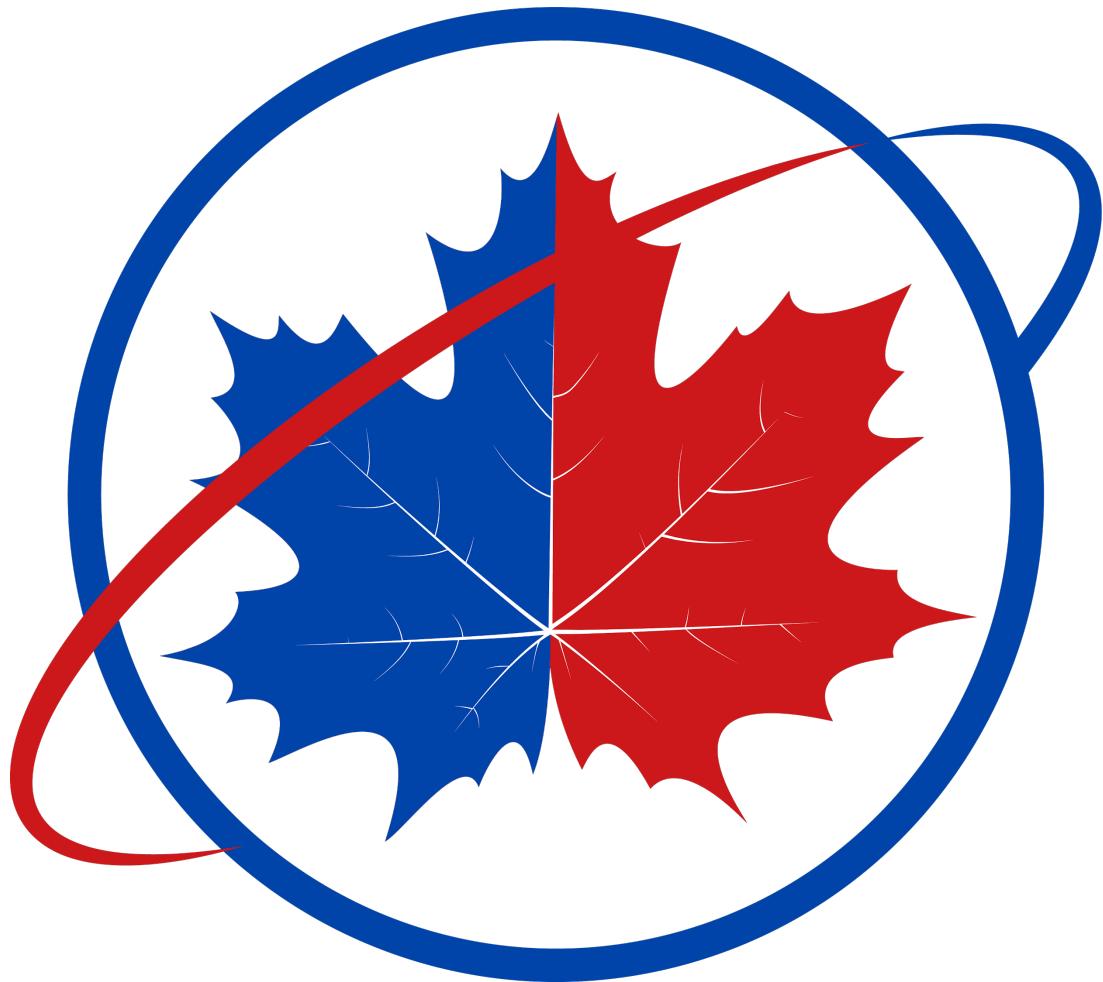


Written Submission for the Pre-Budget Consultation in Advance of the Upcoming Federal 2022 Budget



By: The Canadian Space Resources Association
Aug 6th, 2021

Recommendations

- **Recommendation 1:** That the Federal Government develop or assist in the development of a standard for disclosure to space resource investors, similar to NI 43-101.
- **Recommendation 2:** That the Federal Government establish a grant or other funding source to directly support the development of the space resources industry in Canada.
- **Recommendation 3:** That the Federal Government pass legislation authorizing Canadian Companies to engage in the commercial recovery of space resources in a manner consistent with Canada's international obligations.
- **Recommendation 4:** That the government amend the Income Tax Act to include outer space (including the Moon, Asteroids, and planetary bodies) as a Foreign Jurisdiction for the purposes of Foreign Resource Expenses (FRE) as equivalent to Canadian Exploration Expenses (CEE) and Canadian Development Expenses (CDE).
- **Recommendation 5:** That the government amend the Income Tax Act to extend Flow Through Shares to Canadian companies engaging in mining in outer space (including the Moon, asteroids and planetary bodies).
- **Recommendation 6:** That the government amend the Income Tax Act to extend Mineral Exploration Tax Credit to Canadian corporations engaging in space resource exploration with specific intent to mine in outer space.

Body of Submission

Introduction

As humanity begins its transition to becoming a space-faring civilization, it is inevitable that we will develop natural resources to support our growing space activities. Canada is a key player in the development of the sustainable exploration of the Moon and has shown its commitment by signing the Artemis Accords and participating in the Lunar Gateway. Canada has also shown leadership in the development of the Mine of the Future with the publication of the Canadian Minerals and Metals Plan. These actions have created a fantastic opportunity for Canada to create and grow the space resources industry.

If Canada is to remain a global leader in the areas of space exploration and resource development, we must broaden our economy to include space resources. Not only will growing the in-situ space resource ("ISRU") industry create jobs and build opportunities in space exploration, it will also lead to the development of tools and technologies which will greatly improve our existing natural resource industry and minimize our environmental impact.

The Canadian Space Resources Association ("CSRA") firmly believes that Canada contains all the aerospace, resource, financial, and technological expertise needed to make Canada a leader in the emerging space resource industry. In order to build on this existing talent and expertise, we require government support.

Space mining represents an opportunity for Canada to foster an industry that leverages Canada's existing position as a leader in both the space and mining industries. Canadian expertise in the minerals and metals sector covers the entire mining cycle, including geology, engineering, consulting and financial/legal services. Canada is a recognized leader in mining related financing with 52% of all global mining financings in the past 5 years happening on the TSX. The CSRA strongly believes that we should utilize this strength to capture the exciting new market of space resources.

About the Canadian Space Resources Association

The CSRA is made up of Canadian companies, researchers, and individuals with the shared goal of ensuring that Canadians play a leading role in the development of all facets of space resources. We aim to achieve this by:

- Coordination: Providing a cooperative environment where members from every part of the supply chain can discuss and resolve their issues.
- Acceleration: working with government, academia, and our industry members to remove common barriers and provide support across the industry and allow it to flourish.
- Voice: Act as the single point of contact for the industry to participate in domestic and international discussions and negotiations.

We look forward to engaging with the Federal Government, regulation entities, and companies from aerospace, terrestrial mining, finance, and manufacturing to create the supply chains and capabilities needed to meet the challenges of developing an ISRU industry.

Key Recommendations

Recommendation 1: That the Federal Government establish a grant or other funding source to directly support the development of the Space Resources Industry in Canada.

While the CSRA sees massive long-term growth potential for a Canadian ISRU industry, we believe that government assistance is needed to provide the industry the boost it needs to compete globally. We are developing an entirely new industry, and a lot of work is needed to lay the foundations of a successful industry. Countries around the world are already providing ISRU specific funding: NASA is awarding contracts for the collection of lunar regolith and hosting a lunar water mining competition for American companies, and in Europe, a brand new European Space Resources Innovation Centre has been established, including a space resource incubator program.

Furthermore, funding for the development of a space resources industry falls directly within the existing Federal mandate to fund innovative industries and thus should be easy to identify as a growth target. As an example, space resources could be specifically targeted by the Strategic Innovation Fund. We believe that many parts of the Federal Government should be engaged, including NRCan, ISED, and the CSA.

Recommendation 2: That the Federal Government pass legislation authorizing Canadian Companies to engage in the commercial recovery of space resources in a manner consistent with Canada's international obligations.

The legality of developing and selling space resources for use in space or on Earth is currently a legal gray area. The CSRA notes that the 1967 Outer Space Treaty does not provide sufficient guidance on the development of space resources by private companies. Moreover, we are behind other countries in establishing a domestic law enabling space resource activity and in providing government guidance encouraging said activity:

- The USA has passed the US Commercial Space Launch Competitiveness Act in 2015 (the “**US Space Act**”), and NASA has already awarded contracts for the collection of space resources.
- In 2017, Luxembourg passed the Law on the Exploration and Use of Space Resources. This law is the foundation for space resource activity across Europe. Moreover, the European Space Agency has published multiple positions on the commercialization of space resources, including a “Space Resources Strategy” in 2019.
- In 2019, the UAE passed the Federal Law on the Regulation of the Space Sector, which also contains provisions governing the commercial use of space resources, and the UAE’s National Space Strategy 2030 also includes plans for space resources.

- This year (2021), Japan passed the Law Concerning the Promotion of Business Activities Related to the Exploration and Development of Space Resources, which explicitly permits private Japanese companies to develop and sell space resources.

Furthermore, as an Artemis signatory, Canada has already demonstrated its support for the development of space resources. While we recognize that there is a need for an internationally accepted ISRU standard, the CSRA strongly believes that Canada should first pass an initial domestic law, similar to the US Space Act, which authorizes Canadian companies to recover space resources so long as they comply with Canada's international obligations. Failure to pass such a law leaves Canadian companies at a serious competitive disadvantage to those based in countries with legal clarity about ISRU.

Recommendation 4: That the government amend the Income Tax Act to include outer space (including the Moon, Asteroids, and planetary bodies) as a Foreign Jurisdiction for the purposes of Foreign Resource Expenses (FRE)

As space mining activities and sale of products will occur outside the boundaries of Canada, taxation should therefore be considered extraterritorial, with mining operations in outer space considered as "Foreign Operations". In order to ensure economic benefits flow to Canada along with potential tax revenue, careful crafting of the definition of what constitutes eligible exploration expenses is required.

While it is relatively unusual for a Canadian mining corporation to conduct foreign activities directly, where this occurs the Canadian mining corporation computes its income (or loss) from those activities under essentially the same rules that apply to Canadian-source activities, with the following exceptions:

- most expenditures related to the foreign mining activities are treated as "foreign resource expenses" ("FRE"), being the foreign equivalent of Canadian Exploration Expenses ("CEE") and Canadian Development Expenses ("CDE") under the Canadian income tax regime;
- Here, foreign mining activities are located on outer space bodies, but since there is no formal taxation treaty with these bodies, Canada's rights to tax are NOT limited by the terms of any tax treaty; and
- to the extent that income or profit taxes are levied in the foreign jurisdiction where such activities are carried on, the Canadian mining corporation would typically be entitled to a "foreign tax credit" ("FTC") under Canadian tax rules, which reduces Canadian tax otherwise payable on the same income that the foreign jurisdiction is taxing. Because no tax is deducted at source, then all taxation flows to Canada.

Since much of this activity will be occurring within the jurisdiction of Canada, the economic benefits and tax revenues will be maximized within our borders. Space mining will be a boon to Canadian companies specializing in high tech industries with high knowledge

requirements and high pay. In addition, this will likely benefit Canadian university programs that specialize in geology, mechanical engineering, robotics and aerospace technologies.

Recommendation 5: That the government amend the Income Tax Act to extend Flow Through Shares to Canadian companies engaging in mining in outer space (including the Moon, asteroids and planetary bodies).

The CSRA supports extending the favourable tax treatment currently afforded to investors in flow-through shares (“**FTS**”) of mineral exploration companies to investors in commercial activity in space, whether or not that activity is mining related. This measure has the potential to encourage private sector efforts over the long term. Given that Canada has a small number of commercial space firms, annual expenditures for this measure would be marginal.

It is quite common for early stage mining exploration companies to have zero net income for tax purposes. Since expenditures on exploration and development can only reduce taxes owing down to zero, such mining companies may find themselves with deductions for tax purposes that they will not be in a position to use for many years, because they are not generating enough income. Companies in such circumstances may also need to raise financing in order to fund ongoing operations. FTS can provide mining companies with reduced-cost access to financing in this situation.

Recommendation 6: That the government amend the Income Tax Act to extend Mineral Exploration Tax Credit to Canadian corporations engaging in space resource exploration with specific intent to mine in outer space.

The Mineral Exploration Tax Credit (“**METC**”) is designed to help exploration companies raise equity funds and can be used with regular tax deductions associated with FTS investments. The METC is a 15% non-refundable tax credit on eligible exploration expenses including costs related to prospecting, geological, geophysical, or geochemical surveys to search for base and/or precious metal deposits. This program has been highly successful in stimulating private equity investment in Canadian Exploration and Mining companies and has contributed significantly to making Canada the world leader in mine finance, mining exploration, and development.

Luxembourg is considering legislation offering a ISRU tax credit modelled after the highly successful Canadian Mining and Exploration Tax Credit (“**METC**”). Luxembourg’s creation of a ISRU tax credit creates a competitive disadvantage for Canada and Canadian space or mining companies. Ideally the creation of a similar credit here would mitigate those disadvantages.

Conclusion

The CSRA respectfully encourages the Canadian government to adapt these recommendations to enable the space resource industry to grow within Canada. Our nation has every advantage on the global stage to be a leader in this industry, and with the proper support we can begin developing a prosperous future for Canadian space resource companies for decades to come.

Respectfully Submitted,

Canadian Space Resource Association



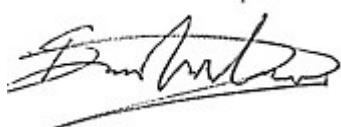
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