Prospectors & Developers Association of Canada
2017 Pre-Budget Submission to the House of Commons Standing Committee on Finance
August 5, 2016

The Prospectors & Developers Association of Canada (PDAC) is the leading voice of the mineral exploration and development community. With over 8,000 members around the world in all sectors of the mining industry, the PDAC's mission is to promote a globally responsible, vibrant and sustainable minerals industry. As the trusted representative of the sector, PDAC encourages best practices in technical, operational, environmental, safety and social performance. PDAC is known worldwide for its annual PDAC Convention, regarded as the premier international event for the minerals industry.

Canada's mineral exploration and development sector

The purpose of mineral exploration is to locate deposits that could be developed into economically-viable mines. In Canada, 70% of all discoveries over the last 10 years were made by junior exploration companies, most of which were financed using the super flow-through share system. Canada is a world leader in mineral exploration, with an estimated 800 junior exploration companies active in more than 100 countries.

The exploration, development and mining industry generates significant economic and social benefits. From remote communities to large cities across Canada, benefits of the industry include:

- $42 billion worth of minerals produced annually (2006-15).
- $70 billion in taxes and royalties to federal and provincial governments over the past decade.
- More than 375,000 high-paying, high-skilled jobs.
- More than 3,000 service and supply companies.
- Toronto's position as the mine equity finance capital of the world, with 53% of all global mining financings done on the TMX in 2015.

Ongoing challenges faced by the mineral exploration and development sector

The minerals industry continues to face significant challenges that threaten the contributions outlined above. If these current trends continue, it will further reduce exploration activities and new discoveries. Without discoveries there will be no new mines to provide meaningful benefits to Canadians. Current obstacles include:

- Financing for exploration on Canadian exchanges has all but dried up, dropping over 90% in 2007 from $4.2 billion to $379 million in 2014, and an estimated $306 million in 2015 (Figure 1).
- Mirroring global patterns, expenditures on early-stage exploration in Canada have fallen almost 70% since 2011.

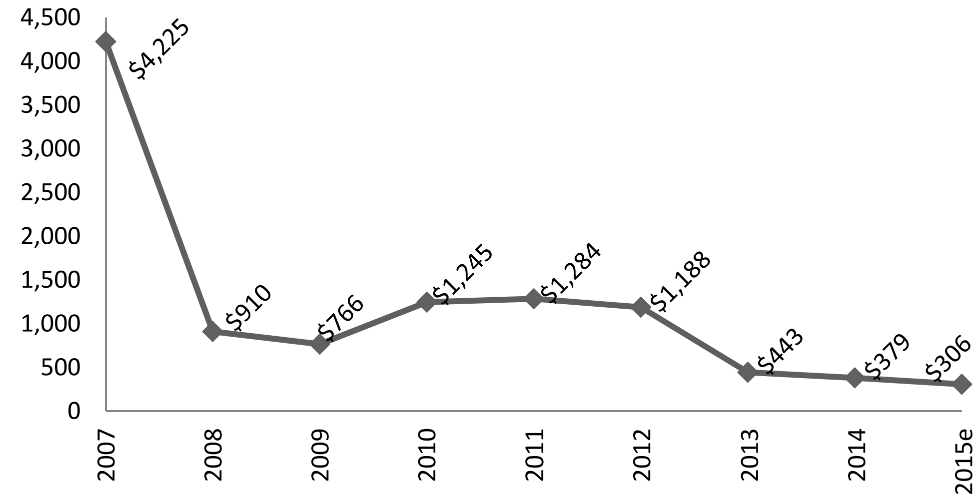

Figure 1: Financing for mineral exploration by issuers listed on Canadian exchanges ($ millions)

- Access to land is critical to Canada's ability to attract exploration investment and sustain its rate of mineral discoveries. Canada no longer attracts the single largest share of global exploration budgets, with Australia officially taking over first place since 2015. Issues that impact land access include:
    - Land withdrawals and land use planning processes that prohibit development without a process to consider mineral potential.
    - Unsettled land claims.
    - Regulatory uncertainty and inefficiency.
    - Unclear Crown's Duty to Consult processes.
    - Social license challenges.
    - Lack of infrastructure that generates a significant cost premium.

Recommendations for Budget 2017

PDAC appreciates the opportunity to provide recommendations for Budget 2017 that will contribute to economic growth and enhance the prosperity of Canadians. As an industry that operates across the country—in urban, rural and remote areas, and is the largest private sector employer of Aboriginal people—the minerals sector is uniquely positioned to offer economic opportunities to all Canadians.

The Government of Canada has been an important partner in helping Canada's minerals industry become a world-leader. Investments in the Geo-Mapping for Energy and Minerals (GEM) program and the Targeted Geoscience Initiative (TGI), as well as the establishment of the Mineral Exploration Tax Credit (METC) and the flow-through financing system, have been indispensable tools in helping Canada's minerals sector excel.

Maximize Canadians' contributions to the country's economic growth

Investments in Aboriginal communities to support participation in the mineral industry

The minerals industry strongly supports efforts to facilitate the full participation of Aboriginal people in the economic opportunities it generates through training, business development, employment and mutually-beneficial partnerships. In addition, the industry often makes social investments that both improve the quality of life in Aboriginal communities and support Aboriginal participation in the resource economy.

As a result of efforts in a variety of capacities, the minerals industry has become the largest private-sector employer on a proportional basis of Aboriginal people in Canada. Aboriginal employment in the mining and mineral processing industry increased 12% from 2007 to 2015.

There is great potential to further increase participation by Aboriginal people in the minerals industry, particularly given that Canada's Aboriginal population is younger and growing at a faster rate than the general population, and that a number of communities are located in close proximity to exploration projects and producing mines. Additionally, the industry is facing an imminent skills and labour shortage and will require over 106,000 new workers over the next decade to address retirement, attrition and sector growth.

Many Aboriginal communities are faced with a number of barriers, such as poverty, poor housing conditions, and education/essential skills gaps that limit their ability to meaningfully participate in the minerals industry. Investments to improve health, living conditions, early childhood development, and secondary and post-secondary graduation rates are critical to improve quality of life and build the capacity of Aboriginal people to fully maximize the opportunities generated by mineral exploration and development.

The industry strongly believes that collaborative efforts by all parties—government, industry and Aboriginal communities—will lead to more stable and positive business environments for mineral exploration and development, maximize benefits for all parties, and enhance Aboriginal participation in the industry.

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Assist Canadian businesses to expand and prosper

Sustain flow-through financing

Flow-through financing, a Canadian fiscal policy innovation, made it possible for thousands of small, entrepreneurial companies to raise capital to undertake mineral exploration—the riskiest stage of the mineral development cycle. These companies created Canadian hubs for mineral exploration and mining innovation across the country (e.g. Toronto, Sudbury and Vancouver).

Just as large technology companies have outsourced much of their innovation to small, entrepreneurial start-ups, so too have major mining companies outsourced a significant quantity of mineral exploration to external companies, also known as “juniors”. This is not a coincidence—juniors are more successful at making discoveries that are economically viable to develop into mines. Data shows that juniors made approximately 70% of all discoveries in Canada between 2005 and 2014, and found almost 30% more value per dollar expended than did major mining companies.

Flow-through shares (FTS) play a critical role by creating an incentive for investors to allocate the risk portions of their portfolios into mineral exploration. Flow-through share financing is particularly important during downturns when other sources of capital (e.g. private equity funds and financing from major mining companies) dry up. PDAC analysis of available data shows that flow-through shares accounted for more than two-thirds of all exploration-focused financing on Canadian exchanges over the last decade.

A recent study by the Intergovernmental Working Group (IGWG) on Minerals and Metals, noted that: “During economic downturns, FTS financing helped junior mining companies raise funds for preliminary exploration.” The report also notes that FTS financing directly or indirectly contributed to some successful mineral discoveries in Canada, including “the yet-to-be-developed Ring of Fire mining camp” in northern Ontario.

Financing for early-stage exploration continues to be scarce due to the global economic climate, as indicated by further declines in proposed exploration budgets for 2016.

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Renewal of METC for one year

The METC is a 15% non-refundable tax credit on eligible expenses, known as flow-through mining expenditures. All funds raised using flow through shares and the METC must be spent on early-stage grassroots mineral exploration in Canada.

The same IGWG report noted that: "Although it is difficult to assess what proportion of the increased FTS usage in 2009 is attributable to the 15% METC per se … it is believed that the tax credit contributed to maintaining investors' interest in exploration, particularly in recent troubled times."

If Canada is to once again lead the world as the number one spot to raise capital in the minerals industry, the METC can play a key role. In fact, Australia has recently followed Canada's tax innovation and introduced its own exploration development incentive in 2015.

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Enable residents of remote, rural and urban communities to make desired contributions to Canada's economic growth

Support mineral exploration in remote and northern Canada

Remote and northern Canada is rich in mineral resources and the minerals industry is a proven private-sector driver of economic activity in these areas. In the territories alone, the industry accounts for 20-25% of GDP and has paid roughly $800 million in taxes and royalties to governments over the last 10 years.

Remote exploration projects (more than 50 km from a supply route) have average costs that are 227% of the costs of non-remote projects. Projects in the most remote regions (500 km or more from a supply route) have costs that are 280% of the costs of non-remote projects. A PDAC study revealed the disproportionate impact that the infrastructure deficit has on the ability of companies to move a mineral deposit discovery into production in the territories, with 85%, 69% and 77% of existing discoveries in Nunavut, Northwest Territories and Yukon remaining undeveloped, respectively (see Figure 2). The end result is northern resource potential remains stranded, and remote communities are unable to benefit from the economic opportunities that could be generated by the industry.

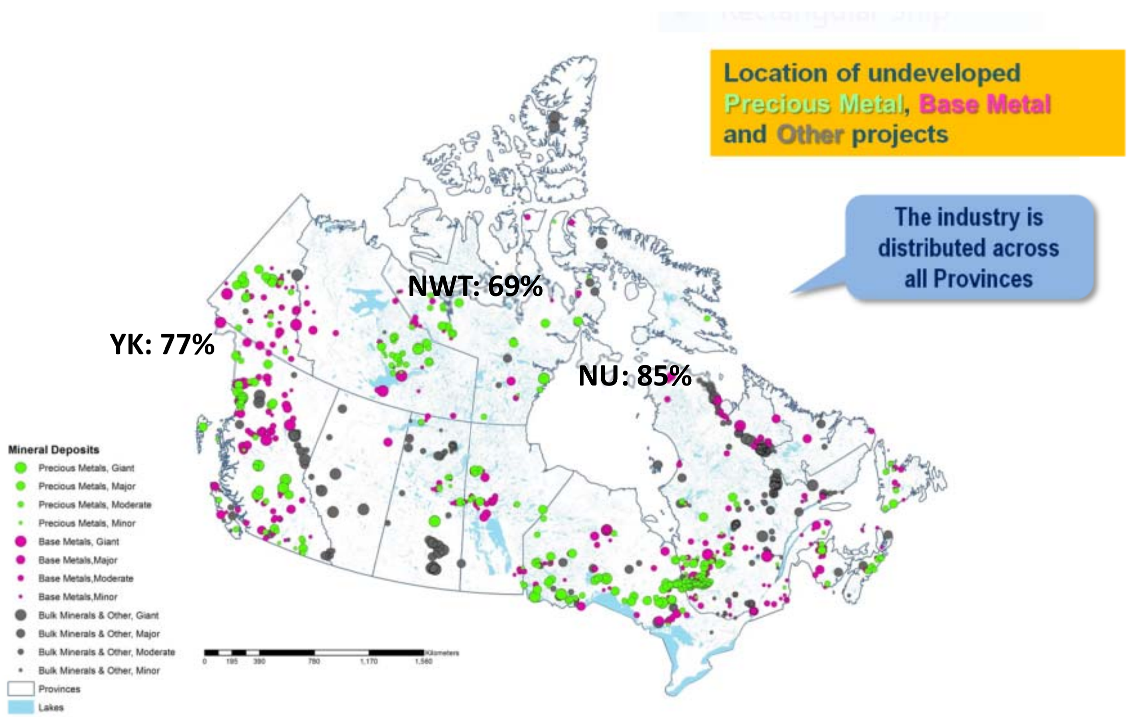

Figure 2: Percentage of mineral deposit discoveries that have not moved into production in the three territories (*Source: PDAC 2016)*

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If fiscal policy can facilitate infrastructure investments that reduce costs by 10%, this could result in half a dozen additional precious or base metal mines in remote areas, with significant impacts on northern employment, business development and revenue generation for governments.