Empowering Canadian Resource Exploration: The Strategic Role of Flow-Through Shares, and the Power of PDAC

written by Tracy Hughes | February 4, 2024

In a recent interview we did with Jeff Killeen, the Director of Policy and Programs at the Prospectors & Developers Association of Canada (PDAC), Jeff shed light on the PDAC's role beyond organizing its annual convention. Scheduled for March 3 – 6 in Toronto, the PDAC 2024 Convention is a significant event. However, PDAC's involvement in the industry goes further. They engage in continuous advocacy, working closely with provincial and federal governments to shape policies and strategies that address the challenges and opportunities within the mineral exploration and mining sector, such as the critical minerals flow-through programs.

In my quest for information, I discovered that the Prospectors & Developers Association of Canada (PDAC) boasts a distinguished history since its founding in 1932. It has emerged as the foremost representative of Canada's mineral exploration and development sector, a sector that employs over 664,000 people and contributed an impressive $132 billion to Canada's GDP in 2021, according to my online research. PDAC is celebrated for its annual convention and trade show in Toronto, which draws approximately 25,000 participants from over 130 countries. Since its inception, the event has expanded in size, prestige, and impact, establishing itself as the global leading convention for individuals, companies, and organizations involved in mineral exploration.

Curious about continuing education on the benefits of flow-through shares, I delved further into the subject. Here's what my research* revealed.

Flow-Through Shares: Enhancing Canadian Resource Exploration

Flow-Through Shares (FTS) are a pivotal instrument in the Canadian resource sector, designed to stimulate investment in exploration activities across the nation. This innovative financial tool allows public companies to transfer certain exploration expenditures to investors, who can then claim a tax deduction equal to the amount invested. This mechanism not only fosters exploration on Canadian soil but also significantly contributes to the funds raised on Canadian stock exchanges for exploration purposes.

The Essence of Flow-Through Shares

At its core, a flow-through share is a type of common share that offers initial purchasers considerable tax advantages. These advantages are a cornerstone of the flow-through share regime, which has been instrumental in driving exploration activities within Canada. By allowing investors to earn deductions and credits against their taxable income, FTS financing has become a major contributor to exploration funding, accounting for over 65% of the funds raised for this purpose on Canadian stock exchanges from 2011 to 2019. deduct the full amount of their investment against their taxable income, FTS financing has become a major contributor to exploration funding, accounting for over 65% of the funds raised for this purpose on Canadian stock exchanges from 2011 to 2019.

Financial Implications and Tax Benefits

The appeal of FTS lies in the tangible tax benefits it provides to investors. The maximum combined federal and provincial tax

rate can reach up to 53.53%, with the federal rate at 33% and the provincial rate varying up to 20.53%. The Mineral Exploration Tax Credit (METC) further enhances the value of these investments, offering a 15% federal credit and a 5% provincial METC rate. These credits and deductions significantly reduce the net cost of investment, making FTS a highly attractive option for those looking to invest in Canada's exploration sector.

Provincial Incentives: A Closer Look

Different provinces offer varying levels of additional incentives through provincial tax credits, which further reduce the net cost to the investor. Ontario provides a 5% METC rate, while Saskatchewan offers 10%, British Columbia 20%, and Manitoba an impressive 30%. These provincial incentives, combined with federal benefits, underscore the strategic importance of FTS in promoting resource exploration across Canada. The calculation of the net cost of a flow-through share investment illustrates the substantial tax savings available. It's important to note that while federal tax credits can be carried back or forward, creating flexibility in tax planning, the capital gains on these investments are calculated based on a nil purchase price, affecting the taxation of any eventual sale of the shares.

Conclusion: Strategic Investment for Future Exploration

Flow-Through Shares stand as a testament to Canada's innovative approach to financing exploration activities. By providing significant tax incentives, FTS not only make exploration ventures more financially viable for companies but also offer attractive investment opportunities. As Canada continues to explore and develop its natural resources, FTS will undoubtedly play a crucial role in financing these critical activities,

underpinning the country’s resource sector and contributing to its economic growth.

(*) The writer utilized sources from the following links, which I encourage you to visit. Also, the writer is neither an investment advisor nor an accountant and is not licensed to offer investment advice. This article was written as an educational piece only.

FTS Information sources include:

Mining Tax Canada
How the flow-through share (FTS) program works – Canada.ca
Canada Revenue Agency – Flow-Through Shares
PDAC – Access to Capital, Flow-Through Shares
PDAC Brochure on Flow-Through Shares