



PearTree

Proposals to Strengthen Canada's Resource Sector – Simple and Fair Implementations adding over \$ 1 billion in annual resource exploration primarily exploring for critical minerals

» RECOMMENDATIONS

- Stop unnecessary requests for information (RFI) practice
- Clarifying CEE eligibility – the Seabridge decision fixing Canada’s “Valley of Death”
- Expand & simplify the Canadian Development Expenses (CDE) definition
- Alternative Minimum Tax (AMT) reducing exploration by billions of dollars annually

» STOP UNNECESSARY REQUESTS FOR INFORMATION (RFI) PRACTICE

- Nearly all Flow-Through Share (FTS) subscribers claiming Canadian Exploration Expenses (CEE) receive an RFI from the CRA before processing the tax returns
- RFIs ask for proof of FTS participation — information CRA already holds in triplicate:
 - T100B Filing: Issuers file within 30 days of financing, listing subscribers' names, shares, amounts, SINs, and contacts
 - Year-End Tax Slips (T101): Issuers submit detailed slips and summary lists with full subscriber info
 - Registered Tax Shelter Filings (T5003/T5013): ~90% of FTS issuances are registered tax shelters; promoters file participant details including capital gains reporting
- 100% of taxpayers receive the CEE deduction and tax refund albeit often months later
- Government is paying interest at prescribed rates (5% to 6% in 2025) on refunds as of June 1
- Exploration is seasonal and FTS investors usually wait for refunds before investing in new exploration
- Paying the refund on CEE within 30 days of filing the T1 return results in over \$ 200M of exploration investment annually, while eliminating administrative costs, interest expense and diminished CRA reputation

» CLARIFYING CEE ELIGIBILITY – THE SEABRIDGE DECISION FIXING CANADA’S “VALLEY OF DEATH”

- Recent BC Supreme Court decision – Seabridge (not appealed by CRA) held that all spending up to the decision to develop a mine qualifies as CEE
 - [View summary](#)
- CRA should publicly confirm that the court decision in Seabridge is the CRA view of the ITA and that expenditures prior to a development decision qualify as CEE and thus fundable under the FTS tax regime
- NRCAN estimates that adoption of Seabridge increases annual exploration investment by \$500M

» EXPAND & SIMPLIFY THE CANADIAN DEVELOPMENT EXPENSES (CDE) DEFINITION

- There is significant uncertainty as to CRA's view as to what can be funded using FTS when building a mine
- Recommend a simple bright line - Once a decision to develop a mine is made all expenditures, including capital equipment, should qualify as CDE
- FTS-funded development expenses should be deductible over two years at 50% per year (replacing 37.5% declining balance), FTS / CDE deductions deductible 50% on Dec 31 in the year of investment and 50% on Dec 31 in the following year
- FTS Regime is self-limiting – all FTS funds must be spent by Dec 31 Year 2.
- Result:
 - Attracts Canadian investment in mining
 - Improves project economics and investor confidence
 - Strengthens Canada's mining competitiveness

▶ ALTERNATIVE MINIMUM TAX (AMT) REDUCING EXPLORATION BY BILLIONS

- Concentration Risk - Fewer than 3,000 taxpayers fund over 90% of all resource exploration – all subject to AMT – according to CRA and PearTree data
- In the 12 months following the introduction of the Critical Mineral Exploration Tax Credit (CMETC) in the March budget 2022, 1,100 PearTree clients subscribed for \$ 224M in FTS funding critical mineral exploration representing 64% of all financings
- AMT was the major limiter made much worse by the 2024 AMT amendments effectively reducing the pool of resource exploration capital by over \$ 400M annually

» ALTERNATIVE MINIMUM TAX (AMT) REDUCING EXPLORATION BY BILLIONS (CONTINUED)

- Significant ITA changes to Alternative Minimum Tax (AMT) calculation in 2024
- Changes led to capital gains inclusion rate to effectively increase to 59% in ON & 65% in QC
- FTS have deemed zero cost base for tax (ACB)
- Impact of 2024 changes reduces exploration investments by \$400M annually

» ALTERNATIVE MINIMUM TAX (AMT) REDUCING EXPLORATION BY BILLIONS (CONTINUED)

- Typical FTS subscription is \$300,000
- Post 2024 requires \$1.5M in ordinary income to fully utilize benefits
 - See Appendix A, Rows 1–43 for analysis
- In 2023, \$1.5M ordinary income supported a \$420,000 FTS investment
- Current rules led to a 40% decrease vs 2023
 - See Appendix A, Rows 44–79

» PROPOSED LEGISLATION (AUGUST 12)

- Proposal: Remove the Canadian Exploration Expense (CEE) addback from AMT base as per the August 12, 2024, tabled draft legislation
- Effect: Increases eligible FTS subscription to \$436,000 bringing exploration investment level back in line with 2023
- The same pool of FTS subscribers are then able to fund almost \$ 400M more in exploration annually
- See Appendix A, Rows 81–126
- See proposed legislation: [Legislative Proposals Relating to the Income Tax Act and the Income Tax Regulations](#)

» ADDITIONAL RECOMMENDATION – EXCLUDE PHANTOM GAINS

- Recommend: Exclude phantom capital gains from AMT base
 - Gains still taxed under standard T1 calculation, exclusion would apply to AMT only
 - Adoption of both measures would enable a 50% increase in exploration investment vs 2023; increasing \$1B to \$1.5B of exploration investment
- See Appendix A, Rows 128–173



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