



## The impact of super flow-through shares – Results of member questionnaire

### BACKGROUND

In an effort to gather information on how super flow-through funds are used, the PDAC distributed a questionnaire to mining industry professionals. These questions looked at the importance of flow-through shares in:

- Funding discoveries of new deposits.
- Creating economic opportunities across the country.

There are **two** types of flow-through share investments

**Regular:** 100% deduction write-off for exploration (net of federal and provincial credits).

**Super:** As above, plus an additional 15% federal tax credits for grassroots exploration.

### PARTICIPANTS

- 54 representatives of the mining industry responded.
- 46 had raised flow-through within the last 20 years.
- Represented companies exploring for a wide variety of commodities in 10 Canadian jurisdictions.

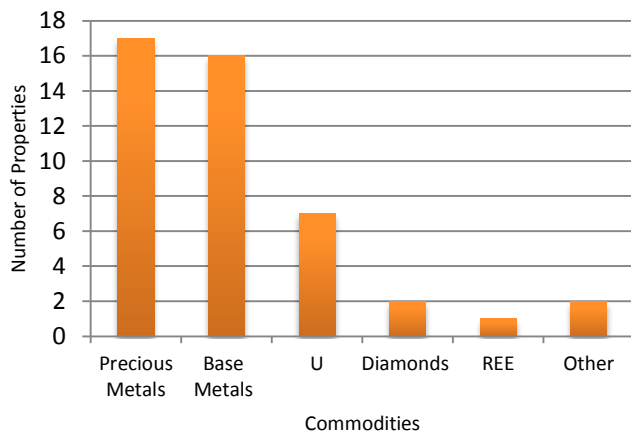


Figure 1: Classification of commodity type being explored

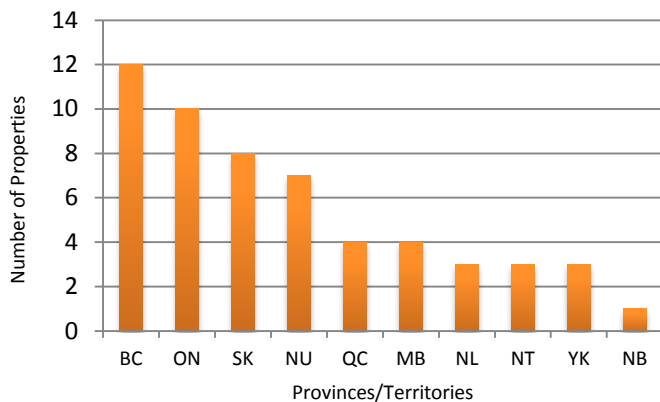


Figure 2: Classification by property location  
In Defence of Flow-through Shares

### FLOW-THROUGH FINANCING DETAILS

Each participant was asked to describe three key aspects of their flow-through financings: premiums, eligibility for METC, and reasons for raising flow-through.

#### Flow-through Share Price Premiums

Premiums varied drastically between companies and even between different financings by the same company. 26% of financings had no associated premiums. 65% had some type of premium. 9% issued shares at a discount.

#### Eligibility for METC

The majority of the companies who raised flow-through shares (67%) renounced expenditures that were eligible for METC. Only 7% said they did not. The remaining 26% said that “some”, “most”, or “much” of their expenditures were METC eligible.

#### Reason for Flow-through Share Financing

Companies raised flow-through shares in addition to or instead of raising funds from other sources for three main reasons.

- **Investor Preference:** Flow-through shares were preferred by the company’s investors either because they helped de-risk the investment or because of the associated tax credit.
- **Availability:** Due to market conditions, 29% of participants commented that issuing flow-through shares was either easier than raising hard dollars or the only capital available to finance exploration work.
- **Premium:** 65% of the flow-through financing deals discussed had some premium associated with the shares. This meant a company could raise more money per share, minimizing dilution and increasing the exploration budget.

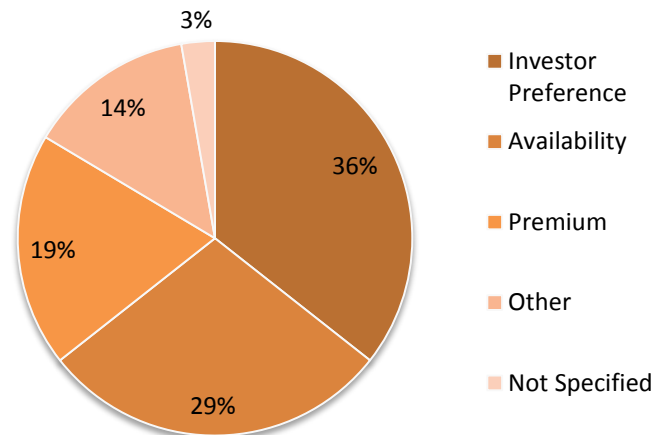


Figure 3: Reasons for flow-through share financing



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### EXPLORATION ACTIVITY

PDAC also asked companies to describe the exploration activities funded by flow-through shares and the impact this exploration had on discoveries/project development.

The most common exploration activities undertaken with flow-through funds included:

- Drilling
- Geophysics surveys
- Non-specified early stage exploration

Importance of these exploration activities:

- Very Important: 76%
- Important: 24%
- Somewhat Important: 0%
- Not Important: 0%

Impact if unable to raise flow-through funds:

- **Decreased Exploration Budgets:** Without flow-through shares exploration budgets would have been significantly smaller, or work on the project would have been cancelled.
- **Unable to Raise Capital:** The second impact most referred to was the likelihood of limited ability to raise capital, as well as increased dilution.

Finally, participants were asked to indicate whether the flow-through financing helped them to:

- Discover new deposits.
- Generate additional data on potential deposits.
- Secure additional equity funding to support the project.
- Locate additional resource near an existing mine, increasing mill production.
- Sustain or attract existing or new investors to the company/project.

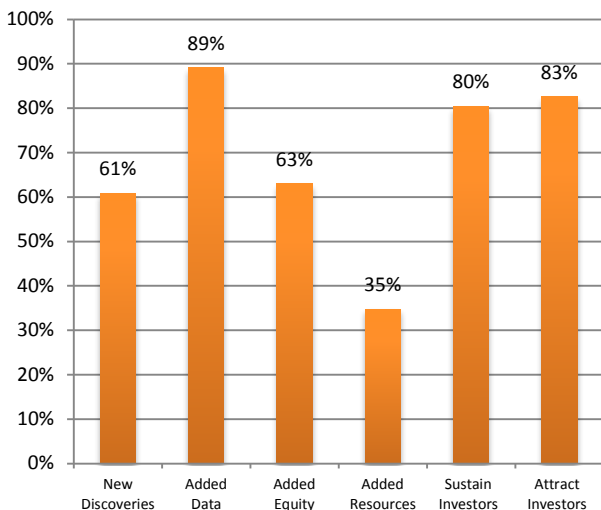


Figure 4: Results of activities undertaken with flow-through funds

### SOCIO-ECONOMIC IMPACT

Participants were asked to identify the socio-economic impacts occurring as a result of the exploration activity undertaken by the company. The percent who indicated “yes” are listed below.

- Created employment for rural/remote communities (93%), Aboriginal communities (85%), other Canadians (91%)
- Generated business opportunities for residents of rural/remote communities (91%), Aboriginal companies/organizations (83%), other Canadians (95%)
- Provided financial revenues to rural/remote communities (80%), Aboriginal communities/organizations (74%)
- Led to a discovery that became a mine, or advanced knowledge of a deposit that ultimately became a mine (26%)

Flow-through financing directly contributed to the emergence of a mine for one in four respondents, an incredibly high number given the low probabilities associated with exploration.

### OVERALL IMPACT OF FLOW-THROUGH & METC

82% of respondents said that eliminating the super-flow through system would have a negative or severely negative impact.

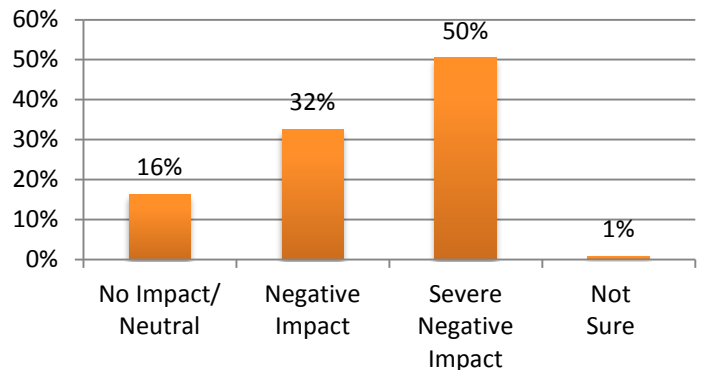


Figure 5: The impact of removing flow-through funds and not-renewing the METC

#### Key Comments From Our Members:

“Flow-through is imperative for the health of the mineral exploration industry in Canada.”

“Flow-through funding is crucial for Canadian properties to compete with other projects around the world.”

“It is impossible to overstate the importance of the flow-through regime for jobs and investment in the North and Aboriginal communities.”

“It is a reliable source of higher risk exploration capital.”