



April 9th, 2020

The Honourable Bill Morneau, P.C., M.P.  
Minister of Finance  
90 Elgin Street  
Ottawa, ON, K1A 0G5

**Re: Extension of flow-through share-related expenditure deadlines by at least 12 months due to COVID-19**

As the leading voice of the mineral exploration and development community, the Prospectors & Developers Association of Canada (PDAC) represents over 7,500 members, including a significant number of the nearly 1,200 mineral industry companies listed on Canadian stock exchanges.

The evolving COVID-19 situation is causing significant global disruptions and the mineral exploration sector is no exception. Many companies will be forced to defer exploration and development work planned for 2020 due to factors well beyond their control. Deferral of these activities and expenditures will result in very serious implications for companies that need to spend funds raised using flow-through shares by prescribed deadlines. Failure to meet these deadlines will cause both legal and financial consequences for mineral companies, as well as result in significant negative tax implications for Canadian investors.

The Department of Finance (Finance) must consider deferring deadlines related to flow-through shares in the current environment to avoid systemic erosion of investor confidence in this financing mechanism, which is the source for roughly 70% of funds raised for mineral exploration and development in Canada.

**Background**

In Canada, mineral exploration and development activities are mainly undertaken by “junior” companies that are at a ‘pre-revenue’ stage and these companies almost exclusively rely on equity capital investment from public markets to remain viable. The flow-through share mechanism is by far the most impactful policy incentive for mineral explorers, as it is the source of over 2/3 of all equity funds raised for early-stage, domestic mineral exploration in Canada. Companies that use the flow-through share regime make the majority of mineral discoveries in Canada and research has shown that every \$1 in flow-through funds raised equates to more than 2.5x the economic benefit to regions where exploration is conducted.

The flow-through share mechanism enables companies to issue a unique type of equity that permits individual and corporate investors to claim a tax deduction for certain mineral exploration and development expenses that have been renounced to them, which are referred to as CEE and CDE, respectively.

**Timelines for spending of flow-through share funds:** Flow-through shares can be issued by a company and renounced under the *General Rule*, where the eligible CEE/CDE is incurred within an approximately 24-month period and the CEE/CDE is renounced after it is spent by the company.

In addition, flow-through share funds can also be renounced under the *Look-back Rule*. Under this method, eligible CEE is renounced to investors in the year the funds were raised, with the spending on eligible CEE required to be incurred by December 31st of the following calendar year. Therefore, flow-through share funds that are raised and renounced in 2019 under the *Look-back Rule* must be spent by the end of 2020.

During this expanding COVID-19 situation, the health and safety of employees and neighbouring communities is paramount for companies. Mitigation efforts undertaken by governments of all levels have resulted in significant site access restrictions and many companies have ceased or cancelled near-term exploration and development activities. Furthermore, as mobilization efforts cannot currently take place and given remote and northern operations have limited operating windows, there is great risk that many

companies will lose the entire field season in 2020. As such, companies will not be able to undertake work as originally planned, will most assuredly fall short on expenditures and will be unable to meet the deadline by which they are required to spend flow-through funds.

Unless steps are taken by Finance, companies will be subject to severe legal consequences and penalties on unspent funds. Of most importance are the implications for funds raised under the *Look-back Rule*. Since companies renounce expenses to investors before they actually incur them under this rule, failure to defer related timelines will result in a significant trickle-down effect on Canadian taxpayers who have invested in flow-through shares. These investors would be denied deductions claimed in their 2019 tax returns and likely be subject to lengthy reassessments by CRA. Exploration companies may ultimately be responsible for any reassessed tax from investors, and also subject to Part XII.6 taxes. If this situation were to occur, it will erode investor confidence in the future and put the effectiveness of the flow-through share mechanism at risk.

### **Recommendations**

To prevent the above potential ramifications, PDAC makes the following recommendations to the Finance:

1. Extend by at least 12 months the deadline by which flow-through share funds raised in 2019 and 2020 must be spent; and
2. Provide relief by deferring the application of Part XII.6 tax on any flow-through share renunciation with an effective date in 2019 by at least 12 months.

It is important to note that while the implementation of our recommendation is crucial for preserving the flow-through share mechanism and enabling the sector to recover from COVID-19 related cessation of activities, the government will not bear any associated monetary costs. Therefore, a decision and public announcement in this matter is of the upmost priority in order to provide junior mineral exploration companies with this necessary assurance at a time when certainty is needed most.

We thank Finance for your consideration and look forward to discussing the matter further as needed. Please send any inquiries to Jeff Killeen, Director, Policy & Programs at [jkilleen@pdac.ca](mailto:jkilleen@pdac.ca).

Sincerely,



Felix Lee  
President  
Prospectors & Developers Association of Canada

c.c.: The Honourable Seamus O'Regan, P.C., M.P.  
The Honourable Mary Ng, P.C., M.P.  
The Honourable Dan Vandal, P.C., M.P.  
Mr. Paul Lefebvre, M.P.  
Ms. Yvonne Jones, M.P.



Pierre Gratton  
President and CEO  
The Mining Association of Canada



Brady Fletcher  
Managing Director &  
Head of the TSX Venture Exchange



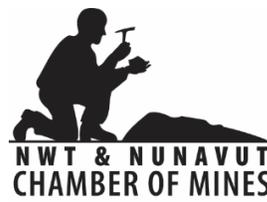
Kendra Johnson  
President and CEO  
Association for Mineral Exploration BC



Mathieu Savard  
Chairman of the Board  
Association de l'exploration minière du Québec



Ken Armstrong  
President  
NWT and Nunavut Chamber of Mines





Ed Moriarity  
Executive Director  
Mining Industry NL



Chris Hodgson  
President  
Ontario Mining Association



Pam Schwann  
President  
Saskatchewan Mining Association



Samson Hartland  
Executive Director  
Yukon Chamber of Mines

