The Prospectors & Developers Association of Canada (PDAC) is the national voice of Canada's mineral exploration and development industry. With a membership of over 8,000, the PDAC's mission is to promote a responsible, vibrant and sustainable Canadian mineral exploration and development sector. PDAC encourages leading practices in technical, environmental, safety and social performance in Canada and internationally. PDAC is known worldwide for its annual PDAC Convention, regarded as the premier event for mineral industry professionals.

Canada's Mineral Exploration and Development Sector

A robust mineral exploration sector is vital to the success of Canada's minerals industry. Mineral exploration is the first stage of the mineral development cycle. The purpose of this stage is to locate mineral deposits that could be economically developed into a mine. In Canada, junior exploration companies take on the bulk of the high-risk grassroots exploration that leads to new discoveries. In fact, 70% of all discoveries in Canada over the last ten years have been made by juniors, most of which were financed through Canada's flow-through share system.

Economic Contributions of Canada's Mineral Industry

The exploration and development industry generates significant economic and social benefits for Canadians from coast to coast. From remote communities to large cities, thousands of high-skilled, high-paying jobs have been created by this industry.

- The minerals industry is a key contributor to Canada's economy, accounting for $54 billion, or almost 4% of Canada's GDP, in 2014.
- The industry has paid over $70 billion in taxes and royalties to federal and provincial governments over the past decade.
- Over 375,000 workers are employed in the minerals and metals industry across Canada, in remote communities as well as large cities.
- The minerals industry is the largest private sector employer of Aboriginal people.
- 3,000 service and supply companies in Canada provide services to the mineral industry.
- Canada is a world leader in mineral exploration, with an estimated 800 junior exploration companies active in more than 100 countries.
- Toronto has become a global mining finance hub, with 44% of global mining equity finance raised on the TMX from 2009-2013 and has more mining companies listed on its exchanges than anywhere else in the world.

Challenges Threaten the Ability of the Industry to Sustain these Contributions

Canada's mineral exploration and development industry is facing long term challenges that threaten its ability to continue as source of economic growth. Canada hits far above its weight in the mineral exploration and development sector. A strong domestic industry has enabled Canadian companies to span the globe in the search for, and development of, mineral deposits which contain the metals that are one of the building blocks of modern life.

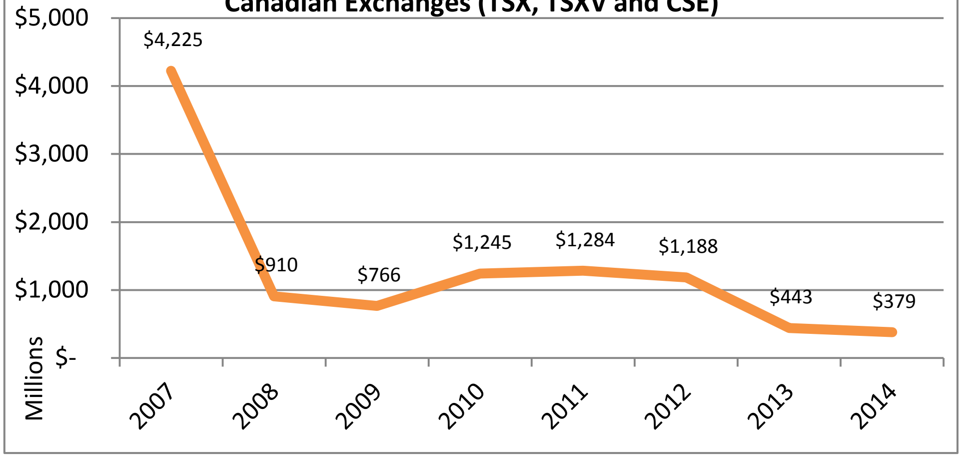
Without a vibrant domestic mineral exploration sector there can be no new Canadian mineral discoveries. Consequently, the economic benefits generated by the industry for communities across Canada would be greatly reduced and could potentially disappear. Additionally, Canada's position as a world leader in the development and application of innovative exploration technologies would be significantly undermined.

It is a fundamental requirement that Canada have a strong domestic mineral exploration and development sector in order to have a viable mining industry. Similarly, a strong domestic industry is essential to maintain Canada's preeminent position as a world leader and the associated economic benefits that it brings. To maintain Canada's global position and the benefits it brings, important challenges must be addressed.

Risk Capital for Mineral Exploration is Scarce

The minerals industry is in the midst of a prolonged downturn in exploration financing that has been characterized by dramatically reduced financing for exploration, lower working capital balances and reduced grassroots exploration. Financing for exploration on Canadian exchanges has all but dried up, falling over 90% from \$4.2 billion in 2007 to \$379 million in 2014 (Figure 1).[1] Due to falling exploration budgets, grassroots exploration in Canada fell by 37% between 2013 and 2014.

Figure 1: Financing for "Exploration" by Issuers Listed on Canadian Exchanges (TSX, TSXV and CSE)



Infrastructure Deficit in Canada's Northern and Remote Regions Hinders Development

Companies operating in northern Canada face challenges associated with remoteness, severe weather, undeveloped infrastructure and sparse populations. These challenges combine to make exploration and mining substantially more expensive than in southern Canada and can

[1] PDAC. 2015. *Déjà Vu: State of Mineral Finance 2015.* Accessible at http://www.pdac.ca/policy/finance-taxation/policy/2015/02/27/state-of-mineral-finance-2015-d%C3%A9j%C3%A0-vu

make it difficult for northern and remote areas of the country to attract the investment necessary to sustain the economic opportunities generated by the industry.

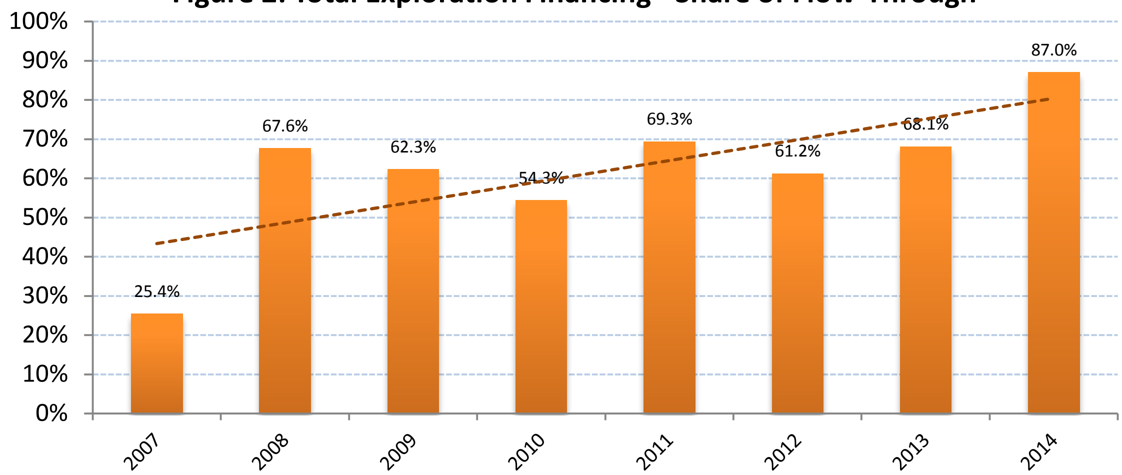
Recommendations for Budget 2016

(A) Take Action to Address the Capital Crisis in Mineral Exploration Financing, by:

1. Increasing the Mineral Exploration Tax Credit (METC) to 30% for a period of 3 years

In light of the worsening fiscal conditions for the junior exploration sector, PDAC recommends the federal government **increase the METC to 30% for a period of three years**. This action will catalyze investor interest in this innovative, entrepreneurial industry and increase the flow of risk-tolerant capital to companies exploring in Canada. With flow-through shares accounting for more than two-thirds of all exploration-focused financing on Canadian exchanges from 2007-2014, PDAC believes the impact of doubling the METC would be immediate and significant (see Figure 2). The METC provides an important incentive for investors to allocate venture capital to support grassroots mineral exploration in Canada.

Figure 2: Total Exploration Financing - Share of Flow-Through



Initiatives like the METC help to counterbalance the structural challenges present in Canada's venture capital sector and for the multiplicity of risks inherent within the mineral exploration field. This is why PDAC and its members have applauded the Government of Canada's decision to regularly renew the METC, since it was introduced in 2000.

In addition to catalyzing investment into grassroots mineral exploration in Canada, the METC and the flow-through share system have proven themselves to be an important counter-cyclical financing incentive. Figure 2 shows how flow-through share financing using the METC, as a percentage of overall exploration financing on Canadian exchanges, has steadily risen since the peak of the commodity boom in 2007.

The METC is a fundamental component of the policy infrastructure that has helped Canada become the number one jurisdiction to raise capital globally and has ensured that much of the money raised is spent in Canada. In fact, the introduction of the METC helped Canada overtake Australia as the top destination for mineral exploration, a position Canada has held since 2002. Australia has since followed Canada's lead and introduced its own exploration development incentive in 2015.

(2) Modernize and update **the** *2007 Guidelines on Canadian Exploration Expenses*

Over the last eight years, the minerals industry has identified the need to update the 2007 Guidelines to address interpretation challenges, and to bring the Guidelines into alignment with the contemporary operating realities of companies exploring in Canada.

Financing generated from the issuance of flow-through shares must be allocated to specific types of exploration activities (i.e. the funds cannot be used to pay for overhead costs such as rent or salaries). These specific types of exploration activities are commonly referred to in the mining industry as "grassroots Canadian Exploration Expenses", which must be for the purpose of determining the existence, location, extent, or quality of a mineral resource, or petroleum or natural gas, in Canada.

Currently, certain exploration costs associated with community consultation and environmental studies are classified as Canadian Development Expenses (CDE) instead of Canadian Exploration Expenses (CEE). This classification restricts such costs from being eligible to be funded from flow-through share proceeds, despite their direct link with the exploration process and their importance to the social and environmental performance of the exploration industry.

PDAC supports the changes proposed by Finance Canada in 2015, which would amend the Income Tax Act to treat certain community consultation and environmental costs as Canadian Exploration Expenses.[2]

In addition, **PDAC proposes that the 2007 Guidelines be updated** to reflect the new operating realities faced by exploration companies. These changes would include updates to the list of

[2] http://www.fin.gc.ca/drleg-apl/2015/ita-lir-0715-eng.asp

activities that would be classified as CEE, as well as the adoption of a clear bright-line test for determining whether a given expense was a CEE, a CDE, or an operating expense.[3]

PDAC stands ready to work with the Government of Canada on adopting new legislation and making changes to the 2007 Guidelines.

(B) 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. The industry accounts directly for 20-25% of territorial GDP and has paid roughly $800 million in taxes and royalties to governments over the last 10 years. The mining industry is also the largest private sector employer of Aboriginal peoples in Canada and it has been estimated that the industry could need as many as 8,500 workers over the next decade in the three northern territories. These economic and social contributions are even more significant when the remote areas of provinces are included.

There are approximately 192 identified mineral discoveries in Canada's three territories. However, a recent industry study revealed that a high percentage of these discoveries remain undeveloped. In Nunavut, the NWT and the Yukon, a staggering 85%, 69% and 77% (respectively) of mineral discoveries await development.

A study conducted by PDAC, the Mining Association of Canada, NWT & Nunavut Chamber of Mines, Yukon Chamber of Mines and the Association of Consulting Engineers of Canada found that:

- Remote exploration projects (defined as more than 50 km from a supply route) have average all-in costs that are 2.27 times higher than non-remote projects
- Projects in the most remote regions of the country have average all in costs that are three times more than non-remote projects.
- Capital costs for producing mines are up to 2.5 times more in remote areas while operating costs are as much as 60% more.

The lack of basic transportation infrastructure exponentially increases the costs of exploration activities in this area and makes it more difficult to attract the investment necessary to sustain and grow the economic opportunities generated by the industry. These additional costs impact the competitiveness of remote and northern Canada mining projects and their ability to attract

[3] A full discussion of these proposed changes is found in the October 2015 submission PDAC made to Finance Canada, available on the PDAC website, with specific changes proposed in Annexes B and C http://www.pdac.ca/policy/finance-taxation/policy/2015/08/13/update-on-changes-to-canadian-exploration-expense-treatment-of-environmental-studies-and-community-consultations

investment. Despite the substantial opportunities for development, overall territorial exploration investment decreased quite dramatically in 2013, by 43% year-over-year.

To support mining in remote and northern areas, the Government of Canada should:

(1) Expedite the creation of the promised infrastructure investment bank and provide dedicated funds to long-term financing for resource-development-related infrastructure projects in remote and northern Canada.

(2) Create an investment tax credit of 10% on capital expenditures associated with remote and northern mines, combined with either:
- **A 15% investment tax credit on specified investments such as additions to infrastructure, OR**
- **A mechanism for conditionally repayable contributions related to infrastructure investments that could cover up to 25% of specified infrastructure investments, with the option of forgiving the loan in exchange for public ownership of that infrastructure at mine closure**

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