

A STRATEGY TO IMPROVE CANADA'S MINERAL EXPLORATION INVESTMENT CLIMATE

Submission by the
Prospectors and Developers Association of Canada
on behalf of the Canadian mineral exploration industry
to the
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Executive Summary

A Strategy to improve Canada's Mineral Exploration Investment Climate

This submission is presented by the Prospectors and Developers Association of Canada (PDAC) on behalf of Canada's mineral exploration industry. Its contents have been developed in collaboration with members of the Canadian Mineral Industry Federation, which comprises Canada's national, provincial and territorial mineral associations.

The submission contains recommendations that form major underpinnings of the investment climate for the mineral industry in Canada: a high-quality geoscience database; competitive tax policy; 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)

2. Tax policy for mineral exploration

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

Recommendation 2b: That the federal government, as part of a long-term strategy for mineral exploration, clarify that Canadian Exploration Expense (CEE) includes the costs of community consultations, environmental baseline studies and feasibility studies.

3. Regulatory reform and efficiency in permitting

Recommendation 3: 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.

4. Branding Canada in the world of mining

Recommendation 4: 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

This submission is presented by the Prospectors and Developers Association of Canada (PDAC) on behalf of Canada's mineral exploration industry. Its contents have been developed in collaboration with members of the Canadian Mineral Industry Federation, which comprises Canada's national, provincial and territorial mineral associations.

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.

Our objective this year is to emphasize a strategy to improve Canada's mineral exploration investment climate. The submission contains recommendations that form major underpinnings of the investment climate for the mineral industry in Canada: a high-quality geoscience database; competitive tax policy; an efficient regulatory regime; and, a strategic approach to promoting Canada's advantages and 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 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 other countries 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.
- 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.

Tax policy for mineral exploration

Mineral Exploration Tax Credit

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

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.

Benefits

- 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 and supporting the growth and development of many suppliers and service providers.

Background

- Funds raised by flow-through shares can only be spent in Canada, and it is credited with attracting additional exploration investment to Canada in the face of intense international competition (e.g. Canada's share of global funds invested in mineral exploration climbed from 15% in 2000 to 19.3% in 2006).
- In May 2006, the newly elected federal government honoured its pre-election commitment to bring back the program as the Mineral Exploration Tax Credit and extended it to March 2007.
- The METC stimulated the introduction of harmonized tax credit programs by provincial governments across the country. The action by the federal government in 2006 led to the re-instatement of a provincial tax credit by the Government of Manitoba. The provinces of British Columbia, Ontario, and Quebec have also maintained their provincial tax credit programs for exploration.

Tax policy for mineral exploration

Community consultation, environmental and feasibility studies

Recommendation 2b: *That the federal government, as part of a long-term strategy for mineral exploration, clarify that Canadian Exploration Expense (CEE) includes the costs of community consultations, environmental baseline studies and feasibility studies.*

The PDAC believes that interpreting CEE to include the costs of community consultations, baseline environmental studies, and feasibility studies will bring CEE up-to-date, reconciling it with today's business practices and public priorities.

Benefits

- There is an expectation by governments and local communities that exploration companies will consult with Aboriginal communities at various stages of an exploration project. Including community consultation expenses in CEE will promote good practices while maintaining Canada's competitiveness.
- As with community consultations, environmental baseline studies (e.g. water and soil sampling during the course of an exploration project) are a significant component of mineral exploration. Canada's tax policy should recognize the importance of companies monitoring and documenting whether or not an exploration project is having an impact on the natural environment.
- Feasibility studies are an integral part of assessing the quality of a mineral deposit and, therefore, meet the definition of Canadian Exploration Expense.
- In our opinion, these activities are in compliance with the *Income Tax Act* as they contribute to defining the quality of a mineral deposit. Treating costs associated with these activities as CEE will enhance the competitiveness of Canada's tax regime.

Background

- Exploration companies fund much of their exploration activity through the issuance of flow-through shares. Investors in flow-through shares can deduct certain qualifying expenditures against personal income for tax purposes. Those exploration activities funded by flow-through shares must qualify for CEE as defined under the *Income Tax Act*.
- The costs of community consultations, baseline environmental studies, and feasibility studies are currently interpreted by the Canada Revenue Agency as not qualifying for CEE, even though such activities are recommended or required by governments in Canada as a pre-condition to permit approval.
- As a consequence of CRA's interpretation, a company undertaking these activities must pay for them with funds raised by means other than the issue of flow-through shares. For many junior exploration companies, this is difficult and imposes an onerous and unnecessary financial burden.
- The costs of community consultations are not associated with a company's *acquisition* of title to land to undertake exploration (which would disqualify their treatment as CEE). Rather, they are expenditures made to assure access to the land for the purpose of exploration.

Improving the Investment Climate

Regulatory reform and efficiency in permitting

Recommendation 3: 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) project review and environmental assessment; and, c) improving clarity by removing regulatory duplication between governments.

Benefits

- A jurisdiction's regulatory regime and permitting process are key factors in a company's planning and investment decisions. The structure and efficiency of the regulatory regime is directly affected by government decision-making.
- Government policies that lead to efficient administration and clear interpretation and enforcement of regulations serve to enhance that jurisdiction's reputation and encourage mineral exploration and mining companies to make long-term investment decisions that promote sustainable economic growth.

Background

- Significant delays in permitting are putting at risk the ability to initiate and complete exploration projects in a timely manner. This is compromising the positive results of investment stimulation and is a very real concern to exploration and mining companies.
- Uncertainty of mineral tenure and access to land leads to a reduction in a jurisdiction's competitiveness.
- Governments (federal, provincial, territorial) need to resolve land use permitting issues with respect to their duty to consult. All affected parties require a clear understanding of their obligations in order to develop a more effective permitting system, particularly at the exploration stage.
- Regulatory efficiency and clarity benefits all users of the land; by contrast, an uncertain process adds to the challenges faced by the mineral exploration and mining sector in Canada which operates primarily in high-cost, remote areas that lack infrastructure.
- Land use planning should recognize the importance of economic development and balance these considerations alongside aboriginal and environmental interests.

Improving the Investment Climate: Branding Canada in the world of mining

Recommendation 4: 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.

Benefits

Strengthening the international image of Canada as a mineral and metal producing nation, and as a leader in exploration, sustainable development, operations, financing, and supplies and services, will encourage the global mineral sector to:

- see Canada as a great place to invest in exploration and mining;
- accept that Canadian outbound investment in mining is beneficial;
- preferentially use Canadian mining products and services; and,
- come to Canada for education or to work at a time when the mining industry is facing a human resource crisis.

Background

- The Canadian mineral sector is a world-leader that faces challenges from other countries that are seeking to emulate our example and attract new investment.
- Australia, USA, Germany, South Africa and Sweden each have more highly developed and government-financed, sectoral export marketing programmes than does Canada.
- In order to maintain and improve upon our competitive strengths, the PDAC recommends the formation of a government-industry working group to develop a shared vision and approach to branding Canada. The sector is seeking the federal government's support in developing a draft vision and approach to branding Canada as a centre of excellence for geoscience education, training, exploration, sustainable development and financing.
- Canadian miners have an important domestic production; a high level of productivity, safety and technology; dominate the financial side of mining; undertake exploration globally, and control a substantial portion of the world's production of many metals and minerals. However, other countries are making new investments and we must continually work to improve on our position.
- Collective, sectoral approaches to international marketing are cost-beneficial (e.g. Canadian Mineral Trade Missions involving industry and government).
- Local, regional and national organizations should all work together within a broad-based, marketing plan involving all the dimensions of our industry.