



PROSPECTORS &
DEVELOPERS
ASSOCIATION
OF CANADA

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the 2022 Federal Budget**

By: The Prospectors & Developers Association of Canada (PDAC)

Increase Canada's Attractiveness for Exploration and Development of Minerals

Recommendation 1: That the Federal government increase the Mineral Exploration Tax Credit (METC) from 15% to 30% in each province, and to 40% in each territory, until 2024, in alignment with 5-year renewal announced in 2019.

Recommendation 2: That the Federal government apply a focused enhancement to the METC to accelerate exploration of Canada's [critical minerals](#).

Recommendation 3: That the Federal government provide sufficient resources to develop assessment processes and a mechanism that would allow for multi-year renewal of the METC, a year prior to expiry of the incentive.

Recommendation 4: That the Federal government provide sufficient resources to facilitate an assessment of the Flow-Through Share (FTS) mechanism and identify recommendations to improve regulatory efficiency.

Bolster Evidence-Based Processes in Land Management Decision-Making

Recommendation 5: That the Federal government significantly expand the funding provided to Natural Resources Canada (NRCan) to further develop the Pan-Canadian Geoscience Strategy (PGS) and accelerate programs related to mineral and energy potential modelling, in collaboration with provinces and territories.

Recommendation 6: That the Federal government create a federal funding mechanism to help provincial and territorial governments undertake comprehensive mineral potential modelling, based on geoscientific data and established best practices.

Recommendation 7: That the Federal government increase the initial funding allotted in Budget 2021 and expand the scope of NRCan's Critical Battery Minerals Centre of Excellence to work with provinces, territories, and industry to develop processes that better-integrate geoscientific data and mineral potential modelling into government economic development and conservation policies.

Improve the Effectiveness of Regulatory Regimes

Recommendation 8: That the Federal government allocate sufficient resources to facilitate development of an UNDRIP Action Plan through direct engagement with both Indigenous peoples across Canada and the mineral exploration industry, on issues that affect infrastructure, economic development, and regulatory consultation processes.

Recommendation 9: That the Federal government provide additional funding for training and educational services for Indigenous leaders and communities to build capacity in order to ensure meaningful and equitable participation in future regulatory consultation processes.



Canada's Mineral Industry - Driving Economic Recovery and a Path to Lower Emissions

As we emerge from the COVID-19 pandemic, the mineral industry continues to propel economic recovery and will be a key component in realizing Canada's path to lower emissions.

Canada's mineral industry leads the world in evolving sustainability, community engagement and environmental stewardship best practices. Mineral exploration and extraction is also carefully regulated in Canada to achieve world-leading standards. With these strengths, the federal government must be committed to fostering development of new mines so Canada has the minerals and metals needed to reduce future emissions.

Recycling alone will not satisfy future demand for critical minerals, and reducing emissions in Canada will require exploration and development of new sources of minerals. Therefore, we must secure domestic supply of the upstream components needed for low-carbon and emission-reduction technologies.

Competitiveness and investment attractiveness rely on regulatory certainty. Government must ensure sufficient funding and resources are provided to Indigenous and industry partners to navigate through Canadian regulatory processes that govern mineral development. Clear guidance and understanding of rights and responsibilities will lead to successful project partnerships. Federal priorities such as UNDRIP implementation, emission reduction and conservation require regulatory regimes that are efficient, transparent and predictable.

The mineral industry contributed over \$100 billion to GDP in 2019, is the largest private sector industrial employer of Indigenous people on a proportional basis and a cornerstone of Canada's economy. Natural Resources Canada (NRCan) estimates nearly \$2.9 billion will be spent on domestic mineral exploration in 2021. Much of this activity takes place in northern and remote Canada and the mineral industry holds a unique potential to accelerate economic recovery in these regions.

PDAC appreciates the immense challenges that Canada faces in rekindling our economy from the COVID-19 pandemic. As such, the recommendations provided herein are intended to help reinvigorate mineral exploration and development, bolster domestic competitiveness and support discovery of minerals critical to Canada's economy and our transition to a low-carbon future.

Increase Canada's Attractiveness for Exploration and Development of Minerals via Fiscal Support (Recommendations 1, 2, 3 and 4)

Mineral exploration is a high-risk endeavor and attracting investment for early-stage, non-revenue generating exploration companies is extremely difficult. To address this challenge, the 'made-in-Canada' flow-through share (FTS) mechanism plays a critical role in financing

domestic exploration. Over the last decade, flow-through financing has generated more than two-thirds of all funds raised on Canadian exchanges for domestic exploration and is a primary way to access capital when other sources are sparse.

The Mineral Exploration Tax Credit (METC) is another key incentive that provides investors with an additional 15% tax credit for funds directed towards grassroots exploration. METC targets the earliest stages of mineral exploration and is becoming increasingly important due to the long term decline observed in the proportion of grassroots spending in Canada, from 45% of total expenditures in 2008 to 21% in 2020.

These incentives are highly cost effective as every \$1 of implied government spending (via reduced tax revenue), generates approximately \$5 of flow-through funding, and government evaluation has indicated that each FTS dollar spent leads to an additional \$3 in spending (Finance Canada, October 1994). The annual METC cost to government ranged between \$25M and \$70M over the years 2014-2019 while helping to generate roughly \$8 billion in domestic exploration activity.

Increasing the METC rate from 15% to 30% will raise the attractiveness of this financing vehicle, help spur grassroots exploration activity across Canada and expedite the search for critical metals. For context, less than 4% of estimated exploration spending in Canada in 2021 will be directed towards critical minerals such as rare earth elements, cobalt and lithium.

Further increasing the METC rate to 40% when funds are invested in the Territories will help level the playing field with other regions that provide provincial incentives and support increased northern economic development. Since the METC was renewed for a 5-year period in 2019, implementing these changes for the remaining METC term should be sufficient to assess the effectiveness of such an increase.

Given the METC is currently set to terminate in 2024, we recommend government develop a process to review and renew the incentive a year prior to the current expiry. This would provide greater certainty for investors and could spur exploration activity for critical minerals.

PDAC also recommends that the government should develop a mechanism to regularly review and revise rules governing the FTS regime. The FTS mechanism is governed by the Canadian Exploration Expense (CEE) rules, but these rules are not regularly reviewed. In fact, since CRA published relevant guidelines in 2007, they have only been updated once to include certain environmental and community consultation costs (Budget 2016).

Since FTS financing is so essential to Canada's competitiveness in mineral exploration, relevant rules should be reviewed in collaboration with industry stakeholders and evolve in step with industry practices. For example, CEE rules should be modernized to reflect technological advancements in exploration and CEE eligibility should be more clearly defined (i.e. application of the purpose test).

These challenges have led to a gradual diminishment in the effectiveness of the FTS regime, and may ultimately jeopardize the future of mineral exploration in Canada. Therefore, it is crucial that the government allocate sufficient resources to ensure the FTS and METC mechanisms remain effective into the future.

Bolster integration of evidence-based processes in land management decision-making (Recommendation 5, 6 and 7)

As the Canadian economy recovers from the effects of COVID-19, government policy decisions related to the mineral exploration industry must continue to promote collaboration, and evidence based land management decisions. The vision of the Pan-Canadian Geoscience Strategy (PGS), which focuses on a framework for collaboration both domestically and internationally, and prioritizes mineral and energy potential models to support land use planning, strategically positions Canada to leverage public geoscience and address challenges and priorities related to mineral exploration. In order to support these priorities, PDAC recommends significant funding should be provided to Natural Resources Canada (NRCan) to develop the PGS as it facilitates action in crucial aspects of exploration.

In concert with funding provided to the PGS, PDAC recommends that the government create a federal funding mechanism to help provincial and territorial governments undertake comprehensive mineral potential modelling, based on geoscientific data and established best practices.

Funding for public geoscience programs has proven to be economically effective with research showing that every \$1 in public geoscience spending, is estimated to generate more than seven times that in overall economic benefit to Canada (Ernst & Young, 2019). Such funding mechanism could also facilitate greater collaboration between Indigenous peoples, academia, industry, regional governments and other stakeholders. This is a necessary step in understanding mineral potential and the only way to conduct evidence-based land management decisions in Canada.

As countries around the world work to transition to a low carbon future, critical minerals will play an increasingly large role domestically through land management decisions, and internationally in trade and partnerships. Given Canada's unique geological landscape and resource potential, it is well-positioned to supplant reliance on critical minerals from China and in doing so, solidify and build new trade relationships in the transition to a low-carbon future. In order to maximize this potential, PDAC recommends an increase in the funding allotted in Budget 2021 and expand the scope of the Critical Battery Minerals Centre of Excellence. In doing so, the Critical Battery Minerals Centre of Excellence will have the resources to access and compile geoscientific data to support informed decisions regarding land management. As the Critical Battery Minerals Centre of Excellence is the body tasked with implementing the Canada-U.S. Joint Action Plan, additional funding would also help provinces and territories integrate regional strategies into Canada's overarching goals.

Improve the effectiveness of regulatory regimes (Recommendations 8 and 9)

Improving the effectiveness of regulatory regimes is paramount for the success of mutually-beneficial partnerships that allow Indigenous communities to meaningfully participate and maximize the social and economic opportunities of the mineral industry.

The mineral industry is the largest private-sector industrial employer on a proportional basis of Indigenous Peoples in Canada and a key partner of Indigenous businesses from coast to coast. With the passing of Bill C-15: *An Act Respecting the United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP), in 2021, the real work in developing and implementing an Action Plan has just begun. The Action Plan must be developed in consultation with government, Indigenous communities, and all impacted industry stakeholders. The PDAC urges the government to allocate sufficient resources to facilitate Action Plan development, and welcome the opportunity for the mineral exploration sector to be an active contributor on issues regarding infrastructure, economic development, and regulatory consultation processes.

We urge the Federal Government to honour their commitment towards the implementation of the Truth and Reconciliation Commission's Calls to Action and National Inquiry into Missing and Murdered Indigenous Women and Girls' Calls for Justice. We encourage the government to deliver on promises to invest in education, health and critical infrastructure such as housing, water and high-speed internet. Specifically, we recommend that the government provide additional funding for training and educational services for Indigenous leaders and communities to build capacity in order to ensure meaningful and equitable participation in future regulatory consultation processes.

As a proven leader in Indigenous engagement, the mineral industry understands that knowledge of regulatory regimes, access to education opportunities and increased capacity lead to collaborative partnerships. Equitable participation in future regulatory consultation processes will foster integration of traditional knowledge into mineral industry activities and creation of mutually-beneficial relationships between industry and Indigenous Peoples in Canada.