

Mr. Pat Hoy

Member of Provincial Parliament
for Chatham-Kent-Essex
Chair, Standing Committee on Finance and Economic Affairs
Room 1405, Whitney Block
Queen's Park, Toronto ON
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Fax: 416-325-3505

April 26, 2007

Dear Mr. Hoy,

Re: 2007 Ontario Budget – comments on Bill 187

I am writing to you on behalf of the **Prospectors and Developers Association of Canada** (PDAC) to express our concerns regarding the proposed Diamond Royalty under the *Mining Act* as outlined in the 2007 Ontario Budget. This royalty on the value of a diamond mine's production would affect the economics of current and proposed projects in a way that could be detrimental to exploration and mining investment in Ontario. I hope that the following comments on the budget and the royalty will be of assistance to the members of the Standing Committee on Finance and Economic Affairs as they review the measures contained in Bill 187.

Bill 187, Budget Measures and Interim Appropriations Act, 2007, includes measures that the Ontario government hopes will “strengthen the capacity of Ontario's people and business to compete in the global economy” (*Ministry of Finance, March 22, 2007*). Accelerating the elimination of the capital tax and investing in electricity infrastructure are two such measures that should contribute to the achievement of this objective.

With respect to the mineral exploration and mining sector, the budget papers (*Investing in People and Expanding Opportunity*) mention several current policies that are fostering a competitive tax regime in Ontario, including the flow through share deduction to help mineral exploration companies raise capital and a 5% refundable Ontario tax credit for eligible mineral exploration expenses. These are important measures that encourage companies and investors to consider doing work in Ontario and they support the government's stated intention to “promote our jurisdiction as a preferred destination for investment” (*Minister of Northern Development and Mines news release March 1, 2007*).

Evidence of success can be found in the amount of money that exploration companies are investing in Ontario. Exploration and deposit appraisal expenditures in Ontario have increased from \$306.9 million in 2004 to \$344.8 million in 2006 (*Overview of Trends in Canadian Mineral Exploration*), numbers which place Ontario first overall as a jurisdiction within Canada. However, it should be noted Ontario's share of the total is declining as other provinces and territories institute policies to attract investment.

As a national organization, the PDAC advocates for mineral exploration and mining policies that enhance Canada's long-term sustainability and global competitiveness. We encourage Canada's Mines Ministers to institute a long-term strategy that will: ensure 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.

Exploration by its very nature is competitive. Junior exploration companies compete for investor interest and funding on the capital markets, and, because of the high risk nature of exploration, they will look for projects with the most potential. At the same time, countries compete for exploration investment through the promotion of their mineral potential and favourable taxation and regulatory regimes. As the *2006/2007 Annual Fraser Institute Survey of Mining Companies* points out, companies consider a number of factors when determining where they should invest their time and money. Many of these factors (e.g. taxation regime; regulatory uncertainty) go beyond geology and are the direct result of government decisions.

This year's report makes particular mention of British Columbia's ongoing, long-term effort to improve its attractiveness to the sector following years of low investment. While the exploration numbers have improved, to the point where it is second only to Ontario, the industry perception of B.C. has lagged behind. The report comments that "the overhang from bad policy takes years to dissipate, and governments around the world should be aware that mistakes today will haunt them in the form of lower investment for years into the future". Ontario has historically ranked high on the survey's worldwide results in terms of the attractiveness of its mining policy, and yet, there are some trouble signs as the province's overall ranking has recently fallen from 9th in 2005/06 to 20th in 2006/07.

In this context, the proposed Diamond Royalty should be evaluated in terms of its negative consequences for companies, communities and the province. The imposition of a Diamond Royalty and the manner in which it was announced have been the subject of unfavourable commentary in the mining media and the mining community within Canada and internationally. Ontario needs to be aware of this discourse and the broader, long-term impact of such a proposal before it proceeds. How these new costs will affect current and proposed projects, as well as the aboriginal communities and economic

regions that benefit from exploration and mining, should be a matter of detailed research and consultation by the provincial government prior to any change in the taxation regime.

Given the decline in mineral reserves and the global competition for mineral exploration dollars, it is imperative that the Ontario government promote policies that continue to make the province an attractive jurisdiction. It is our opinion that the proposed Diamond Royalty could negatively affect current projects and jeopardize Ontario's position as a premier destination for mining and mineral exploration investment.

Thank you for the opportunity to comment on Bill 187. I am available to discuss this further with your committee or with government officials.

Sincerely yours,

Original signed by

Patricia J. Dillon, President
Prospectors and Developers Association of Canada

The PDAC is a national organization with 6,000 members representing the range of companies and individuals in mineral exploration. 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.

Copy:

Premier of Ontario
Minister of Finance
Minister of Northern Development and Mines
Leader of the Official Opposition
Leader of the New Democratic Party