

**Written Submission to the Department of Finance Canada for
the Pre-Budget Consultations in Advance of the Upcoming
Federal Budget**

By: PearTree Financial Services Ltd.

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Recommendations

1. Either roll back the Alternative Minimum Tax (AMT) rates to the 2023 levels for all investments including capital gains, or adopt the August 12, 2024 legislative proposals by Finance Canada allowing for a full deduction of Canadian Exploration Expenses (CEE) funded under the Flow-Through Share (FTS) tax regime without the add-back to AMT.
2. Adopt the test for CEE as set out in the Seabridge Gold decision in the Income Tax Act (ITA) of Canada.
3. Stop CRA Requests for Information it Already Possesses.
4. Expand & Simplify the Canadian Development Expenses (CDE) Definition.
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. Make the Mineral Exploration Tax Credit (METC) and CMETC permanent.
7. Make Qualifying Environmental Trusts (QET) eligible for funding through the FTS tax regime.



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 about \$600M in 60+ financings within the flow-through share (FTS) regime; representing over a third of all exploration capital funding by FTS.

PearTree can provide data supporting all statements herein. 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 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, funding over 350 early-stage companies, totals about \$1.6 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 and expanded inputs ready accessible by government.

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% 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)

In 2024, the capital gains inclusion rate was increased to two-thirds, and then walked back to 50% as part of the Liberal tax platform. The AMT rules, designed to ensure that taxpayers pay a minimum amount of tax, were amended to mirror the increased inclusion rate. Unfortunately, the AMT changes were not rolled back alongside the rollback of the capital gains inclusion rate. Under the current AMT rules the effective capital gains inclusion rate is 58% in Ontario and 66% in Quebec. The capital gain rate under the AMT rules is higher than 50% in every province. AMT adds back into income tax deductions including a percentage of donation receipts, the free half of capital gains, child care expenses and financing costs. The list is pretty long. The results are not intuitive until you run a tax return.

For a simple example run a tax return based on a \$2-million capital gain by an Ontario taxpayer with no other income. The tax is calculated on a \$1-million. The tax before AMT is about \$493,000. AMT adds about \$97,000 bringing the total tax bill to \$590,000. In Quebec it's \$659,000. A \$200,000 cash donation sees AMT increase from \$97,000 to almost \$115,000.

AMT is characterized as a timing issue since it's a credit that carries forward seven years then lost. Unfortunately, the charity community knows that major, often transformational, gifts frequently result from a once-in-a-lifetime windfall such as a sale of property or business. AMT paid on that one event is rarely absorbed in the following seven years. For the philanthropic sector, which relies heavily on large gifts – more than 40 per cent of which come from the top 2 per cent of income earners – the constraint is immediate and chilling.

AMT is even more damaging to Canada's resource sector where fewer than 3,000 Canadian taxpayers, all limited by AMT, fund about 90 per cent of all resource exploration in Canada under the flow-through share (FTS) tax regime. Simply put a taxpayer FTS investor who had subscribed for \$100,000 of FTS in 2023 fully accessing all the tax incentives in the year, could only buy \$ 65,000 in 2024 and onwards. Every FTS investor runs an AMT schedule before subscribing for the shares.

A tax incentive designed as a catalyst to attract investment to an historically underperforming sector now especially critical to Canada's future has little or limited value if taxable investors cannot access the tax incentive.



The 2024 AMT changes resulted in more than \$400-million of lost early-stage investment capital in 2024 and more in 2025.

For tax purposes, a FTS bought for one dollar results in a tax deduction of a dollar but reduces the cost base of the FTS to nil. Most all FTS are sold at a price less than the issue price. It's common to see a share issued for one dollar sold for 65 cents. Even though there is an economic loss, the entire 65 cents is a capital gain all of which is added to AMT – not just half. Moreover, the CEE deduction of one dollar is all added back into income under the AMT rules.

In 2024, PearTree successfully lobbied Finance Canada, resulting in draft legislation eliminating the CEE add back. That legislation was shelved when Parliament was prorogued, and the legislation was specifically excluded in the budget. Had it passed, the legislation would have added >\$400-million annually in exploration capital.

The Fix: Either roll back the AMT rates to the 2023 levels for all investments including capital gains, or adopt the August 12, 2024 legislative proposals by Finance Canada allowing for a full deduction of FTS resource expenditures (CEE) without the add-back to AMT.

The Result: >\$400M annually of capital invested in mineral exploration in Canada.

Adopt the test for CEE as set out in the Seabridge Gold decision in the Income Tax Act of Canada

The Liberal government's "Canada Strong" platform, published in advance of the 2025 election, included the policy statement "Attract, expand, and derisk investments in critical minerals exploration and extraction through the expansion of existing tax credits.... Expanding eligible activities under Canadian exploration expenses to include the costs of technical studies, such as engineering, economic and feasibility studies for critical minerals projects." The Liberal policy statement was exactly in line with a 2025 Supreme Court of British Columbia decision in Seabridge Gold - a case that CRA lost - in which the judge provided a simple interpretation of CEE including those expenses set out in the Liberal platform.

The November 4, 2025, Federal Budget specifically targeted the Seabridge decision limiting CEE deductions fundable under the FTS regime in a complete reversal of the policy set out in the Liberal "Canada Strong" platform.

The Fix: Adopt the test for CEE as set out in the Seabridge Gold decision in the Income Tax Act of Canada

The Result: According to Natural Resources Canada, adoption of the Seabridge definition of CEE and the Canada Strong policy adds >\$500M in annual exploration capital.



Stop CRA Requests for Information it Already Possesses

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.

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 the 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 and adopting the FTS CEE “look-back rule.”

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.

Further Result: CDE FTS offerings fund mature companies building out mines. Providing a modest tax benefit – no tax credits, just dollar for dollar deduction on funds spent in the short term – will result in Canadians investing billions of dollars in Canadian Natural Resources primarily to hold the share investment and not primarily as Structured FTS offerings. Canadian ownership versus global sovereign fund investment.

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 the Mineral Exploration Tax Credit (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 investor certainty in the exploration sector.

Make Qualifying Environmental Trusts (QET) eligible for funding through the FTS tax regime

Mine closure plans require mining companies to post security with the province or territory sufficient to remediate end of mine life operations and / or to fund remediation of environmental disasters. Typically, the security for disasters is underfunded and usually provided by surety bonds, which require annual renewals. The 2024 Victoria Gold Eagle Mine in the Yukon is an example of government having to spend well over one hundred million dollars to remedy the environment impact of a failed heap-leach facility. Victoria Gold is in receivership. According to NRCAN, there are more than ten thousand abandoned exploration and mining sites across Canada requiring varying degrees of rehabilitation. At the same time there is now substantial Canadian research showing that some historic tailings contain enough recoverable metals and minerals to justify serious development work, and in a few cases, there are already economic studies and preliminary economic assessments (PEAs) demonstrating potential commercial projects. NRCAN estimates that the Sudbury area could contain \$8–10 billion of recoverable nickel.

The Fix: QETs have been a provision in the ITA for fifty years or more. A QET behaves like an environmental RRSP. The mining company contributes funds into the QET. The contribution is tax deductible in the year. When the funds are withdrawn to fund a list of expenditures agreed to by the province or territory, the funds are income to the mining company which has the offsetting expense deductions associated with the remediation.

Fund QETs under the FTS regime allowing passive investors to claim the deduction associated with the QET contribution. Eligible uses of QET funds include reclamation obligations replacing letters of credit or surety bonds, or funding current progressive reclamation, including current capital requirements for environment cleanup and for mineral and metal extraction from tailings ponds or otherwise.

The Result: Private capital, rather than the public purse, funds mine closure and remediation. Fully funded QETs reduce reliance on annually renewed surety bonds and letters of credit, limiting government exposure to failures such as the Victoria Gold Eagle Mine. The same capital accelerates progressive reclamation across Canada's ten thousand orphaned and abandoned sites, and unlocks critical mineral recovery from historic tailings — including an estimated \$8–10 billion of recoverable nickel in the Sudbury area alone — adding domestic critical mineral supply, and the jobs that come with it, without permitting a single new mine.

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