



Enhancing Canada's Mineral Industry Competitiveness: 2019 Pre-Budget Submission Prospectors & Developers Association of Canada (PDAC)

Recommendation 1:

Renew the Mineral Exploration Tax Credit (METC) for a minimum period of three years to catalyze investor interest in flow-through shares and support access to exploration financing for proponents.

Recommendation 2:

Support the mineral industry's competitiveness in northern and remote regions by:

- Addressing the infrastructure deficit through increased, strategic investments in transportation and energy infrastructure.
- Ensuring that any new carbon price regime addresses the unique challenges faced by remote and northern regions, and includes a fiscal support mechanism for mineral exploration projects that must rely on diesel and other fossil fuels (e.g. rebates, a funding pool, tax credit).

Recommendation 3:

Enhance the participation of Indigenous peoples in the minerals industry through:

- Foundational social investments (housing, water, infrastructure) that contribute to improved health and educational outcomes for Indigenous communities.
- Targeted funds for skills training and entrepreneurship.

Recommendation 4:

Create a funding mechanism for provinces and territories to support the undertaking of comprehensive mineral resource assessments, based on geoscientific studies, in order to understand and incorporate the value of mineral potential into regional assessments and land management decisions.

Recommendation 5:

Support geoscience mapping and innovation in the mineral sector by providing:

- Increased funding to the Geological Survey of Canada.
- Fiscal incentives/funding for mineral companies to encourage the testing and adoption of innovative technologies and processes (e.g. innovation funding mechanism, tax credits, etc.).



CANADA'S MINERAL INDUSTRY — ECONOMIC AND SOCIAL CONTRIBUTIONS

Canada's exploration and mining industry generates significant economic and social benefits in remote communities, Indigenous communities, and cities across Canada. It employs nearly 600,000 workers across the country, contributes more than 3% to the GDP (\$60 billion) and accounted for 19% of Canada's total domestic exports in 2016. The mineral industry is also a proven leader in building relationships and partnerships with Indigenous peoples. It is the largest private-sector employer of Indigenous peoples in Canada, on a proportional basis, and a key partner of Indigenous businesses.

Canada is especially renowned for its mineral exploration expertise. Junior exploration companies — thousands of small, entrepreneurial companies with limited budgets and timelines — undertake the early stages of the mineral development cycle. In Canada, 70% of discoveries over the last 10 years were made by junior companies. Support for the mineral exploration sector is critical in driving new discoveries that will lead to new mines, generate the related socio-economic benefits, and ensure Canada's mineral industry competitiveness into the future.

CANADA'S MINERAL INDUSTRY COMPETITIVENESS — SIGNS OF DECLINE

Canada's mineral industry faces fierce global competition for investment — it is falling behind its competitors in a number of areas, indicating its decline in attractiveness as a destination for mineral investment. Canada's domestic share of mineral exploration investment has declined by nearly one-third over the last decade, relative to the rest of the world. Other indicators of Canada's waning mineral industry competitiveness include declining base metals reserves, increasing discovery costs, and protracted timelines to move discoveries into production. The government plays a key role in enhancing conditions to foster a competitive Canadian mineral industry that will continue providing significant economic and social benefits to Canadians and Canadian businesses.

RECOMMENDATIONS FOR BUDGET 2019

PDAC underscores the critical need to address Canada's waning mineral investment and offer recommendations focused on Canada's mineral industry competitiveness.

1. Renewal of the Mineral Exploration Tax Credit (METC) for a period of three years

Fiscal and tax incentives support the flow of capital into mineral exploration projects, ultimately supporting Canada's competitiveness in the global mineral industry.

Mineral exploration is a high-risk endeavor and the probability of a successful discovery of an economic deposit is very low. As such, attracting investment for small to medium sized, non-revenue generating exploration companies is extremely difficult. Originally introduced in 2000, the METC is an innovative "made-in-Canada" policy tool that has complemented the flow-through share regime. A key feature of Canada's tax regime, it incentivizes exploration financing by providing individuals who invest in companies that are exploring for minerals in Canada with a 15% tax credit on eligible expenditures.

For Canada to regain its leadership position for mineral exploration, the METC plays an essential role. While it was renewed for one year in Budget 2018, PDAC recommends the renewal of the METC for a minimum of three years to provide longer-term stability for exploration companies, including multi-year exploration program funding and planning. Exploration programs for mineral deposits are carried out in



stages over an extended period of time (e.g. initial sampling, preliminary and follow-up drilling, etc.). Exploration companies and investors need certainty that they can finance not only the current year of their exploration programs, but also any subsequent exploration necessary to fully scope the mineral potential of a particular property.

A three-year extension will provide greater certainty and boost confidence for investors in Canadian projects. It will also provide a sense of stability in the overall marketplace for ancillary companies, suppliers and service providers, as well as for the cities, rural and northern communities across Canada that depend on exploration and mining for growth, employment opportunities and local trade.

Recommendation: Given the importance of the METC to catalyzing investor interest in flow-through shares and the need for certainty of continued access to exploration funding for proponents, PDAC recommends that the METC be renewed for a minimum period of three years.

2. Enhancing Mineral Industry Competitiveness in Canada's North

Challenges related to the high costs of operating in remote and northern Canada must be addressed to support mineral investment and project advancement, and enhance economic development opportunities for northern and Indigenous communities.

The future of Canada's mineral industry lies increasingly in remote and northern regions. These regions experience economic and geographic circumstances that impact the activities and success of mineral industry in various ways — particularly costs. While many factors influence decisions about where to explore and mine, costs are a primary driver. Costs are largely a function of remoteness and remote deposits are significantly more expensive to find, develop and mine. Due to a significant infrastructure deficit, it can cost up to 6 times more to explore and 2 to 2.5 times more to build new mines in remote regions. A disproportionately high percentage of known mineral deposits also remain undeveloped in Canada's territories, compared to non-remote regions. Infrastructure investments are key to unlocking mineral potential in the North.

Furthermore, the federal carbon pricing backstop and the resulting Output Based Pricing System will add additional costs to mineral projects in Canada's northern and remote regions, further reducing the viability of these projects. Given the lack of energy infrastructure in the North, companies operating in these environments rarely — if ever — have viable alternatives to diesel fuel used to power drills, camps, etc. Other costs associated with mineral exploration will also significantly increase, such as aviation.

Taken together, these costs will adversely impact Canada's mineral industry competitiveness — without any action, Canada will lose out on development opportunities and associated benefits, to more competitive jurisdictions.

Recommendations: PDAC recommends that the government take action to support the mineral industry's competitiveness in northern and remote regions by:

- Addressing the infrastructure deficit through increased, strategic investments in critical transportation and energy infrastructure.



- Ensuring that any new carbon price regime addresses the unique challenges faced by remote and northern regions and includes a fiscal support mechanism for mineral exploration projects that must rely on diesel and other fossil fuels (e.g. rebates, a funding pool, or tax credit).

3. Investments in Indigenous communities to support participation in the mineral industry

Government investment is critical to enhancing the meaningful participation of Indigenous peoples in the mineral industry.

The mineral industry strongly supports efforts to facilitate meaningful participation of Indigenous peoples in the economic opportunities it generates through training, business development and procurement, employment and mutually-beneficial partnerships.

There is great potential to further increase participation by Indigenous peoples in the industry, particularly given the young, growing Indigenous population, the impending mineral industry labour shortage and the proximity of Indigenous communities to projects. However, many Indigenous communities are faced with various barriers that affect the ability to participate. Investments in Indigenous communities by government to improve health, living conditions, early childhood development, and secondary or post-secondary graduation rates are critical to increasing participation and maximizing the opportunities generated by mineral exploration and development.

Recommendations: PDAC recommends that the federal government support efforts to enhance the participation of Indigenous peoples in the minerals industry through:

- Foundational social investments (housing, water, infrastructure) that contribute to improved health and educational outcomes for Indigenous communities.
- Targeted funds for skills training and entrepreneurship to assist Indigenous peoples in maximizing opportunities generated by the industry.

4. Accessing Prospective Lands – Balancing Conservation and Economic Development Goals

Canada's ability to attract mineral investment, increase its rate of discoveries and advance mineral exploration projects to mine development is contingent upon responsible access to prospective land.

Canada's geological endowment is one of our primary competitive advantages over other countries. To capitalize on this advantage, mineral rich areas must be available for exploration to increase the probability of making a discovery of an economically-viable mineral deposit. Knowledge of which lands are prospective for minerals and access to these lands profoundly influence investment decisions made by companies and investors, ultimately affecting Canada's mineral industry competitiveness.

As the federal government works with provinces, territories, Indigenous communities and other stakeholders to meet various commitments, such as Canada's 2020 biodiversity goals and targets or, to conduct regional assessments on lands, approaches to land use decisions must be balanced, transparent, based on sound science and Indigenous knowledge, and consider socio-economic opportunities. This requires scientific evaluation of lands to ensure that prospective mineral development areas are not unduly removed from potential exploration and development. Industry understands the value of protecting ecological and cultural sites, yet it is important that the mineral



potential of lands is factored into all land use/withdrawal decision-making processes. This would help ensure that rights-holders, stakeholders and governments have the full scope of information available to them — for both conservation and economic purposes.

Recommendation: PDAC recommends that the federal government create a funding mechanism for provincial and territorial governments to support the undertaking of comprehensive mineral resource assessments, based on geoscientific studies, in order to understand and incorporate the value of mineral potential into regional assessments and land management decisions (e.g. land withdrawals).

5. Investments in geoscience and innovation in the mineral sector

Government investment in geoscience and innovation is critical for spurring mineral exploration activity and enhancing industry's efficiency, productivity and environmental performance.

Geological surveys in Canada play a critical role in producing high-quality public geoscience information, which has attracted exploration activity to Canada and led to successful discoveries. Presently, the absence or low quality of geological maps and models compound other challenges faced by industry in exploring Canada's northern and remote regions. The lack of detailed mapping in potentially prospective regions reduces the likelihood of economically viable discoveries. First pass mapping programs need to be followed up with more detailed programs to better target mineral occurrences. Lacking detailed maps and models negatively impacts Canada's attractiveness for mineral investment, compared to other mineral-rich countries such as Australia.

Innovation in the mineral industry is critical for advancing efforts to improve efficiency, enhance environmental performance, and increase mineral deposit discovery and extraction rates needed for modern society. While the mineral industry invests millions each year in research and development, Canada underperforms compared to its peers. To remain sustainable, progressive and profitable, the Canadian mineral industry must innovate and collectively challenge existing ways of thinking. Through investments in innovation from both industry and governments, critical business challenges can be addressed and continuous improvement of Canada's mineral industry performance can be realized.

Recommendations: PDAC recommends that government support geoscience mapping and innovation in the mineral sector by providing:

- Increased funding to the Geological Survey of Canada, particularly for mapping of remote regions.
- Funding or fiscal incentives for mineral companies to encourage the testing and adoption of innovative technologies and processes (e.g. innovation funding mechanism, tax credits, etc.).