



EY key contact



Michael Sabatino
Associate Partner
Ernst & Young LLP (Canada)
Vancouver, BC
Mining & Metals Tax
Tel: +1 604 891 8448
michael.sabatino@ca.ey.com

Canada announces new funding to support mining and oil and gas exploration

Executive summary

On 1 March 2015, Canada's Federal Finance Minister Joe Oliver and Natural Resources Minister Greg Rickford announced the Government's latest action to support the Canadian mining and oil and gas industries:

- ▶ **Federal Mineral Exploration Tax Credit:** this personal tax credit has been extended through to 31 March 2016.
- ▶ Tax treatment of costs related to environmental studies and community consultation in order to obtain an exploration permit: these costs will be eligible for treatment as Canadian Exploration Expenses (CEE) and thus eligible for immediate deduction for Canadian income tax purposes. They will also now be eligible for flow-through share treatment.

Detailed discussion

Federal Mineral Exploration Tax Credit

The Finance Minister announced the Government's intention to extend the 15% Mineral Exploration Tax Credit (METC) for individuals who invest in flow-through shares. The METC was first introduced in 2000 for one year and has been extended each year for an additional year. It was scheduled to expire on 31 March 2015 but is being extended for one additional year to 31 March 2016.

Under this program, an individual (excluding trusts) who invests in flow-through shares issued by a corporation conducting eligible surface mining exploration in Canada may claim a non-refundable income tax credit equal to 15% of the flow-through mining expenditures incurred and renounced by the corporation. Funds raised from flow-through shares issued in the first three months of 2016 can support eligible exploration until the end of 2017.



**Building a better
working world**

Tax treatment of costs related to environmental studies and community consultation in order to obtain an exploration permit

The Finance Minister also announced that the Government intends to propose changes to current legislation in order to ensure that costs incurred with respect to certain environmental studies and community consultations required to obtain a mining or oil and gas exploration permit will be eligible for treatment as CEE for Canadian income tax purposes (the eligible costs). This proposed legislative change will apply to expenses incurred after February 2015.

CEE includes expenses incurred for the purpose of determining the existence, location, extent or quality of a mineral resource or an accumulation of petroleum or natural gas in Canada. The backgrounder released with the announcement states that in addition to the expenses associated with the physical exploration for the resource, eligible expenses can include the cost of certain environmental studies and community consultations that are carried out for the purpose of facilitating the physical exploration.

Finance mentions that provinces and territories are increasingly requiring mining and oil and gas companies to undertake environmental studies and community consultations (e.g., with local communities, neighboring landowners, traditional and recreational users of the land) as a precondition to obtaining a permit or license to explore. However, where environmental studies and community consultations are a precondition to obtaining such a permit or license, the expenses may be treated as part of the cost of the permit or license. The cost of obtaining a permit or license does not qualify for CEE treatment and is not eligible for flow-through share treatment. As a result, certain expenses related to environmental studies and community consultations may currently be treated differently for tax purposes from one jurisdiction to another, depending on the requirements of the regulator.

To ensure the appropriate treatment of such expenses, the Government proposes to modify the tax rules to provide that CEE treatment is not denied for the cost of otherwise eligible environmental studies and community consultations solely because they are a precondition to obtaining an exploration permit or license.

Both the extension of the METC program, in the context of mineral exploration, and the favorable income tax treatment of environmental studies and community consultation costs incurred in order to obtain an exploration permit are measures to support mineral and oil and gas exploration efforts in Canada and to enhance the competitiveness of the Canadian resource industry.

Local contacts

Bruce Sprague

Canadian Leader, Mining and Metals

+1 604 891 8415 | bruce.sprague@ca.ey.com

Calgary

John Chan

+1 403 2064 5343 | john.a.chan@ca.ey.com

Montreal

André Lortie

+1 514 879 6686 | andre.lortie@ca.ey.com

Saskatoon

Craig Hermann

+1 306 649 8204 | craig.hermann@ca.ey.com

Toronto

Lee Boswell

+1 416 941 1807 | lee.j.boswell@ca.ey.com

Vancouver

Michael Sabatino

+1 604 891 8448 | michael.sabatino@ca.ey.com

EY's Global Mining & Metals Center

With a volatile outlook for mining and metals, the global sector is focused on cost optimization and productivity improvement, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations.

EY's Global Mining & Metals Center brings together a worldwide team of professionals to help you succeed – a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively.

Area contacts

Global Mining & Metals leader

Mike Elliott
Tel: +61 2 9248 4588
michael.elliott@au.ey.com

Oceania

Scott Grimley
Tel: +61 3 9655 2509
scott.grimley@au.ey.com

China and Mongolia

Peter Markey
Tel: +86 21 2228 2616
peter.markey@cn.ey.com

Japan

Andrew Cowell
Tel: +81 3 3503 3435
cowell-ndrw@shinnihon.or.jp

Africa

Wickus Botha
Tel: +27 11 772 3386
wickus.botha@za.ey.com

Commonwealth of Independent States

Evgeni Khrustalev
Tel: +7 495 648 9624
evgeni.khrustalev@ru.ey.com

France, Luxembourg & Maghreb

Christian Mion
Tel: +33 1 46 93 65 47
christian.mion@fr.ey.com

India

Anjani Agrawal
Tel: +91 982 061 4141
anjani.agrawal@in.ey.com

United Kingdom and Ireland

Lee Downham
Tel: +44 20 7951 2178
ldownham@uk.ey.com

United States

Andy Miller
Tel: +1 314 290 1205
andy.miller@ey.com

Canada

Bruce Sprague
Tel: +1 604 891 8415
bruce.f.sprague@ca.ey.com

Brazil

Carlos Assis
Tel: +55 21 3263 7212
carlos.assis@br.ey.com

Chile

Lachlan Haynes
Tel: +56 2 2676 1886
lachlan.haynes@cl.ey.com

Service line contacts

Global Advisory Leader

Paul Mitchell
Tel: +61 2 9248 5110
paul.mitchell@au.ey.com

Global Assurance Leader

Alexei Ivanov
Tel: +495 228 3661
alexei.ivanov@ru.ey.com

Global IFRS Leader

Tracey Waring
Tel: +61 3 9288 8638
tracey.waring@au.ey.com

Global Tax Leader

Andy Miller
Tel: +1 314 290 1205
andy.miller@ey.com

Global Transactions Leader

Lee Downham
Tel: +44 20 7951 2178
ldownham@uk.ey.com

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2015 EYGM Limited.
All Rights Reserved.

EYG no. ER0228
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com/miningmetals