

Department of Finance Canada

Pre-Budget Consultations in Advance of the Fall 2025 Budget

PearTree Financial Services Ltd.

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Recommendations

- 1 Alternative Minimum Tax (AMT)** – For AMT purposes only, eliminate (1) the 100% of the capital gain add-back; AND (2) the Canadian Exploration Expense deduction add-back resulting in an accretive \$350M annually in exploration financing.
- 2. CRA Requests for Information it Already Possesses** – Stop the CRA’s practice of requesting redundant information as a condition of issuing tax refunds, resulting in over \$200M of lost exploration investment annually, while costing the federal treasury tens of millions of dollars in interest and human resources.
- 3. Provide Clarity on the Definition of Canadian Exploration Expense (CEE)** – Publish a statement confirming CRA agrees with the Supreme Court of BC’s interpretation of the FTS regime i.e. that expenditures up to the decision to develop a mine fall within the CEE definition adding an accretive \$500M annually in exploration and development financing.
- 4. Expand the Canadian Development Expense (CDE) Definition** – Once a decision is made to develop a mine, all expenditures, including capital equipment, should qualify as CDE. Additionally, FTS funded development expenditures should be deductible by the FTS subscriber over two years at 50% annually, replacing the current 37.5% declining balance.
- 5. Expand Flow-Through & Critical Mineral Exploration Tax Credit (CMETC) Eligibility** – Make all 34 minerals on Canada’s Critical Minerals List CMETC-eligible by amending ITA section 248(a) to define 'mineral resource' as 'a base or precious metal, or a critical mineral as defined by Natural Resources Canada’.
- 6. Mineral Exploration Tax Credit (METC) and CMETC** – Make METC and CMETC permanent.
- 7. Set Price Floors to Provide Certainty** – Implement a government-backed price support mechanism, like a contract for difference (CFD), to guarantee minimum revenue for critical mineral producers, mitigating market manipulation risk.



Introduction

About PearTree

This submission is provided by PearTree Financial Services Ltd. and its wholly owned subsidiary PearTree Securities Inc. (collectively “PearTree”). Founded in 2007, PearTree is the leading source of mineral exploration capital exclusively funding Canadian projects. Annually, PearTree funds over \$500M, in 60+ financings within the flow-through share (FTS) regime; representing over 40% of all exploration capital in Canada and in some segments, like critical minerals, up to 60% of all financings.

PearTree can provide data supporting all statements herein, with disclosure upon request. PearTree data is statistically material, and available from PearTree or CRA as it is already on file.

The Flow-Through Share Tax Regime – There is no net cost of the FTS incentive to the Federal Government

A FTS is a newly issued common share in which the issuer agrees to spend the funds raised on direct exploration activities as defined in the Income Tax Act (ITA). Business expenses and tax deductions normally available to corporations, are flowed through to subscribers. A dollar of tax deduction claimed by an urban FTS subscriber, results in a dollar of taxable activity in northern and remote communities. The net cost of the FTS incentive program in lost taxes to the federal treasury is demonstrably NIL.

Without the FTS regime there is no exploration and without exploration there are no new mines. Canadian exploration activity totals about \$1.2 billion annually, though demand for exploration capital is significantly higher. Even if FTS incentives drove \$3 billion of new exploration, the net tax lost to treasury would still be NIL. This is evidenced in the [Deloitte Special Report published in 2017](#), which PearTree strongly recommends replicating with updated inputs.

FTS funds must be deployed by the end of the year following a financing. Failure to properly deploy FTS funds may result in tax reassessment of the subscriber and a retraction of the subscriber’s tax benefits. CRA, with >50 years of audit experience, actively enforces FTS regime compliance.

Tax Incentives Work to Quickly & Efficiently Deploy Capital – A recent example – 2022 Federal Budget – Immediate \$350M Investment Result

The 2022 Federal Budget introduced a 30% Critical Mineral Exploration Tax Credit (CMETC) for FTS financings targeting 15 critical minerals listed in the ITA including copper, lithium, and Rare Earth Elements.



Prior to 2022, 95%+ of FTS offerings were for precious metals, primarily gold. In the 12 months following CMETC's implementation, over \$350M was raised in 38 FTS financings for critical minerals. PearTree provided >\$225M in 20 financings. The first CMETC FTS financings were completed within 45 days of the 2022 budget.

Impediments to Funding Exploration & Simple Fixes

Unfortunately, there are several unnecessary but serious and material impediments in funding exploration, but all can be quickly and easily fixed.

Alternative Minimum Tax (AMT)

AMT is a feature of the ITA designed to ensure all taxpayers remit a minimum amount of tax. Under the rules introduced in 2024 the recalculation of taxable income for AMT, adds 100% of capital gains on the disposition of FTS from a deemed tax value (Adjusted Cost Base – ACB) of NIL; and adds back 100% of the Canadian Exploration Expenses (CEE) deduction flowed through to the FTS subscriber.

In most provinces, taxpayers need approximately \$500,000 of high-rate taxable income (T4 or interest income) to subscribe for / invest \$100,000 in FTS. Over 90% of FTS subscribers are subject to AMT and will invest up to their AMT limit. Tax incentives only achieve their goals if the tax incentive is accessible.

The Fix: For AMT purposes only, eliminate (1) 100% of the capital gain; AND (2) the add back of the Canadian Exploration Expense deduction.

For clarity, we are not suggesting that Capital Gains Tax be adjusted under the T1 return. Basic capital gains tax remains payable.

The Result: An immediate 35% increase in available exploration capital, or >\$350M invested annually.

CRA Requests for Information Already in its Possession as a Condition of Resource Tax Credit Refunds – A federal government embarrassment

Nearly all FTS subscribers claiming CEE receive a Request for Information from CRA as a condition of processing their assessment and refund. These requests ask for proof of participation as a FTS subscriber, information CRA already holds in triplicate:

- 1) The FTS Issuer is obligated to file a T100B within 30 days of a FTS financing, listing subscribers' names, number of shares bought, subscription amount, and contact information including SINs,
- 2) at year end, Issuers file tax slips (T-101s) and a summary list with full subscriber details;



- 3) about 90% of FTS issuances are registered tax shelters, which requires the ‘promoter’ to file T-5003 or T-5013 with CRA listing all FTS participants with all the same information provided by the issuer including disclosure setting out any capital gains attributable to the subscribers.

CRA’s unnecessary and redundant Requests for Information tarnish the CRA’s and Government’s reputation and discourages exploration investment. Tax advisors and subscribers know that CRA already has this data. Government cost of issuing and reviewing thousands of Requests for Information including processing the assessments and refunds (which should be automatically generated) is a waste of taxpayer money. In addition, Government is paying interest (currently 5%) on the amount of the delayed refunds beginning on May 31. All PearTree clients (and to the best of our knowledge all FTS subscribers) always get their refund, eventually.

FTS subscribers generally reinvest their refund into FTS offerings the following year. The delay in refunds, often 9 months or longer, results in subscribers’ unwillingness to reinvest the following year, pending the receipt of their expected tax refund.

The Fix: Stop the CRA’s practice of requesting redundant information as a condition of issuing tax refunds, resulting in over \$200M of lost exploration investment annually, while costing the federal treasury tens of millions in interest and human resources.

The Result: Due to the mechanics of the FTS regime, we estimate a material increase of 20% (or \$225M) in funds available for investment through the FTS regime. Funding exploration, largely for critical minerals, and all funding projects in Canada’s northern and remote communities.

Provide Clarity on the Definition of CEE – Simple clear rules result in greater investment

CRA has six years to reassess CEE claims under the FTS regime. They examine the nature of the FTS expenditures to confirm compliance with the listed qualifying CEE expenditures. If the issuer fails to spend the funds raised under the FTS regime, the subscriber is denied the CEE deduction. The recent Supreme Court of British Columbia decision in the Seabridge case, which CRA has not appealed, details an exhaustive review of expenses made as a company approaches development. The decision essentially held that all expenditures made prior to the decision to develop a mine qualify as CEE. See:

<https://peartreecanada.com/perspective/important-court-decision-supports-exploration-spending/>

The Fix: Publish a statement confirming CRA agrees with the Supreme Court of BC’s interpretation of the FTS regime i.e. that expenditures up to the decision to develop a mine fall within the CEE definition



The Result: Accreditive investment in critical and other mineral exploration programs of >\$500M annually.

Expand & Simplify the Canadian Development Expenses (CDE) Definition

Recent United States tax incentives are driving exploration and mining activity and attracting high-risk capital away from Canada. Access to this capital remains a fundamental barrier to a robust Canadian exploration and the mine development sector. In Canada, some mine development expenses can qualify as CDE under the FTS regime, but the [list](#) is limited and narrowly interpreted by CRA.

The Fix: Once a decision is made to develop a mine, all expenditures, including capital equipment, should qualify as CDE. Additionally, FTS funded development expenditures, should be deductible by the FTS subscriber over two years at 50% annually, replacing the current 37.5% declining balance.

The Result: Assisting projects through the “Orphan Period”, when capital needs are highest and investor returns are lowest, will shorten construction timelines and improve access to capital by allowing companies to write off capital investments faster, enhancing project economics and attracting new investors.

Expand Flow-Through & CMETC Eligibility

NRCan listed 34 critical minerals in Canada’s Critical Mineral Strategy that are vital for the economy, environment, reconciliation, national security and sovereignty. For Canada to be a competitive global leader and respected trade partner, it needs to commit to exploring, extracting and processing all 34 critical minerals, not just the 15 listed in the ITA.

The Fix: Make all 34 minerals on Canada’s Critical Minerals List CMETC-eligible by amending ITA section 248(a) to define 'mineral resource' as 'a base or precious metal, or a critical mineral as defined by Natural Resources Canada’.

The Result: Align the legislation with Canada’s Critical Minerals Strategy, providing flexibility as the critical mineral list evolves, thus reducing future administrative burdens and costs on government and uncertainty for investors.

Make METC and CMETC Permanent

The METC has existed for 25 years but is generally renewed annually, causing uncertainty for industry and investors every March as the expiration date nears. Renewal requires internal, legislative changes and debate, consuming government time and resources. These tax credits have proven their worth and effectiveness year over year, across political parties. Government should stop evaluating them annually and make them permanent.



The Fix: Make the METC and CMETC permanent.

The Result: This change will reduce annual administrative burdens and costs for government and increase investors certainty in the exploration sector.

Set Price Floors to Provide Certainty

Commodity price volatility threatens mining projects transitioning from exploration to production, with low prices undermining economic viability. China's dominance in metals like nickel and lithium has led to market flooding, causing price crashes that halt financing for Canadian projects. China's export restrictions on critical minerals like gallium and germanium further restrict market access.

Drawing from the renewable energy sector, mining could adopt "contracts for difference" (CFDs) to establish price floors. Governments would cover shortfalls when prices drop, with producers repaying when prices rise. The Canada Growth Fund could finance this via CFDs or offtake agreements.

The Fix: Implement a government-backed price support mechanism, like a CFD, to guarantee minimum revenue for critical mineral producers, mitigating market manipulation risk.

The Result: A price floor ensures stable returns, de-risking projects, sustaining mineral production, securing jobs, and fostering long-term localized economic development.

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