

Support Future Mineral Exploration and Mining in Canada

Issue

The long-term viability of the mining industry is in jeopardy due to a decline in base metal reserves and production volumes. Permanent financial incentives are needed to inspire investment in mining development, especially in remote and northern areas where costs are significantly higher.

Background

Mineral exploration and mining are mainstays of Canada's economy, particularly in northern and remote regions. In 2013, Canada's mining industry accounted for approximately 20% of Canada's annual goods exports and contributed \$54 Billion to Canada's Gross Domestic Product (GDP). The industry employs over 380,000 Canadians in mineral extraction, processing and manufacturing. Mining is the largest private sector employer of Aboriginal peoples in Canada on a proportional basis, and employment is poised to increase.

There are two indicators of challenges to the long-term viability of the industry: reserves of base metals have experienced significant declines since the 1980's; and, production volumes of key commodities have been declining. These indicators point to a twofold problem: the need to make more discoveries and the need to bring new and existing discoveries into production.

Remote and northern parts of Canada hold the key to resolving both challenges. However, exploring and mining these areas come with a hefty cost premium. Companies operating in remote and northern areas face a unique set of challenges that are linked to the characteristics that define the geographical regions themselves: remoteness, severe weather, undeveloped infrastructure and sparse populations.

The Mining Association of Canada, the Prospectors and Developers Association of Canada, the NWT & Nunavut Chamber of Mines, the Yukon Chamber of Mines and the Association of Consulting Engineering Companies – Canada released a very detailed report, "Levelling the Playing Field" in April 2015 that outlines the cost implications of mining in northern and remote areas of Canada. We have used their data in this resolution.

The primary driver of cost variations is the distance of a project from the transportation infrastructure required to service the needs of the project during exploration, construction and production. As an example, exploration costs at the most remote project (in the Arctic Circle) were six times higher than the costs incurred at the least remote project.

	Non-remote (50km or less from supply route)	Remote (51km to 500km from supply route)	Very remote (>500km from supply route)
Exploration Costs	Average cost: \$202.69/metre drilled	1.7 times higher	2.8 times higher

The higher cost of exploration at a remote site includes the need to fly-in equipment and personnel by fixed wing aircraft and/or helicopter. In addition, personnel are often lodged in a bunkhouse at the exploration site at a cost that is higher than living in a hotel in a small town nearby, which is done where road access is available.

The capital cost of constructing a mine in remote and northern areas often includes construction of assets such as a power plant, accommodations for the workforce, winter and permanent roads of hundreds of kilometres, large storage facilities, aircraft and airstrips, and shipping ports. Capital costs are about double for gold mines, 2.5 times higher for base metal mines and 15% - 20% higher for diamond mines. In addition, operating costs for these mines are 30% - 60% higher.

The higher cost profile of exploration and mining in remote and northern Canada is reducing competitiveness of those regions as a destination for mineral investment. This is particularly challenging during the current downturn, which has seen equity financing levels for mineral exploration drop 80% since 2007. Without creative action to

address these challenges, the industry may not be able to sustain the same level of economic benefits for future generations of Canadians.

The mineral exploration tax credit (METC) was introduced in 2000 and provided a 15% tax credit on top of the 100% tax deduction for Canadian Exploration Expense (CEE). The METC was reintroduced in 2006 and subsequently renewed for two years and has since been extended on a yearly basis. In the April 2015 budget, the METC was again extended for an additional year to March 31, 2016. The METC and flow-through share financing continue to serve a critical role as they allow junior companies to raise needed capital, keep investment in Canada and sustain grassroots exploration activity. Since 2006, the METC has allowed mining companies to raise over \$5.5 billion for exploration and development. In 2013, more than 250 companies issued flow-through shares eligible for the METC to over 19,000 investors.

The creation of a new and enhanced METC at 25% for remote and northern projects would reduce the costs of financing one metre of drilling by approximately 12% and would make investments in these projects more attractive to investors and help to attract much needed investment to northern Canada.

Recommendations

That the federal government:

1. Make the 15% Mineral Exploration Tax Credit (METC) permanent: and,
2. Create a new and enhanced 25% Mineral Exploration Tax Credit (METC) for projects in locations more than 50 kilometres from a supply route.

Source data: PDAC (2015) State of Mineral Finance 2015. Accessible at: <http://www.pdac.ca/docs/default-source/securities/levelling-the-playing-field---final.pdf>