



PearTree

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ENSURING CANADA'S COMPETITIVENESS:
ADDRESSING THE CAPITAL CRISIS FACING
CANADA'S MINERAL EXPLORATION SECTOR

By: PearTree Financial Services Ltd.
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ENSURING CANADA'S COMPETITIVENESS: ADDRESSING THE CAPITAL CRISIS FACING CANADA'S MINERAL EXPLORATION SECTOR

Recommendations

1. That the government renew the 15% Mineral Exploration Tax Credit ("METC") for a period of at least three years.
2. That the government provide tax-advantaged fiscal incentives to encourage the testing and adoption of innovative technologies and processes in the Canadian mineral exploration sector, including innovative technologies and processes with an optimized environmental impact to efficiency ratio ("Resource Innovation Incentives").

METC: This innovative taxation incentive remains critical to attracting and facilitating financing in the increasingly competitive global capital markets in support of continued Canadian mineral exploration ensuring the competitiveness of Canada's mining industry in the global resource economy.

Resource Innovation Incentives: would most effectively be implemented through an expansion of the prescribed categories of eligible Canadian Exploration Expenses ("CEE")¹, providing meaningful financial incentives for investment by both:

- (a) Capital markets participants, international and domestic, and
- (b) Canadian mining and resource exploration companies,

to enable the Canadian resource sector to compete meaningfully in the global market and foster technological innovation for the continued responsible exploration of Canada's natural resource base in a manner competitive with Canada's international peers.

These initiatives benefit all Canadians. They sustain economic growth, enhance technological innovation, and create valuable employment opportunities; all targeted to the government of Canada's objective of enhancing its diversified competitive position and reputation as a leading global economy.

¹ Per section 66.1(6) of the *Income Tax Act* (Canada).



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Ensuring Canada's Competitiveness:
Addressing the Capital Crisis Facing Canada's Mineral Exploration Sector

Submitted by: PearTree Financial Services Ltd. and PearTree Securities Inc. (collectively, “**PearTree**”)

Importance of Canada’s Natural Resources to Canada’s Overall Economic Performance and International Competitiveness.

Canada’s mining exploration and development industries (together with oil & gas, referred to as Canada’s “**resource sector**”) play a crucial role in our country’s economy. The health and robust economic growth of Canada’s resource sector is a key indicator of Canada’s ability to leverage its natural resources and human resources to compete in an increasingly challenging international environment, and continue to providing wide-ranging economic and social benefits to Canadians.

The Canadian resource sector generates critical economic activity² as:

- Canada’s third-most significant contributor to GDP in 2018, weighted by industry,
- Canada’s largest goods export category, and
- A significant creator of employment opportunities for both Indigenous and non-Indigenous Canadian workers and income for their families.

Resource sector companies continue to lead Canadian business in building meaningful relationships with Indigenous Canadians. It is also the largest private-sector employer of Indigenous peoples in Canada, on a proportional basis, and a key partner of Indigenous businesses.

The Canadian capital markets are established global leaders in providing equity finance capital to the mining sector, in terms of volume, value and financial innovation, including governmental support of innovative tax incentives, particularly the METC, which provides significant financial incentive to investors to support exploration of Canada’s natural resources.

Canada’s exploration and mining industry in 2016 generated significant economic and social benefits in northern and remote communities, Indigenous communities, and cities across Canada, employing nearly 600,000 workers across the country, contributing over C\$60 billion to GDP and accounting for 19% of Canada’s total domestic exports.

Budgetary incentives provide stability and growth in the marketplace for mining and ancillary companies, such as construction and infrastructure companies, suppliers and tertiary service providers, as well as for the cities, rural and northern communities across Canada all of whom depend on mineral exploration and development for economic growth, employment and local trade.

² As per the most recent Statistics Canada analyses and figures; the following publications were considered in connection with this submission: Tables 36-10-0434-02 [GDP]; 36-10-0110-01 [Exports]; 14-10-0202-01, 14-10-0288-01, 14-10-0366-01 and 14-10-0355-01 [Employment]; 38-10-0007-01 [Mineral Reserves] and 38-10-0006-01 [Valuation of Reserves].



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Decline in Capital Investment in Canadian Resource Exploration Sector and Attendant Decrease in Canadian Resource Exploration Discoveries.

Canada's mineral industry faces fierce global competition for investment. Our domestic share of mineral exploration has declined by nearly one-third over the last decade, relative to the rest of the world. Other indicators of risk posed to competitiveness of Canada's mineral industry include declining base metals and other natural resource reserves, measured by both asset quantity and dollar valuation.

Canada must continue to thoughtfully evolve its fiscal and economic policy to respond to global industry trends in the resource sector and combat certain structural changes so Canada can remain internationally competitive in the industry.

The majority of new resource discoveries in Canada are made by non-revenue producing Canadian-exchange-listed junior resource companies (*i.e.*, companies with a market capitalization below C\$1.5 billion, hereafter, "**Junior Resource Issuers**") that have little access to exploration capital other than through equity financing in the public and private capital markets.

The recent experience of Peartree as one of the largest providers of flow-through ("FT") equity capital in support of Canadian resource exploration and development for Junior Resource Issuers is that many sources of equity capital have diminished, and the distribution channels to access that capital have become severely curtailed relative to a peak in market activity in 2011. Consequently, the rate of new resource sector discoveries in Canada is in significant decline.

Despite some signs of improvement in the Canadian resource sector markets as a whole, arranging financing for Junior Resource Issuers seeking to further explore and develop their Canadian natural resource assets is becoming increasingly challenging.

There has been a significant decline in actively managed money and an upsurge in passively-managed structured products such as exchange-traded funds and market sector indices resulting in a significantly diminished following of Canadian resource stocks. The exit by these managers as well as retail brokers (many of whom have discontinued operations altogether) from the resource space in favour of other more 'fashionable' investments such as cannabis and cryptocurrency, has dramatically curtailed distribution channels for the sale of resource sector equities, resulting in permanent structural (and not cyclical) challenges for the mining exploration and resource sectors.



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Recommendation 1:

- ***That the government renew the 15% Mineral Exploration Tax Credit (METC) for a period of at least three years, given the METC is critical in facilitating raising of equity financing to fund sustained Canadian mineral exploration.***

The METC is an innovative Canadian policy tool which complements the FT share regime to incent investment in early-stage, high-risk natural resource exploration programs. Canada's competitive position in the international mining industry is at risk for a number of reasons, among them a lack of regulatory and legal certainty in certain areas.

An extension of the METC for three or more years would provide longer-term stability for exploration companies undertaking multi-year exploration programs and the attendant funding and planning. Exploration programs for mineral deposits are carried out in stages over an extended period of time (geological surveying, initial sampling, preliminary and follow-up drilling, stakeholder, including Indigenous group, consultation, etc.).

Without the METC, a Junior Resource Issuer has little confidence that it can raise the equity capital needed to fund the multi-year exploration program required to ascertain whether further investment in order to bring a discovery into production (*e.g.*, the construction of a mine and related infrastructure) is merited in order to economically exploit the natural resource asset.

Not only does the mineral exploration funded with the proceeds of FT shares contribute significantly to Canadian economic development, particularly in remote, northern and Indigenous communities, the income, excise and fuel taxes collected as a result of such additional exploration makes the METC a revenue-neutral program, offsetting the need for further government support, and allowing financial resources to be redirected to other governmental priorities.

In the longer term, it is submitted that the recommendations set forth herein with respect to the METC could result in net positive revenue due to increased economic activity and an increased tax base at both the corporate and individual levels. The FT share regime enhanced by the METC is a particularly effective fiscal incentive because:

- The funds raised can only be used in Canada, resulting in benefits accruing solely or primarily to Canadians – companies, employees, governments and taxpayers.
- It significantly increases the attractiveness to investors of financing a qualifying Canadian natural resource company, resulting in increased Canadian capital markets activity as well as Canadian economic activity when the funds are deployed.



Recommendation 2:

- ***That the government provide funding of tax-advantaged fiscal incentives for mineral exploration and development companies to encourage the testing and adoption of innovative technologies and processes, including those with an optimized environmental impact to efficiency ratio.***

Continued innovation and investment in the mineral industry with government incentives is critical to advancing efforts to improve efficiency, enhance environmental performance, and increase Canada's attractiveness for mineral investment, compared to other mineral-rich countries such as Australia.

While the mineral industry makes significant annual investment in research and development, Canada underperforms compared to its peers. To remain sustainable, progressive and profitable, the Canadian resource sector requires investments in innovation from both industry and governments to ensure the continuous improvement.

This recommendation dovetails with stated government priorities – the Natural Resources Canada 2013 study “*Documentation of Key Findings of the Workshop on Barriers to Green Mining Innovation in Canada*”³ states (in part):

Incentives are also required to encourage the industry to use new, innovative technologies

Outcome-based regulations alone may not encourage mining companies to adopt new technologies as these technologies would still involve more risk than those that have been proven through extensive use... the use of incentives in conjunction with outcome-based regulations may increase effectiveness in promoting innovation in the mining industry.

A variety of possible incentives were suggested: [...]

- Financial incentives from governments for exceeding regulatory outcomes;
- Tax incentives for companies to adopt green mining technologies, including suggestions for reductions in royalty payments for proactive firms.

In our view such incentives would be most effectively implemented by expanding the categories of CEE, such that investors could provide financing for such initiatives using the FT share regime.

³ Retrieved on August 3, 2018 at <http://www.nrcan.gc.ca/mining-materials/publications/11792>



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About PearTree Financial Services Ltd. and PearTree Securities Inc.

PearTree is the innovator of flow-through donation financing arrangements, providing a turnkey service for donors and their designated charities to increase the amount of donations while decreasing the cost of giving, which ultimately accelerates and increases charitable donations.

The House of Commons Standing Committee Report No. 15 - FINA (41-1) - *Tax Incentives for Charitable Giving in Canada*, in connection with which PearTree was pleased to make submissions, found that charitable giving in Canada has remained relatively stagnant for over a decade. It is our hope that by government adopting the recommendations set forth above, philanthropic donations to reputable, registered Canadian charities will increase by virtue of the enhanced financial incentives to such donations using the FT share regime for natural resource issuer companies.

PearTree Securities Inc. is a subsidiary of PearTree Financial Services Ltd. Together, the PearTree companies leverage their unique knowledge and experience to enable Junior Resource Issuers and other Canadian natural resources companies to access existing and expanded equity capital markets, facilitating millions of dollars in additional mineral exploration and development risk capital for such companies.

The role of PearTree Securities is to work with such Canadian natural resources companies to arrange flow-through equity financing and in turn provide a source of FT shares for Peartree Financial's service.

Among the key benefits of the PearTree process are (1) the ability of a natural resource issuer to command a competitive premium to its existing share price, (2) minimizing dilution to existing and new investors, (3) maximizing the benefit of the FT financing regime for each participating natural resource company, and (4) providing the issuer in a FT share financing with material influence as to the identities of the ultimate beneficial purchasers of their common shares, enabling the issuer to retain a trusted core investor base whose interests are aligned with the natural resource company's strategic vision.

PearTree respectfully requests the opportunity to appear before the Standing Committee on Finance (FINA) respecting this submission, in furtherance of the Pre-Budget Consultations in Advance of the 2019 Budget.