosen to work in mineral exploration receive adequate education and training.

6. Improving Canada's securities regulatory system

The agreement by most Canadian jurisdictions to adopt the "passport" system is a step towards streamlining this country's securities regulatory system. However, the PDAC believes that Canadians would benefit most from a securities regulatory system featuring a single securities regulator, a common body of securities law and a single fee structure.