Gravitas Investments | Asset Management for Modern Markets

November 2018

Fall Economic Update – Good news for exploration

Finance Minister Bill Morneau's fall economic statement introduces measures enabling better long-term planning for resource explorers and, by extension, improved prospects for better returns for flow-through investors. These measures make Canadian miners more competitive and able to initiate exploration programs on remote and other potentially high value properties.

Summary from the Fall Economic Statement

- The METC program is extended for a 5-year period to March 2024. Resource explorers can now plan beyond a 1-year time horizon.
- Miners can now accelerate capital expenditure write offs to 45% from 15%.
- More pre-consultation and baseline testing work is allowable as an expense for the flow-through program. This is significant due to the prohibitive up-front costs involved in pursuing remote, high potential properties.

"To be quite candid, it is the most positive economic statement or budget for the mining sector that we have seen in years, without question,"

***Pierre Gratton**, of the Mining Association of Canada.*

Our view

- The annual threat of cessation of the METC financing mechanism created uncertainty and instability for mining companies. As a result, high potential areas requiring multiple years of exploration work to bring the properties to production have been left unexplored. With a 5-year extension, the METC program creates a more permanent mechanism for flow-through share financing and in combination with the Canadian Exploration Expense or "CEE" program, we should see more high potential properties become viable.
- We anticipate greater selection of investments for the flow-through portfolio, and improved prospects for better outcomes for investors.
- Also introduced was the Accelerated Investment Incentive, a measure allowing miners to increase write-offs of large capital expenditures and intellectual property from 15% to 45%. This addresses a similar measure implemented in the U.S. allowing Canadian miners to be competitive.
- Complementing this, we were pleased to see the expansion earlier this year allowing resource explorers to include more pre-consultation and baseline testing as allowable activities in the flow-through program. Consultation with remote communities and aboriginal groups is a lengthy and costly process, and base line testing is restricted to short windows due to weather conditions.
- Together, these new measures are a tremendous advantage for Canadian miners and resource exploration and, by extension, flow-through investors.

About the Flow-Through investment program: Flow-through shares allow resource companies to renounce expenditures related to eligible exploration activities and instead, transfer (or have them "flow-through") to an investor, who can deduct the expenses against their own taxable income. These are 'Canadian Exploration Expenses', also known as 'CEE'. The mineral exploration tax credit (or 'METC') provides an additional income tax benefit for flow-through share investors by augmenting the tax benefit with further tax credits of up to 15% (and more – based on specific provincial allowances). The program is one of the few remaining tax efficiency strategies available to investors subject to Canadian taxes. We refer you to the **Gravitas Flow-Through Investor Guide** for further details on how flow-throughs work.