House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(•) **an organization** **Organization name:** The Explorers and Producers Association of Canada

or

( ) **an individual** **Name:** _____

Topic: Business taxation and regulatory issues

*Recommendation 1: Please provide a short summary of your recommendation.

The junior oil and gas sector must compete with many investment options Canadians have. And most Canadians prefer the safety of bonds, mutual funds and large corporations. The flow through share regime encourages Canadians to support young companies developing resources here in Canada. The value of flow through shares issued in 2012 dropped 21% from 2011 to $448 million.

EPAC recommends that the current annual limit of $1million on CDE to CEE conversion be increased to $5 million to reflect much higher well drilling costs. The limit was $2 million until 1996 then reduced to $1 million.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount: See comments below.

Please select from the drop down menu

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Our recommendations assume the incentives to invest and spend in Canada, supported by the flow through program as compared to 'passive' investing alternatives available to Canadians, create taxable employment and corporate income, plus GST income for the government (as well as royalty income at the provincial level) which at least equals if not more than compensates for the initial reduction in taxable income to the investor.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Presently all provinces and territories in Canada, have opportunities for investment by junior oil and gas companies. Spending by our member companies benefits a wide variety of drilling, well service and supply companies located in remote and rural areas of Canada.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Spending by the oil and gas industry in Canada creates high paying jobs....particularly in rural and remote areas of Canada where these types of jobs are otherwise scarce.

Topic: Please select from the pull-down menu

Recommendation 2: Please provide a short summary of your recommendation.

Increase the 'taxable capital' (ITA) limit for using the CDE to CEE conversion from $15 million to $75 million to adjust for the much larger capital base required by junior oil and gas companies today. This is closely linked to Recommendation No. 1.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount

See comments under No. 1

Please select from the drop down menu

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

See comments under No. 1.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

See comments under No. 1.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

See comments under No. 1.

Topic: Please select from the pull-down menu

Recommendation 3: Please provide a short summary of your recommendation.

We have only provided two recommendations.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

Please select from the drop down menu

Please select from the drop down menu

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

N/A

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

N/A

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

N/A

Please use this page if you wish to provide more explanation about your recommendation(s).

The House of Commons Standing Committee on Industry, Science & Technology issued a report in June 2009 which stated: "That the Government of Canada examine the flow-through share regime with a view to stimulating greater access to capital for exploration activities in the junior oil and gas and mining sectors."

Canada's junior oil and gas producers are generally not taxable so the government's recent steps to gradually reduce the federal tax rate (although certainly a good economic growth incentive and excellent tax policy) does not impact our sector. The junior sector invests typically more than its cash flow each year to replace declining reserves and grow production, if possible.

The junior sector relies heavily on raising equity, since too much debt carries obvious risks, especially in a volatile commodity industry like oil and gas. Canadians have many investing alternatives and generally prefer 'safe' investments in fixed income and large corporate shares. To attract Canadian investors to support investing by junior companies in energy resource development in Canada, as opposed to putting their money elsewhere or leaving it in the bank, flow through shares have been an important investment incentive and economic development tool. This is particularly true since resource development generally spends most of its money in remote and rural areas of Canada creating high paying local jobs.

We urge the government to take the necessary steps to strengthen the flow through share program to ensure our vital Canadian owned and headquartered junior sector has a receptive market to raise capital in Canada and invest it here at home.

Sincerely,

Gary Leach, BA. JD.
President
The Explorers and Producers Association of Canada

email: gleach@explorersandproducers.ca
Tel: 403 444 0115
Suite 1060, 717 Seventh Ave SW
Calgary AB T2P 0Z3

*Please note that at least one recommendation must be provided