

AME's RECOMMENDATIONS FOR BRITISH COLUMBIA'S 2021 BUDGET

Submission to the Select Standing Committee on Finance and Government Services
June 19, 2020

On behalf of AME's 300 corporate members and almost 5,000 individual members, we are pleased to have this opportunity to present our recommendations to the Select Standing Committee on Finance and Government Services for Budget 2021.

AME's recommendations continue to build on the original Mining Job's Task Force actions that were previously endorsed through the Committee's recommendations for Budget 2020. This year's recommendations for Budget 2021 are:

- 1. Position BC as the most attractive jurisdiction in Canada for mineral exploration investment through increases in the Mining Exploration Tax Credit (METC) and Mining Flow-Through Share (MFTS) rates.**
- 2. Create an investment fund with a mandate of investing in homegrown mineral exploration companies that are operating in BC.**
- 3. Ensuring that the BC Geological Survey receives \$6 million in funding in Budget 2021.**

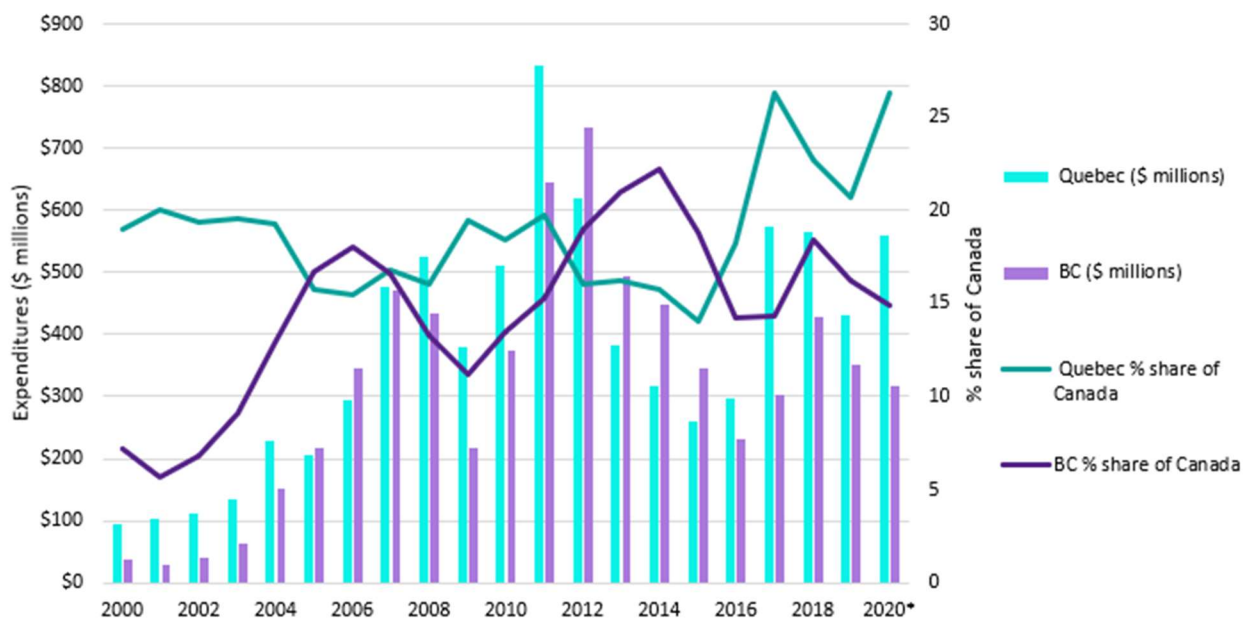
The COVID-19 pandemic has highlighted the essential service that our members provide in supporting the continuous global supply of mining materials. The need for a secure supply of critical minerals in powering a low-carbon future – specifically in North America – has put a spotlight on the need to explore for these metals to meet future demand. In BC, these metals can be sourced and developed responsibly. Our companies have been leaders in economic reconciliation with Indigenous peoples in developing benefits agreements and employment opportunities. Our mineral explorers have also long been responsible stewards of the land, and have conducted their work while respecting wildlife, water and local ecosystems. With further geoscience research and a competitive suite of fiscal incentives, the mineral exploration industry in BC is better poised to attract investment and lead economic reconciliation with Indigenous peoples.

British Columbia is a well-known jurisdiction for mineral exploration and mining. Vancouver is the world's leading centre of expertise for the mineral exploration industry with more than 800 exploration companies (almost three times second place Toronto). Mineral exploration expenditures in BC were \$329 million in 2019, down just slightly from \$330 million in 2018, but down from a peak of \$680 million in 2012. These dollars were spent in 215 urban, rural and Indigenous communities across the province. Mineral exploration and mining are also the largest private sector employer of Indigenous peoples in Canada.

BC cannot take its leading position for granted. Mineral exploration is globally competitive, and jurisdictions throughout the world compete to create the right conditions to become economic leaders. As one example, BC competes with Quebec for investment in mineral exploration – particularly in exploration for gold deposits. Throughout the period from 2005 through 2015, BC and Quebec competed on a nearly equal basis

for investment in mineral exploration. In fact, during this period while BC attracted \$4.7 billion in exploration and deposit appraisal investment according to Natural Resources Canada, Quebec was only slightly ahead with \$4.8 billion in spending. However, since Quebec increased its tax credits in March 2016 (along with maintaining its Plan Nord development program and other incentives such as the SIDEX program), BC has lagged consistently behind. Between 2016 and 2019, during a recovery in mineral exploration across Canada, while BC attracted \$1.3 billion in mineral exploration investment, where as Quebec surged ahead in attracting \$1.9 billion in mineral exploration investment. This trend is expected to continue through 2020; as of February 2020 (pre-pandemic estimates), BC was expected to see \$318 million in exploration and deposit appraisal spending, or 15% of the Canadian total, while Quebec was expected to see \$561 million, or 26% of spending.

Quebec and BC Mineral Exploration and Deposit Appraisal Expenditures
2000-2020



Source: Natural Resources Canada. *Annual and Revised Spending Intentions Statistics of Mineral Exploration (2000-2019) and Preliminary Estimates and Spending Intentions Statistics of Mineral Exploration (2020)*

AME was an active participant in the Mining Jobs Task Force convened by the Ministry of Energy, Mines and Petroleum Resources in February 2018. Its final report released in December 2018 contained 24 actions that were reached through consensus of the multi-stakeholder and First Nations task force members and were endorsed in their entirety by Minister Mungall and Premier Horgan. We are pleased to see the progress on the actions, but these actions need significant follow-up and commitment to ensure a legacy.

Mineral exploration and mining form one of BC's foundational industries. Mineral explorers are active and supporting the economy in all regions of the province. AME's recommendations – if implemented – will help BC regain its competitive edge and provide opportunities for economic recovery throughout the province.

RECOMMENDATIONS:

1. Position BC as the most attractive jurisdiction in Canada for mineral exploration investment through increases in the Mining Exploration Tax Credit (METC) and Mining Flow-Through Share (MFTS) rates.

AME recommends that the government implement the following recommendations from the final report of the Mining Jobs Task Force, which were endorsed by the Committee in its Budget 2020 pre-consultation report, but have not yet been implemented.

- INCREASE the existing BC Mining Exploration Tax Credit (METC) for companies from 20% to 30% over the entire province (currently at 30% in the Mountain Pine Beetle affected areas which covers about 85% of the province).
- INCREASE the existing BC Mining Flow-Through Share (MFTS) tax credit for BC investors from 20% to 35% (this places BC at the top in Canada, ahead of Manitoba and Quebec).

In addition, AME recommends that the government:

- Make both tax credit increases permanent to be aligned with existing permanent credits and to support multi-year investments in mineral exploration.

BENEFITS/COST TO BC:

- Positions BC as the most attractive jurisdiction in Canada for mineral exploration and mining investment by implementing the committed to actions of the Mining Jobs Task Force.
- Increases investment in mineral exploration in BC –
 - When Quebec increased its investment tax credits in 2016, its share of Canadian mineral exploration increased from 14% in 2015 to 26% in 2017. **Every 1% increase in British Columbia's share of Canadian mineral exploration means approximately \$23 million in additional expenditures¹.**
 - When the Mountain Pine Beetle enhanced 30% credit was introduced in 2009, exploration in the Terrace area increased by 522% (from \$1.8M to \$11.2M) in a year when provincial expenditures declined by 64% due to a global recession².
- Leverages investment - Finance Canada has estimated that every dollar of flow-through financing generates \$2.60 of exploration expenditures in Canada. This means flow-through is very effective at leveraging additional investment in mineral exploration.
- Modest cost implications - it is estimated that increasing the METC rate to 30% over the entire province will cost an additional \$4M per year in lost tax revenue and increasing MFTS to 35% will cost an additional \$6.5 million annually³. However, these costs will be offset by the additional exploration expenditures that occur in communities across the province, and the tax revenue generated by these expenditures.

1 - Natural Resources Canada data for 2018

2 - Ministry of Energy, Mines and Petroleum Resources data

3 - Estimated costs from the Mining Jobs Task Force Final Report and from Ministry of Energy, Mines and Petroleum Resources

2. Create an investment fund with a mandate of investing in homegrown mineral exploration companies that are operating in BC.

A mineral exploration investment fund presents an opportunity to demonstrate that BC is open for investment. At the same time, it can advance responsible mineral exploration through investment in companies that demonstrate high environmental, social and governance (ESG) standards. It can direct investments to exploration for critical and green minerals; and can generate a revenue stream for the province that can be redirected into advancing the participation of Indigenous groups with the minerals sector and support reclamation of legacy sites. AME recommends an initial investment of \$50 million to create this fund.

A mineral exploration investment fund was one of the actions considered by the BC Mining Jobs Task Force: to study the potential for a government-funded investment fund and to do a global-scan of relevant models. The resulting report confirmed the potential of such a fund and recommended a program similar to Quebec's SIDEX fund, which is entering its 20th profitable year. Starting with an initial endowment of \$50 million in 2001, SIDEX has been self-sustaining, to date investing over \$90 million in mineral exploration companies and projects. This \$90 million investment has leveraged almost ten times that amount in further investments by individuals and corporate investors as SIDEX served as the 'lead' investor, normally contributing only 10-13% of the total investment that then opened the door for private sector investment.

The SIDEX model has many attributes that could be implemented in BC by supporting projects in all regions of the province, investing in companies that are already based in BC with high ESG standards and as an avenue for offsetting financial risk for reclamation of legacy sites. The model of a one-time investment in BC companies also helps track the success and economic impact of projects.

AME believes that this fund, when managed by a highly skilled and professional management team and independent board that includes government and Indigenous members, will make BC more competitive while supporting employment in communities across BC. An AME study has shown that 38% of exploration expenditures flows to local communities and 97% stays in the province. It can attract and leverage new international investment into BC and provide a return to the province that can be used to advance important social and environmental priorities for BC including reconciliation with Indigenous groups.

BENEFITS/COST TO BC:

- An initial investment of \$50 million.
- After initial investment, a revenue stream can be reinvested, returned to the province or used to advance social and environmental priorities of BC including reconciliation.
- Leverages investment from other Canadian and international sources by being the "lead order" (first investor that bring other investors to the table).
- Creates jobs across the province including multiplier jobs and support jobs during low commodity cycles and during economic downturns.
- Professionally managed fund with a diverse and independent board that includes government and Indigenous representation.
- Supports investment in exploration for low carbon and critical minerals and in areas of the province that will benefit by investment.
- Advances socially and environmentally responsible mineral exploration through investment in companies with high ESG standards. Positions BC as a supplier of choice to international investors and markets.

3. Ensuring that the BC Geological Survey receives \$6 million in funding in Budget 2021.

Mineral deposits are rare and hidden – finding one has been described as finding a needle in a haystack. Government-funded geoscience programs such as those conducted by the BC Geological Survey (BCGS) – an agency of the Ministry of Energy, Mines and Petroleum Resources – help to direct mineral explorers to the proverbial haystack. The BCGS conducts mapping of the province to outline potential areas for mineral and coal development; this in turns helps identify potential areas for future economic activity in rural areas. As with many research and development activities, these are globally competitive, and jurisdictions ranging from Australia to Ireland have continued to increase their programming to match the demand for new geoscience that may lead to the discovery of new deposits. Governments are also promoting the economic impact of these programs; a 2015 report from the Geological Survey of Western Australia outlined that each \$1 million invested in its Exploration Incentive Scheme resulted in a long-run expected benefit of \$23.7 million for the state. In short, BC is currently underfunded and falling behind our competitors – particularly given our province’s size and its geological potential.

A boost of approximately \$2 million to the BCGS budget to \$6 million will help restore the province’s ability to produce large-scale mapping in prospective areas as well as further analyze the mineral potential of the province to inform policy and support land use decisions.

BENEFITS/COST TO BC:

- This funding will help the BCGS develop programs and leverage its activities with organizations such as Geoscience BC.
- Positions the BCGS as a government geoscience organization competitive with equivalents in jurisdictions such as Australia and Ireland.
- Increases investment in mineral exploration in BC.
- Greater certainty regarding natural resources when developing landscape-level or regional land use plans.
- Positions the BCGS to work with the Geological survey of Canada, Geoscience BC and others to lead a coordinated geoscience strategy in BC, in line with the recommendations of the Mining Jobs Task Force.