PROSPECTORS & DEVELOPERS ASSOCIATION OF CANADA

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Written Submission for the Pre-Budget Consultations in Advance of the Upcoming 2021 Federal Budget

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

- **Recommendation 1:** That the government increase the Mineral Exploration Tax Credit (METC) from 15% to 30% in each province, and to 40% in each territory, until 2024, in conjunction with the 5-year METC renewal in 2019, with a mechanism to extend it further.

- **Recommendation 2:** That the government consider adding a “Force Majeure” clause into legislation that would provide a regulatory mechanism to suspend or defer the timelines associated with flow-through shares (FTS) in the case that an event such as the current COVID-19 pandemic reoccurs.

- **Recommendation 3:** That the government equitably distribute the $98 million committed to the Targeted Geoscience Initiative (TGI) and Geo-mapping for Energy and Minerals (GEM) program and over the next 5 years.

- **Recommendation 4:** That in recognition of the recently announced investment towards geoscience initiatives, the government commit additional funding to identify, geologically map and model critical mineral prospective regions in Canada.

- **Recommendation 5:** That the government create a federal funding mechanism to help provincial and territorial governments undertake comprehensive mineral resource assessments, based on geoscientific studies, in order to understand and incorporate the value of mineral potential into land management decisions.

- **Recommendation 6:** That the government establish an interdepartmental government-industry taskforce to investigate policy options and make recommendations to accelerate exploration and development of mineral resources critical for Canada’s transition to a low-carbon economy.

- **Recommendation 7:** That the government establish a broader mandate for the Economic and Finance Subcommittee Industry-Governmental Working Group (IGWG) to identify priority areas for regulatory modernization of the FTS regime, and commit to such a modernization initiative.

- **Recommendation 8:** That the government commit to significant investments in housing, water, and access to high-speed internet, and others that contribute to improved health and educational outcomes and enhances engagement between government, the mineral industry and indigenous communities under pandemic and post-pandemic conditions.

Canada's Mineral Industry- Leading Economic Recovery

The mineral industry is a cornerstone of the Canadian economy, contributing nearly $100 million to annual GDP, employing more than 600,000 individuals and is the largest private sector industrial employer of Indigenous people across Canada on a proportional basis. Natural Resources Canada (NRCan) estimates that roughly $2.3 billion was spent on exploration activities in Canada in 2019 alone. Much of this exploration activity takes place in northern and remote regions in Canada and the mineral industry holds a unique potential to accelerate economic recovery in these regions.

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

Maximize effective fiscal incentives (Recommendations 1 and 2)

Mineral exploration is a high-risk endeavor, and as such, 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) financing mechanism plays a critical role in encouraging domestic exploration. This mechanism enables companies to issue a type of security that provides investors with certain tax deductions that reduce the net costs of this investment. Over the last decade, flow-through financing accounted for more than two-thirds of all the funds raised on Canadian exchanges for exploration in Canada, with increased importance during periods when other sources of capital are sparse.

The Mineral Exploration Tax Credit (METC) is another key incentive, providing investors with an additional 15% tax credit for funds directed towards early-stage exploration activities. These incentives are highly cost effective as for every $1 of implied government spending (via reduction in tax revenue), approximately $5 of flow-through funding is raised and government evaluation indicates that each FTS dollar spent leads to an additional $3 in exploration spending (Finance Canada, October 1994).

As Figure 1 outlines, the annual METC cost to the Government has ranged between $25M and $70M over the last five years while helping to generate roughly $8 billion in domestic exploration activity.

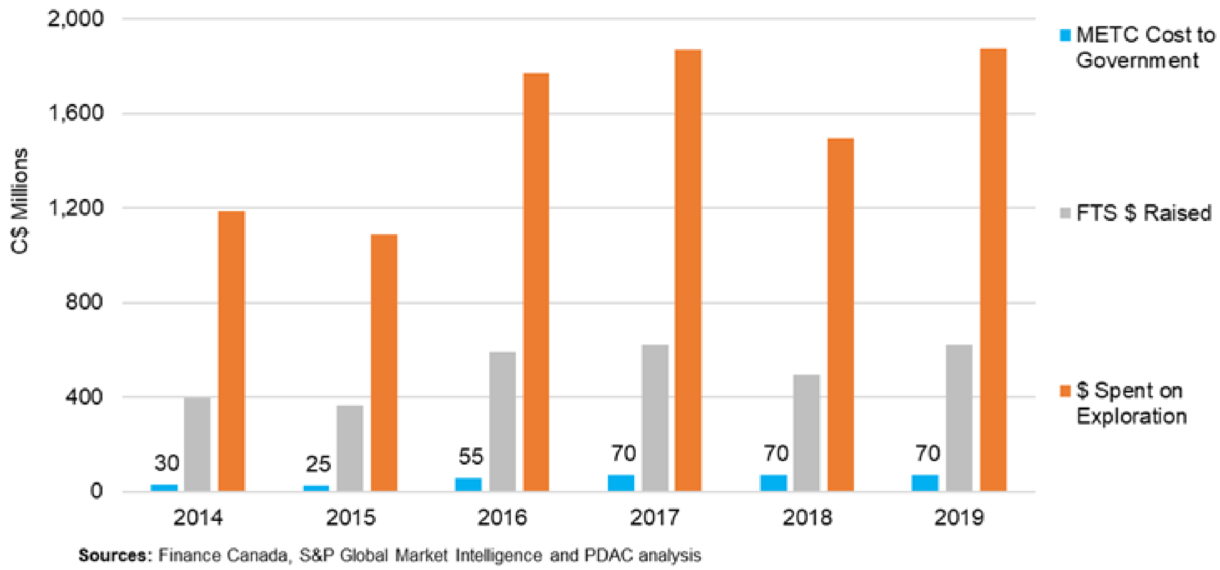


Figure 1: METC costs to Government vs. money spent on exploration

Increasing the METC rate from 15% to 30% will decrease FTS investor net costs and raise the attractiveness of this financing vehicle. This will help spur exploration activity across Canada, support a recovery of the mineral sector from the impacts of COVID-19 and expedite the search for critical metals.

Further increasing the METC rate to 40% when funds are invested in Canada's Territories will help to level the playing field by making investment in these regions even more attractive and support the important goal of northern economic development.

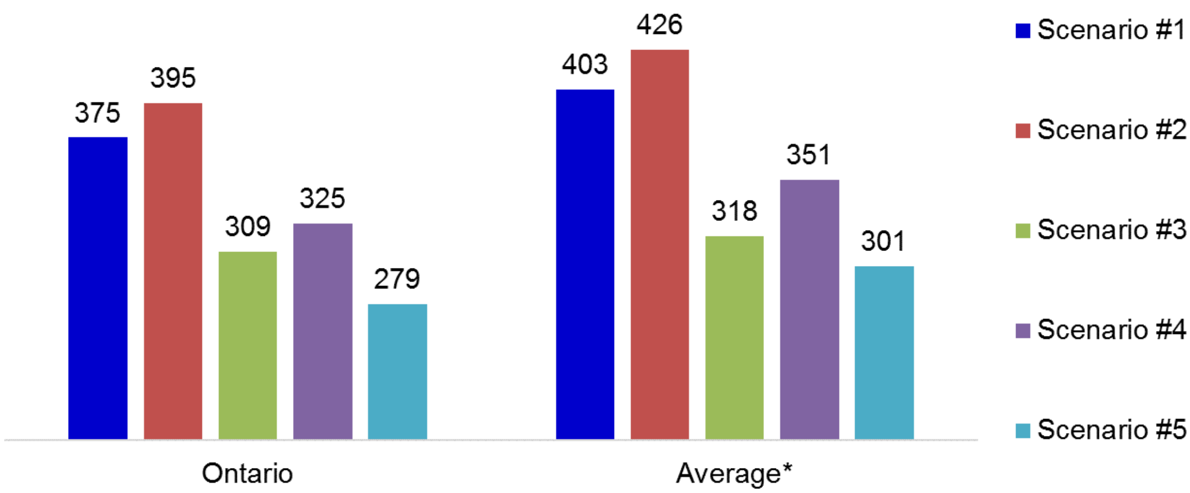
Figure 2 compares net costs of a $1000 FTS investments for an Ontario resident as well as for the average Canadian investor, under different METC scenarios.

<u>Current situation:</u>

- Scenario 1: investing in projects located in regions where the investor is taxed
- Scenario 2: investing in projects in other regions

<u>Implementing PDAC recommendation:</u>

- Scenario 3: investing in projects located in regions where the investor is taxed with METC at 30% in provinces and 40% in the territories.
- Scenario 4: investing in a project in another province with METC at 30%
- Scenario 5: investing in a project in a territory with METC at 40%.



Source: PDAC estimates based on GoC data
*figure excludes Quebec

Figure 2: Impact of METC on Investors' Net Costs

Two conclusions are evident in the figure above. Firstly, a nationwide increase in the federal METC rate (from 15% to 30%) will reduce investors' net costs by ~20%. Secondly, increasing the METC rate to 40% for investments in the territories will further encourage activity in Canada's north and help to offset the significantly higher costs of operating in northern regions.

Adjusting an already-existing tax incentive is a simple yet impactful way to help the mineral exploration sector recover from COVID-19 pandemic, increase potential for discovery of minerals critical to Canada's economy and help affect our transition to a low-carbon future.

In regards to Recommendation 2, we applaud the decision by the Government to defer spending timelines associated with FTS financings throughout 2019 and 2020. However, FTS financings in 2021 and beyond are not covered in the decision. Bearing in mind it took over three months to identify a solution for the current situation, a FTS force majeure clause can provide the Government with an efficient way to react quickly if a widespread event such as the COVID-19 pandemic reoccurs.

A renewed commitment to public geoscience (Recommendations 3, 4 and 5)

The Federal Government plays an instrumental role in the mineral exploration process by facilitating public geoscientific research, which is instrumental in identifying mineral prospective regions to attract and accelerate exploration activity by industry. Recent government research has shown the effectiveness of these programs in 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). As such, geological mapping through the Geo-mapping for Energy and Minerals (GEM) program remains a top priority for industry. These fundamental activities also provide a key opportunity to incorporate Indigenous knowledge and increase the participation of Indigenous peoples in the future of Canada's mineral industry.

The Targeted Geoscience Initiative (TGI) program is instrumental in facilitating the data-centric shift of next generation geoscience. TGI compliments the Canadian Minerals and Metals Plan (CMMP) by propelling innovation and investment in Canada, through its thematic approach to ore deposit models. As the Federal Government works towards its goal of establishing a Pan-Canadian Geoscience Strategy, the TGI program will be necessary to leverage technology and data to develop Canada's geological resources, including minerals critical to the Canadian economy and a transition to a low-carbon future.

Public Geoscience programs also facilitate collaboration throughout the sector between indigenous peoples, academia, industry, regional governments and other stakeholders. Beyond the scope of TGI and GEM, Federal funding and collaboration with Provincial and Territorial Governments is required to undertake regional mineral resource assessments. This is a necessary step in understanding mineral potential and the only way to conduct evidence-based land management decisions in Canada.

While we applaud the Government for committing $98 million over 5 years for TGI and GEM, additional funding will be required to accelerate mineral discoveries, facilitate evidence-based land management decisions and support the pillars outlined in the Government's Canadian Minerals and Metals Plan and the Pan-Canadian initiatives outlined in Action Plan 2020.

Transitioning to a low-carbon future through collaboration (Recommendation 6 and 7)

In an ongoing effort to promote collaboration between the mineral industry and government, PDAC's Recommendation 6 and 7 address the need to establish additional advisory groups to improve government program effectiveness.

Canada's reputation for responsible exploration and development is a competitive advantage for the sector, particularly as many countries look to secure supply of critical minerals. Through stakeholder engagement, mineral exploration companies have relayed concerns around regulatory and logistical issues that have barred exploration of critical minerals. By establishing an interdepartmental government-industry taskforce, the Federal Government may liaise with relevant stakeholders to accelerate exploration for mineral resources critical for Canada's transition to a low-carbon future.

In an evolving sector, industry consultation is critical to allow Government programs and regulations to modernize in-step with industry practices. The ongoing pandemic has demonstrated this, as COVID-19 has caused significant access issues for mineral exploration and development sites, making fieldwork extremely challenging, and is driving material increases in exploration costs for companies across Canada.

- Canadian Exploration Expense (CEE) rules must be amended to address COVID-19 related costs, whose eligibility as CEE is uncertain.
- CEE rules must be modernized – such as including a broader suite of desktop activities as CEE eligible.
- Issues remain with many core aspects of the rules by which CEE eligibility is defined (i.e. the purpose test and the definition of 'quality' with respect to resources) that create uncertainty and add unnecessary administrative burdens.

These challenges have led to a gradual diminishment in the effectiveness of the FTS regime, and may ultimately jeopardise the future of mineral exploration in Canada. To address these challenges, open collaboration between key industry's stakeholders and the organizations that define and administer the regime (i.e Finance Canada, NRCan and CRA) is crucial. We believe that this much needed collaboration would be best accomplished via a designated taskforce for review and improvement of CEE rules.

Supporting participation of Indigenous peoples (Recommendation 8)

The Canadian minerals industry is the largest private sector employer of Indigenous Peoples in Canada. Indigenous communities are often well positioned geographically to take advantage of direct and in-direct benefits from mineral exploration activity, however, barriers can preclude these communities from more meaningful interaction with industry.

Government investments in Indigenous communities are critical to improving overall health and wellness, and essential for communities to maximize opportunities generated by mineral exploration and development.

In particular, improved telecommunications and broadband services serve to connect communities with Canada and the rest of the world. Increased connectivity provides access to training programs offered through online colleges and universities, and indigenous owned businesses can expand market access.

Efforts to improve all aspects of indigenous education are paramount, and expansion of tertiary indigenous education, including trades and skills, is urgently required. Reliable internet access is also essential in facilitating government and industry engagement, particularly due to COVID-19 and the potential heightened risk for remote populations brought on by this pandemic. A collaborative Federal-Indigenous initiative is required to determine effective engagement practices with both community leadership and community members in order to preserve the health and welfare of communities and facilitate engagement during pandemic and post-pandemic conditions.