

# **Considerations & Recommendations for Federal Budget 2024**

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

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**PROSPECTORS &  
DEVELOPERS  
ASSOCIATION  
OF CANADA**

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**Recommendation 1:** That the government renew the Mineral Exploration Tax Credit for a minimum of 5 years beyond the current expiry date of March 2024, and extend eligibility of the Critical Mineral Exploration Tax Credit by 2 years, from 2027, thereby aligning the periods for the two incentives.

**Recommendation 2:** That the government adjust the capital gains tax treatment for flow-through shares to reflect the issue price of the security versus the current nil cost base approach to expand participation in this funding mechanism by a broader base of investors within Canada.

**Recommendation 3:** That the government create a mechanism to allow for the suspension or deferment of expenditure timelines associated with flow-through shares to respond to acute situations (e.g. wildfires) that may create unintended tax consequences for companies and individuals and that can apply to a specific company, region or nationally.

**Recommendation 4:** That the government establish a new expense category to close the gap between Canadian Exploration Expenses (CEE) and Canadian Development Expenses (CDE) to ensure viable critical mineral projects do not stall due to ineligibility of flow-through share funds for project scoping and assessment work.

**Recommendation 5:** That the government increase funding to the Geological Survey of Canada to collaborate with provincial and territorial geoscience organizations in developing comprehensive, regional-level mineral potential models to guide Canada's critical mineral strategy, evidence-based land management and conservation planning.

**Recommendation 6:** That the government expedite launch of the Indigenous Loan Guarantee Program and the National Benefits Sharing Framework and create a one-window approach for Indigenous Peoples, communities, and businesses to access these programs, thereby accelerating community capacity development and meaningful participation in the mineral sector and advancing national goals under Canada's critical mineral strategy.



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## ***About the Prospectors & Developers Association of Canada***

**The Prospectors & Developers Association of Canada (PDAC)** is the leading voice of the mineral exploration and development industry, which contributes more than \$100 billion to Canada's GDP every year and is proportionally the largest private-sector industrial employer of Indigenous Peoples in Canada. Our work centers on supporting a competitive, responsible, and sustainable mineral industry, as well as ensuring our sector can access the people, lands and capital needed to close gaps in our domestic supply chains, drive Canada's climate action strategies and continue to generate significant economic and social benefits from coast to coast to coast.

## ***Maintaining Canada's Competitive Advantage in the Global Marketplace***

PDAC was hopeful to see the near-immediate expiry of the Mineral Exploration Tax Credit (METC) addressed by extending the credit for a minimum 5-year period in the Fall Economic Statement 2023, however, such a commitment did not materialize. Budget 2024 likely represents a final opportunity to renew this extremely important incentive before it ceases to exist (March 2024) and avoid sending a signal that Canada is disincentivizing exploration for half of its own critical mineral lists.

[As we wrote](#) to the House of Commons Standing Committee on Finance (FINA) in August 2023, the potential for mineral discovery in Canada is virtually unrivaled and represents a unique advantage that we hold. Incentivizing new discoveries will provide the means to deliver the inputs for electrification, for new power generation, for hybrid and electric vehicles in a reasonable timeframe, and for others to follow our lead. Meeting our electrification transition goals means we must boost investment in mineral exploration, not lead it to shrink by removing incentives and placing financial barriers between investors and the mineral industry.

With only about 1 in every 10,000 mineral showings historically becoming a new mine in Canada, the high-risk nature of mineral exploration makes attracting investment extremely difficult. Canada's unique flow-through share (FTS) mechanism has generated more than two-thirds of all funds raised for Canadian exploration over the last decade and is a primary source of new capital in down markets.

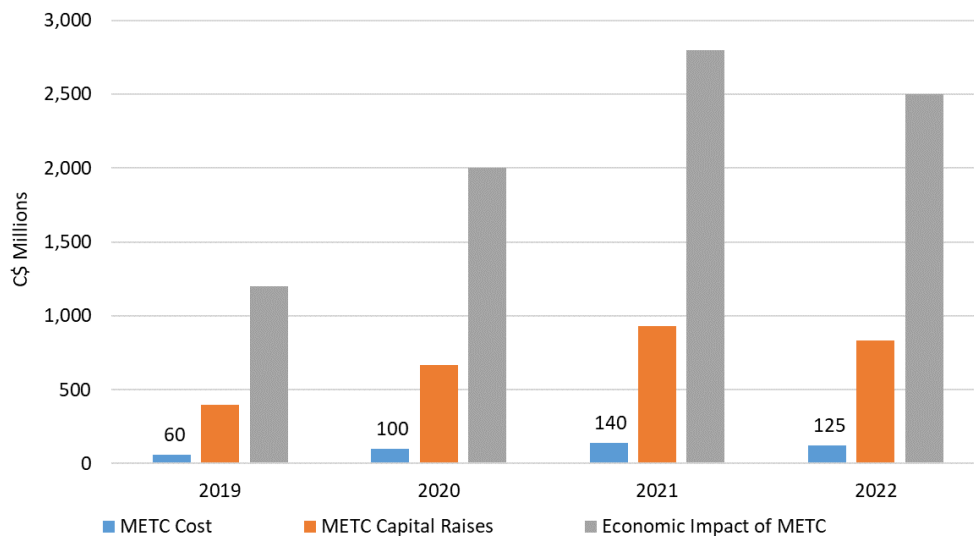
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The METC combines with FTS tax deductions to attract investments specifically in early-stage, grassroots exploration in Canada by offsetting some of the significant investment risks and high costs involved in operating in remote regions with limited infrastructure. Grassroots exploration in Canada has declined materially from approximately 45% of activity in 2008 to only 29% in 2022, and this trend is leading towards a precipitous decline in new Canadian mines and mineral production capacity.



The Critical Mineral Exploration Tax Credit is only eligible for 15 of the 31 critical minerals identified on Canada's list, which means the METC represents the only grassroots exploration incentive for more than half of this list. By allowing the METC to expire in March of 2024, Canada is effectively disincentivizing exploration for a swath of the critical mineral list and will have a negative impact on Canadian competitiveness and our entire critical mineral strategy.

In Figure 1 we show the METC cost to taxpayers is roughly \$425 million from 2019-2022 (government estimate). This is more than offset by the nearly \$3 billion raised via FTS and the METC for companies to explore in Canada and based on government evaluation, this cost to the public translates to roughly \$8.5 billion in incremental expenditures across the country, or a 20x positive impact on our economy.



**Figure 1: METC Cost vs. METC Capital Raises vs. Economic Impacts**

Developing Canadian critical minerals relies on economies of scale and robustness within our mineral exploration industry, from equipment manufacturing and distribution channels to leading educational programs, professional talent pools and a highly evolved financial ecosystem. We must see mineral discoveries continue or we risk losing momentum and will constrict growth of Canada's burgeoning critical mineral industry.

**Recommendation 1** - renewing the METC for a minimum of 5 years and extending Critical Mineral Exploration Tax Credit eligibility by an additional 2 years, thereby aligning these two incentives. We also recommend government create a review and renewal process for these two incentives prior to 2029.



The FTS mechanism is a critical piece of the Canadian exploration landscape and by its design, is primarily accessed by very high net-worth individuals. As a result, the overall pool of FTS investors in Canada is relatively small. Some FTS broker estimates put this cohort at less than 2000 individuals. The increase in Alternative Minimum Tax (AMT) of 5.5% and additional changes to AMT requirements in 2024 are likely to cause a material decline in FTS investments in 2024 unless mitigative measures are taken.

**Recommendation 2** - The government should adjust the capital gains tax treatment of FTS to reflect the issue price versus the current nil cost-base treatment. This adjustment would make FTS more appealing to a broader cohort of investors, enable larger participation and counterbalance the significant drop in FTS investments anticipated due to AMT increasing.

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Central to the FTS regime is that companies must spend FTS funds within 12 to 24 months on eligible activities. The COVID-19 pandemic proved how unforeseen events can halt industries, including the loss of entire exploration seasons. This scenario creates significant tax liabilities for both companies that issue FTS and investors who purchase these shares. Wildfires in 2023 presented a less pervasive but similar situation for many exploring across Canada. Government allowed companies an additional year to spend funds raised prior to the onset of the pandemic and while industry was grateful for this temporary amendment, the process was lengthy, and hinged upon passing new legislation.

**Recommendation 3** - To improve responsiveness and mitigate unintended tax implications for Canadians when uncontrollable situations arise, PDAC recommends that the government create a mechanism (e.g. pre-filing request to CRA) to allow specific companies to request deferment of expenditure timelines associated with FTS.

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There is a significant gap in eligibility of FTS, creating a barrier for new discoveries to become new mines. Canadian Exploration Expense (CEE) and Canadian Development Expense (CDE) permit FTS use for initial exploration and later development activities, but economic assessment and the critical interim work needed to prove viability of a new mine is currently ineligible. To address this gap, a new category is needed to ensure that companies can efficiently direct FTS funds towards essential work to determine the quality of a mineral resource. Proof that this gap is a barrier was shown with governments launch of the Critical Minerals Infrastructure Fund (CMIF). An excellent decision, CMIF public funding may go towards *“studies; planning; design work; assessments; infrastructure-specific consultation; knowledge sharing;”* as government has rightly identified this gap and are addressing it with public spending.

**Recommendation 4** - Establish a new expense category between CEE and CDE to ensure efficiency of FTS funds and that viable critical mineral projects advance in a timely manner.



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## ***Increasing public access to geoscience data and modeling***

Funding for public geoscience programs has proven its merits time and again as research shows that every \$1 in public geoscience spending generates more than seven times that in economic benefit to Canada (Ernst & Young, 2019).

Broad public access to public geoscience modelling is the only way to accurately understand mineral potential and make land management decisions that are evidence-based. We otherwise invite uninformed decision-making and risk abandoning economic development opportunities and the inputs needed to transition to net zero. The Geological Survey of Canada (GSC) can work towards this goal through new research, data management and distribution tools, leveraging academic partnerships and external research opportunities. In this goal, no stone should remain unturned.

**Recommendation 5** - Increase funding for the GSC to support improved access to public geoscience, comprehensive mineral potential modelling, and integration of this evidence-basis into land management processes.

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## ***Ensuring the Inclusion of Indigenous Peoples***

Effective regulatory regimes are at the core of mutually beneficial partnerships that bring Indigenous Peoples and project proponents together to maximize the social and economic opportunities generated by the mineral industry. The mineral industry is the largest private-sector employer of Indigenous Peoples in Canada, a keen participant in implementing *An Act Respecting the United Nations Declaration on the Rights of Indigenous Peoples* (UNDRIP), and a key partner of Indigenous businesses from coast to coast to coast.

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 create mutually beneficial relationships between industry and Indigenous Peoples in Canada. To incentivize collaboration, government must ensure relevant programs are well advertised, accessible and utilized.

**Recommendation 6**- Establish a one-window approach to add clarity on how communities can apply for funding under commitments regarding *Partnering with Indigenous Peoples in Natural Resource Projects*. Government should also commit to periodic evaluation of the program to gauge effectiveness, capacity and expand available funding if needed.



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Furthermore, PDAC urges the Federal Government to implement 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 the government provide additional funding for training and educational services for Indigenous leaders and communities to build capacity to ensure meaningful and equitable participation in the mineral industry and future regulatory consultation processes.