

2018 Financial Incentives for Mineral Exploration and Prospecting in Canada

This compilation presents the various financial incentives available for exploration at both levels of government (federal and provincial/territorial) and includes tax incentives, grants and direct and indirect financial assistance. It includes information available from government and private sources as of May 2018. Since Prince Edward Island and Alberta offer no incentives these provinces are not mentioned below.

Federal Incentives

Canadian Exploration Expenses (CEE)

This provision of the federal Income Tax Act provides a deduction of 100% of eligible exploration expenses against taxable income. Eligible CEE expenses include grassroots exploration expenses, as defined in sub-section 66.1(6)(f) of the Income Tax Act. The deduction for pre-production development expenses, as defined in sub-section 66.1(6)(g) no longer receives CEE treatment but instead receives Canadian Development Expense (CDE) treatment, which is a deduction of 30% of expenses on a declining balance basis.

Flow-Through Shares (FTS)

The FTS provision, is outlined in sub-section 66(15) of the Income Tax Act and allows an investor to claim a CEE or CDE or a CRCE (Canadian Renewable Energy and Conservation expense) deduction earned by a publically listed company against their taxable income. However, the expenses must be reduced by any provincial or federal assistance received and, in that flow-through shares have a zero adjusted cost base, when the share is sold the entire income from the sale is subject to capital gains tax.

The Mineral Exploration Tax Credit (METC)

METC is a temporary 15% tax credit, linked to flow-through shares, that can be claimed on a more limited part of grassroots expenses, for exploration conducted “from or above the surface of the earth” as defined in sub-section 127(9) of the Income Tax Act as “flow-through mining expenditures”. This tax credit can be claimed in addition to the CEE deduction, but the expenses for CEE must be reduced by any provincial or federal assistance and the tax credit applied to the reduced amount. In addition the tax credit must be taken into income in the following year. Under current Legislation this tax credit will terminate for new investment on March 31, 2019.

Canadian Exploration Expense (CEE) eligibility extension.

On January 24, 2017 the Canada Revenue Agency released administrative guidelines confirming that community consultation and environmental expenses undertaken to obtain an exploration permit are eligible for the 100% CEE deduction.

Prospector’s and Grubstaker’s Shares Deduction

This provision, as defined in sub-section 110(1) (d.2) of the Income Tax Act, allows a deduction from income of 50% of the value of shares, received and included as income, for that year.

Provincial Incentives

1. Newfoundland and Labrador

Junior Exploration Assistance Program (JEA)

Funding under the Junior Exploration Assistance Program is in the form of a non-repayable grant, and has two components:

Grassroots exploration: For exploration companies not in receipt of mineral revenue, the program provides 75% of eligible costs up to \$150,000 per project on the Island of Newfoundland and up to \$225,000 per project in Labrador. For companies receiving money from mineral operations the rate is 50% of eligible costs.

Non-grassroots exploration: The program provides; for companies not in receipt of mineral revenue, 50% of eligible general exploration costs up to \$150,000 per project on the Island of Newfoundland and up to \$225,000 per project in Labrador. For companies receiving mineral revenue the rate is 40%.

The budget for this program for 2018 is \$1.3 million.

Prospecting Grants

Direct financial assistance is provided to eligible residents, who are at least 19 years of age and involved in independent mineral exploration activities. Approved projects on crown land or the proponents' registered claims are supported by grants of up to \$6,000 for grassroots prospecting. Up to a maximum of \$6,000 is also available for air (float plane or helicopter) support to remote properties with no other means of access. Assistance, to a maximum of \$12,000 may be available for prospects considered to be at an advanced stage. Sixty percent of the grant is paid in advance and the remainder is paid upon satisfactory completion of the project and submission of an approved final report.

The budget for 2018 for these grants is \$350 000.

Prospector Training

The Department of Natural Resources also supports an educational component, by providing professional instruction and other resources towards a two-week comprehensive training course in basic prospecting skills. The tuition-based course is delivered through the provincial community-college system. In addition \$10,000 is provided to fund prospector's travel to the AME Roundup and PDAC conventions.

2. Nova Scotia

Nova Scotia Mineral Resources Development Fund (MRDF)

The new Mineral Resources Development Fund (MRDF) replaces the Nova Scotia Mineral Incentive Program (2012-2017) and is designed to assist prospectors, exploration companies, and researchers in the search for new discoveries, to advance projects closer to production, and to attract investment into the province.

The MRDF has seven funding streams for the 2018-2019 fiscal year:

1. Prospecting and Exploration Grants: Maximum \$20K - Supporting exploration on early-stage/grass-roots prospecting and exploration projects
2. Shared Funding Exploration Grants:
 - a. Tier 1: >\$20K up to \$100K - Exploration projects that are more advanced than grass-roots exploration
 - b. Tier 2: >\$20K up to \$200K - NI43-101 compliant mineral resource definition, preliminary economic assessment, pre-feasibility or feasibility studies

3. Marketing Grants: Promoting mineral properties at trade shows, organization of provincial mining event
4. Research Grants: Maximum \$90K: Metallurgy study research, market/commodity research and university- or college-based research on Nova Scotia mineral occurrences/deposits
5. Education, Outreach, and Engagement Grants: Maximum \$50K: Projects intended to educate and build public confidence/awareness in the mineral industry, prospector support and training, capacity building, indigenous and student education and training
6. Innovation Grants: Maximum \$200K: Innovation focused on new uses for minerals, mineral process, data processing/GIS tools, exploration tools, mining methods, and mine reclamation studies focused on mineral extraction and remediation
7. Major Project Grants: Maximum \$500K or higher if required: Regional surveys on regional exploration targets: airborne geophysical, geochemical, remote sensing, regional data compilation, equipment purchases

3. New Brunswick

Junior Mining Assistance Program (NBJMAP)

Up to 50% of project costs to a maximum of \$100,000 per project per year for companies with no self-sustained cash flow from operations.

The 2018 – 2019 budget for the program is \$500,000.

Prospector Assistance Program (NBPAP)

Financial assistance of up to \$15,000 is available to eligible prospectors.

The 2018 – 2019 budget for the program is \$350,000.

Prospector Promotion

The program sponsors prospectors attending either the AME Roundup or the PDAC conference.

The 2018 – 2019 budget for the program is \$50,000.

New Brunswick Exploration Tax Deduction

The New Brunswick Metallic Minerals Tax Act provides a deduction of 150% of eligible New Brunswick exploration expenses for mineral-producing companies.

4. Québec

Flow-Through Share Tax Deductions

Québec's Taxation Act provides a basic deduction of 100% of the cost of flow-through shares. From June 4, 2014 and for shares acquired after March 30, 2004, an extra 10% deduction is granted if the expenses are incurred in Québec by a non-operating company. An additional 10% deduction is allocated if the exploration is conducted from the surface, which gives a total possible deduction of 120% of the amount invested.

Since March 31, 2004 and June 4, 2014 two additional modifications apply to flow-through shares:

- When the flow-through share is sold, the investor may benefit from an exemption of the deemed capital gain, in other words the portion of the sale price between the purchase price of the shares and their adjusted cost base, which is zero.

- The investor can also deduct certain issue expenses for flow-through shares, over a period of five years, to a limit of 12% of the proceeds of the issue of flow-through shares.

Tax Credit relating to resources

As of March, 2016 eligible exploration expenses incurred may qualify for a refundable tax credit in the percentages listed below.

- 28% of eligible exploration expenses incurred by non-operating corporations; 31% when expenses are incurred in the Near North or Far North of Quebec;
- 12% for corporations operating a mineral resource; 15% when expenses are incurred in the Near North or Far North of Quebec.

To qualify, companies must have an establishment and operate a business in Québec. The tax credit for resources is taxable under the Taxation Act, the Income Tax Act and the Mining Duties Act.

Mining Tax Regime exploration provisions

As a rule, the balance of cumulative exploration expenses of an operator corresponds to the result of the following calculation:

- the **total** of the following amounts:
 - the operator's exploration expenses incurred after March 30, 2010, and
 - 25% of the above exploration expenses that were incurred in Northern Québec by the operator, and with regard to which the refundable tax credit relating to resources could not be claimed;
- **minus** any amounts that the operator deducted as an exploration allowance in calculating the annual profit for previous fiscal years.

The Mining Tax Act will be amended to introduce an allowance for community consultations in calculating the operator's annual profit or loss and changes will be made to the refundable duties credit for losses of an operator to take into account the introduction of the allowance for community consultation.

Expanded eligibility of exploration expenses

In harmony with the federal CEE changes, certain community consultation and environmental expenses will now be eligible for exploration incentives.

Work Assessment Credits

Work requirements to maintain a claim have been reduced by 35% until December 31, 2018.

Venture Capital for Mineral Exploration and Development

Venture capital is available from several Québec government organizations:

- **SIDEX** (English translation of title is Diversification of Exploration Investment Partnership) and the [Fonds de solidarité FTQ](#) joined forces to launch "FIELD-ACTION 2018," a new \$6 initiative designed to encourage junior mining companies to perform their fieldwork in Québec while at the same time supporting their working capital. The initiative is open to all companies with a project in Québec that meets the mission requirements of SIDEX and the FTQ. Designed for the financing of prospecting, mapping, overburden stripping, sampling and ground geophysics FIELD-ACTION offers financing of up to \$200,000 per company, i.e. \$100,000 for exploration and \$100,000 in working capital. SIDEX and the FTQ will offer equity or convertible debenture financing based on market conditions.
- **The Caisse de depot et placement du Québec** makes investments of \$5 million to \$20 million in Québec companies in the natural resources sector that are in the development stage. A flexible, hybrid financing structure that can take the form of a debenture, a convertible debenture or equity

will be introduced to meet the needs of Québec companies while ensuring an acceptable level of risk.

- **Ressources Québec** has a mandate to invest in resource projects during all stages of development and has a total capitalization of \$1.2 billion, and also manages a \$750 million Capital Mines and Hydrocarbons fund for carrying out government investments in non-renewable natural resources. Société québécoise d'exploration minière (SOQUEM) is a subsidiary of Ressources Québec and receives an annual budget of \$20 million till 2019 to develop projects and joint-ventures with junior companies.
- **Aboriginal Exploration Boards and Funds** The Québec Ministry of Energy and Natural Resources provides funding to aboriginal exploration groups such as the Cree Mineral Exploration Board.

5. Ontario

Because of the election there can be no confirmation of the budgets for the following programs, nor the continuation of the same programs.

Flow-through Share Tax Credits

The Ontario Focused Flow-through Share Tax Credit is a refundable tax credit of 5% of eligible Ontario exploration expenses. It is payable to individual investors in flow-through shares, who pay Ontario income tax. The credit can be applied to reduce Ontario income tax payable and any unused amount of the credit will be refunded to the individual. The tax credit program unlike the federal METC has no automatic expiry date.

Prospector Grants

The Ontario Exploration Corporation (OEC) offers grants of up to \$85,000 to qualified prospectors with properties with high economic potential. The OEC completes a purchase agreement with the prospector for a 0.50% Net Smelter Royalty (NSR) for \$10,000 in the first phase. Half of this royalty, that is a 0.25% NSR, can be bought back for \$15,000 for the first two years. The second phase is \$25,000 for a further 0.25% NSR and the third phase is \$50,000 for a final 0.25% NSR. The program started in 2002, when the Ontario Prospectors Assistance Program (OPAP) ended. The program is not popular when other financing is available. To date no NSRs are paying out.

6. Manitoba

The government of Manitoba is currently undertaking a review of its mineral exploration incentive programs so neither program details nor the budgets are available.

Manitoba Mineral Exploration Tax Credit (MMETC)

The MMETC is a 30% non-refundable personal income tax credit for Manitoba residents who invest in eligible flow-through shares of qualifying mineral exploration companies. Earned credits can only be applied against Manitoba income tax payable. There is no cap on the maximum eligible investment by an individual investor, and no limit on the maximum amount of the tax credit. The MMETC has been extended to December 31, 2020.

Mineral Exploration Assistance Program (MEAP)

MEAP is available to companies or individuals proposing mineral exploration projects in Manitoba. The program provides assistance of up to 25% of approved eligible expenditures. A higher percentage of 35% is offered for projects conducted in remote areas and up to 50% for the Flin Flon/Snow Lake areas. A maximum of \$200,000 per recipient per fiscal year is available.

Manitoba Prospectors Assistance Program (MPAP)

MPAP provides grants to prospectors of 50% of approved eligible costs, to a maximum of \$10,000 per fiscal year, upon completion of the field projects and submission of an acceptable technical report. Qualified applicants with projects in remote areas can also receive 80% of approved charter air transportation in Manitoba, to a maximum of \$1,500.

Off-site Exploration Allowance

Mining companies that increase their exploration activities in search of new mines in Manitoba are entitled to a deduction equal to 150% of exploration expenditures for the purposes of provincial mining taxes/royalties. Eligible exploration expenditures in a given year must exceed the average of expenditures in the previous three years.

7. Saskatchewan

Saskatchewan Mineral Exploration Tax Credit Program (SMETC)

The SMETC offers a non-refundable 10% tax credit to Saskatchewan taxpayers who invest in eligible flow-through shares issued by mining or exploration companies after March 31, 2012. This provincial tax credit follows the eligibility rules of the federal Mineral Exploration Tax Credit and has no expiry date.

8. British Columbia

Mining Exploration Tax Credit

The mining exploration tax credit is available for eligible corporations and corporations that are active members of partnerships, conducting grassroots mineral exploration in B.C. An active member of a partnership includes a corporation that is engaged in a business similar to that carried on by the partnership. Limited partners are not eligible to claim the credit. The corporation or partnership must incur qualified mining exploration expenses before January 1, 2020, for determining the existence, location, extent or quality of a mineral resource in B.C. The credit applies to exploration for all base and precious metals, coal and some industrial minerals. The credit is refundable and is calculated as 20% of qualified mining exploration expenses less the amount of any assistance received or receivable. An enhanced rate of 30% is available for qualified mineral exploration undertaken in prescribed Mountain Pine Beetle affected areas.

B.C. Mining Flow-Through Share Tax Credit

The B.C. mining flow-through share tax credit allows individuals who invest in flow-through shares to claim a non-refundable tax credit of 20% of their B.C. flow-through mining expenditures. B.C. flow-through mining expenditures are specific exploration expenses incurred after July 30, 2001 and renounced by a corporation issuing the flow-through shares. The proposed expiry date for the tax credit is December 31, 2018.

Territorial Incentives

1. Nunavut

Nunavut Prospector's Program (NPP)

Qualified prospectors may apply for a contribution of up to \$8,000 per year to cover basic expenses while exploring for new mineral occurrences in Nunavut. The resident Geologists based in Cambridge Bay administer the NPP, and are available to advise prospectors on their individual projects and provide training courses. The 2018–2019 budget for the NPP is \$150,000.

2. North West Territories

Mining Incentive Program (MIP)

The program has two parts and provides funding to prospectors and mineral exploration companies that are licensed to operate in the NWT. Total funding for the program for 2018-2019 is \$1,000,000.

- Prospector Mining Incentive Program: Prospectors can apply for up to \$25,000 in funding.
- Corporate Mining Incentive Program: Mineral exploration companies can apply for up to \$200,000 in funding (up to 50% of eligible expenses).

3. Yukon

The Yukon Mineral Exploration Program (YMEP)

For 2018 program contains three “hardrock” modules and a placer module:

Hardrock Modules:

- 1) Grassroots – Prospecting: Qualified prospectors may apply for a contribution of up to \$15,000 per year to cover basic operating expenses while searching for new mineral occurrences in Yukon. 100% of approved expenses are reimbursed.
- 2) Focused – Regional: Individuals, sole proprietors, partnerships, limited partnerships and corporations undertaking basic exploration work, directed at exploring for and appraising the potential of an under-explored area, may apply for a contribution of up to \$25,000 per year. 75 % of approved expenses are reimbursed.
- 3) Target Evaluation: Individuals, sole proprietors, partnerships, limited partnerships and corporations undertaking basic exploration work, directed at appraising the potential of an under-evaluated occurrence or target, may apply for a contribution of up to \$40,000 per year. 50% of approved expenses are reimbursed. The intent of this funding is to enable the recipient to carry out exploration work aimed at developing a mineral project to an advanced exploration stage.

Placer Module: Prospectors, companies and partnerships (with total exploration expenditures under \$300,000) may apply for the program. The program reimburses up to 50% of approved expenses to a maximum of \$40,000 per year. The funding is for undertaking evaluation and advancement of new and existing placer targets.

The 2018 funding level for YMEP is \$1.6 million.