Goodmans LLP Update

Mining and Natural Resources Law

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Canadian Government to Broaden Canadian Exploration Expense and Extend Mineral Exploration Tax Credit

On March 1, 2015, the Canadian Government announced that it would broaden the definition of Canadian exploration expenses and extend the availability of the mineral exploration tax credit. These changes are intended to support companies engaging in mineral exploration in Canada, and are most relevant to companies that issue flow-through shares and to their shareholders. Flow-through shares issued by a resource company allow the company to renounce or "flow through" to its shareholders certain expenses associated with the company's Canadian exploration activities.

Canadian Exploration Expense

Canadian exploration expenses consist of certain types of expenses incurred in exploration in Canada, including certain expenses incurred in determining the existence, location, extent or quality of oil and gas reserves and mineral resources. Canadian exploration expenses are fully deductible by a resource company, and can be flowed through to certain of its shareholders.

Resource companies are often required to conduct environmental studies and engage in consultations with communities and other interested parties. These studies and consultations may be required to secure licenses and permits necessary to engage in exploration. In the past, expenses associated with these studies and consultations have not always been eligible for the beneficial treatment afforded to Canadian exploration expenses.

The Canadian Government plans to take steps to ensure that the costs of these environmental studies and community consultations will be eligible for Canadian exploration expense treatment. This generally will permit these costs to be fully deductible and eligible for flow-through treatment.

Mineral Exploration Tax Credit

In addition to deducting Canadian exploration expenses, individuals who invest in flow-through shares are entitled to a 15% tax credit for certain specified exploration expenses called "flow-through mining expenditures" renounced to them. Flow-through mining expenditures generally consist of exploration expenses incurred in the course of determining the existence, location, extent or quality of a mineral resource in Canada. This tax credit was originally introduced in the 2000 federal budget as a temporary measure to encourage and support access to capital for mining corporations.

The availability of the mineral exploration tax credit, which was set to expire on March 31, 2015, will now be extended by the Canadian Government to flow-through share agreements entered into before April 1, 2016.

Conclusion

It is expected that enhancing and extending the tax advantages associated with Canadian exploration expenses and the mineral exploration tax credit will increase the desirability of flow-through shares in the hands of certain investors, potentially easing the ability of resource companies (particularly junior companies) to raise capital.

Please contact any member of our Mining and Natural Resources, Tax or Environment Law Groups for further information on these changes.