The Canadian Way

PDAC 2019


PDAC 2019
CONVENTION
HIGHLIGHTS
INVESTORS
EXCHANGE
531 Booths
407 Exhibitors
18 Prospectors Tents
25,843 Attendees
Outside of Canada the largest number of attendees came from: USA, Australia, United Kingdom, Mexico, Peru, Chile, Brazil, Argentina, South Africa, Germany, China
29.6% International attendees
132 Countries
1,054 Students
>500 Self-identified Indigenous attendees
359 Media
47 Sponsors
Teck
Café
Teck
2,510
INVESTORS
8 < CORE MAGAZINE

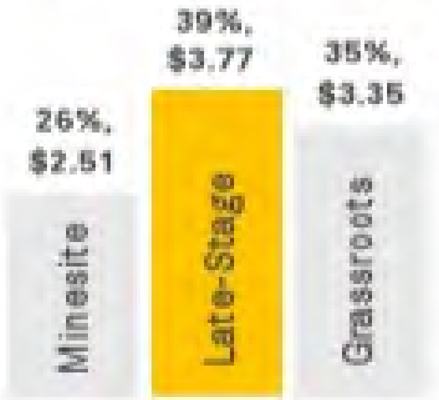
1,651

companies with budgets

5%-10%

forecast increase in 2019; a third consecutive year

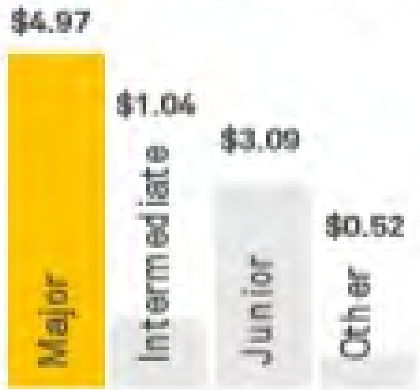
Grassroots lags late stage still (US$B)



0.5%

revenue reinvested into grassroots exploration

Majors still dominate exploration spend (US$B)



US$2.9 billion

raised primarily for exploration in 2018

World Exploration Trends 2018

In Numbers

US$10.1

billion budget total; growth of 19%

50%

targeting gold

22%

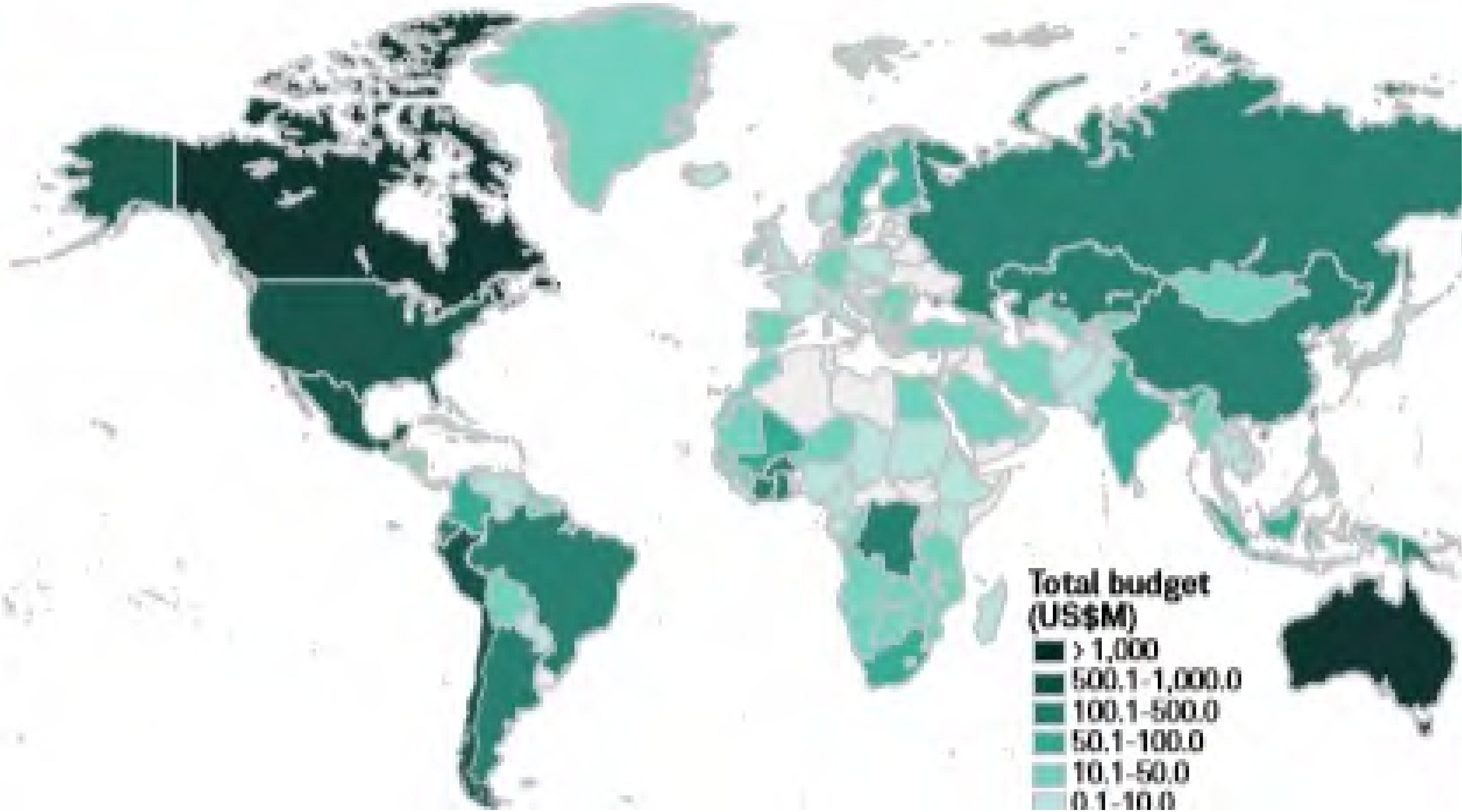
targeting copper

7%

targeting lead/zinc

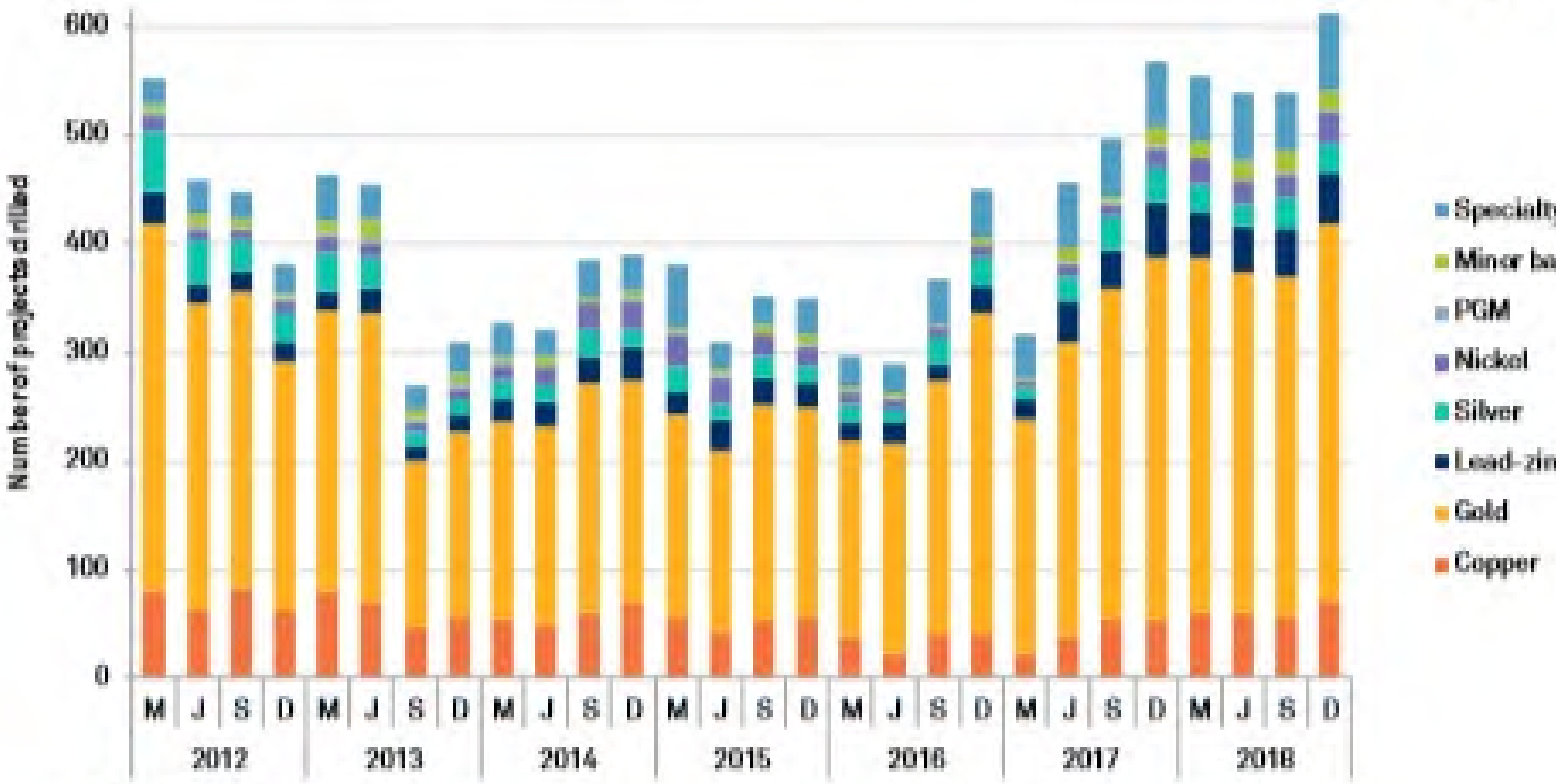
	HQ Location	US$B	Change
1	Canada	3.52	34%
2	Australia	1.71	20%
3	Rest of World	4.39	10%
	Total	9.62	20%

Nonferrous exploration budgets - Canada has largest budget of any countr

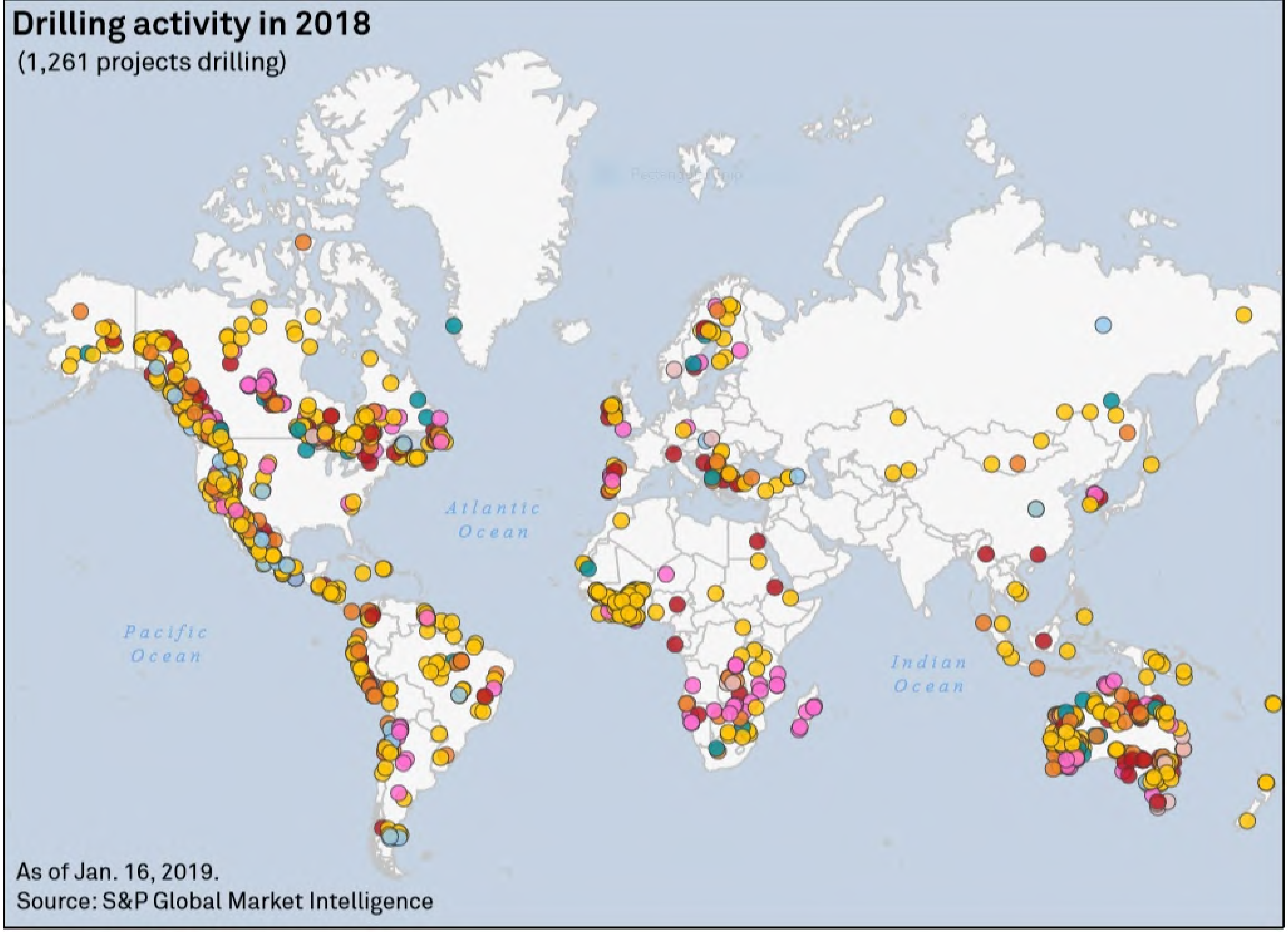


Global drilling activity surpassing 2012 exploration budget peak

S&P Globa
Intelligenc



Data as of Jan. 18, 2019



Primary commodity

Copper Gold Lead-zinc Minor base metals Nickel Platinum group metals Silver Specialty metals

S&P Global Market Intelligence

Caribou

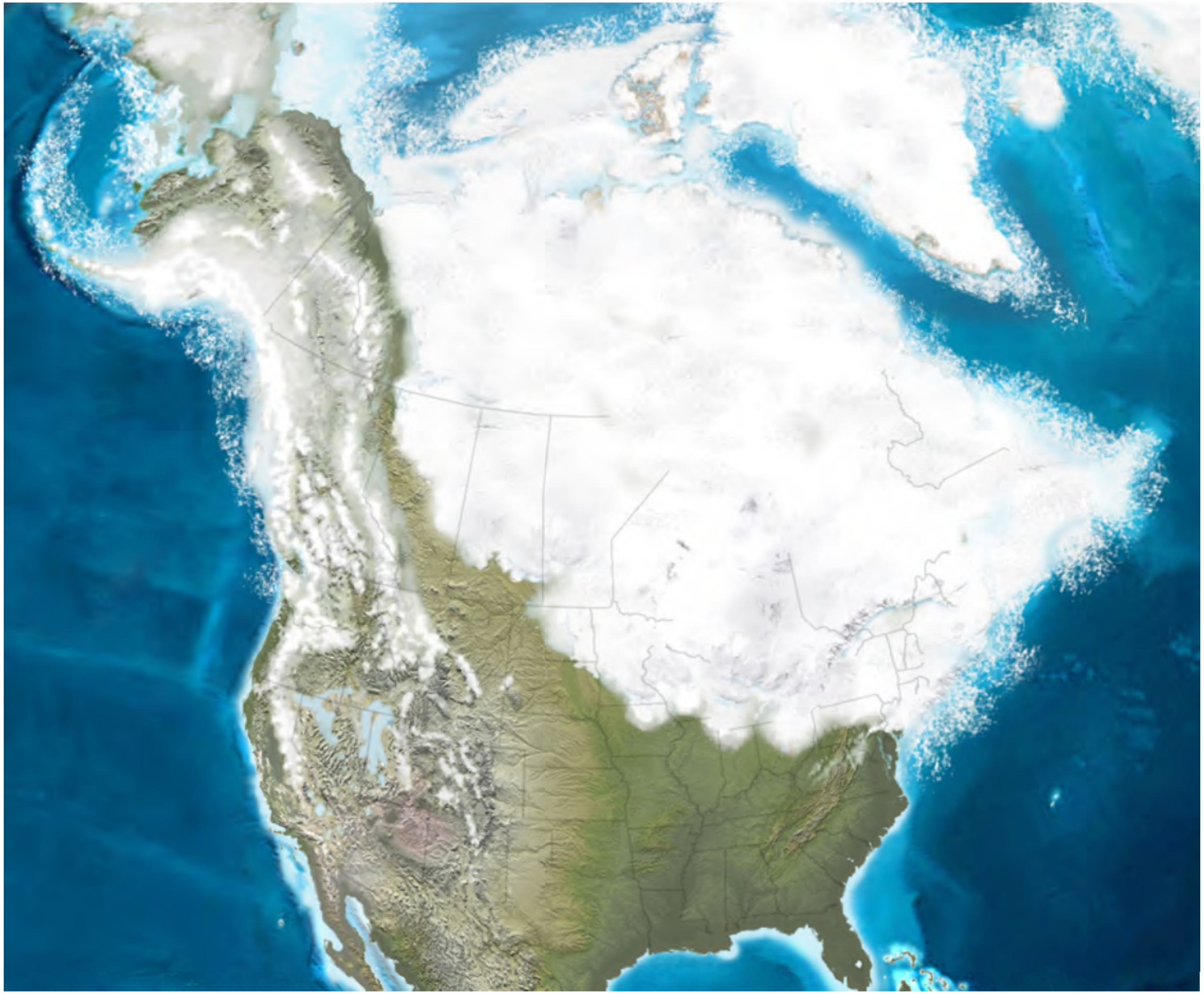
Winter

Field work

Americas

UNITED STATES
GREENLAND (DEN.)
CANADA
UNITED STATES
MEXICO
THE BAHAMAS
CUBA
HAITI
DOMINICAN REPUBLIC
BELIZE
HONDURAS
GUATEMALA
EL SALVADOR
NICARAGUA
TRINIDAD AND TOBAGO
COSTA RICA
PANAMA
VENEZUELA
GUYANA
SURINAME
FRENCH GUIANA
GALAPAGOS ISLANDS (ECUADOR)
ECUADOR
BRAZIL
PERU
BOLIVIA
PARAGUAY
URUGUAY
CHILE
ARGENTINA
FALKLAND ISLANDS

Glacial cover

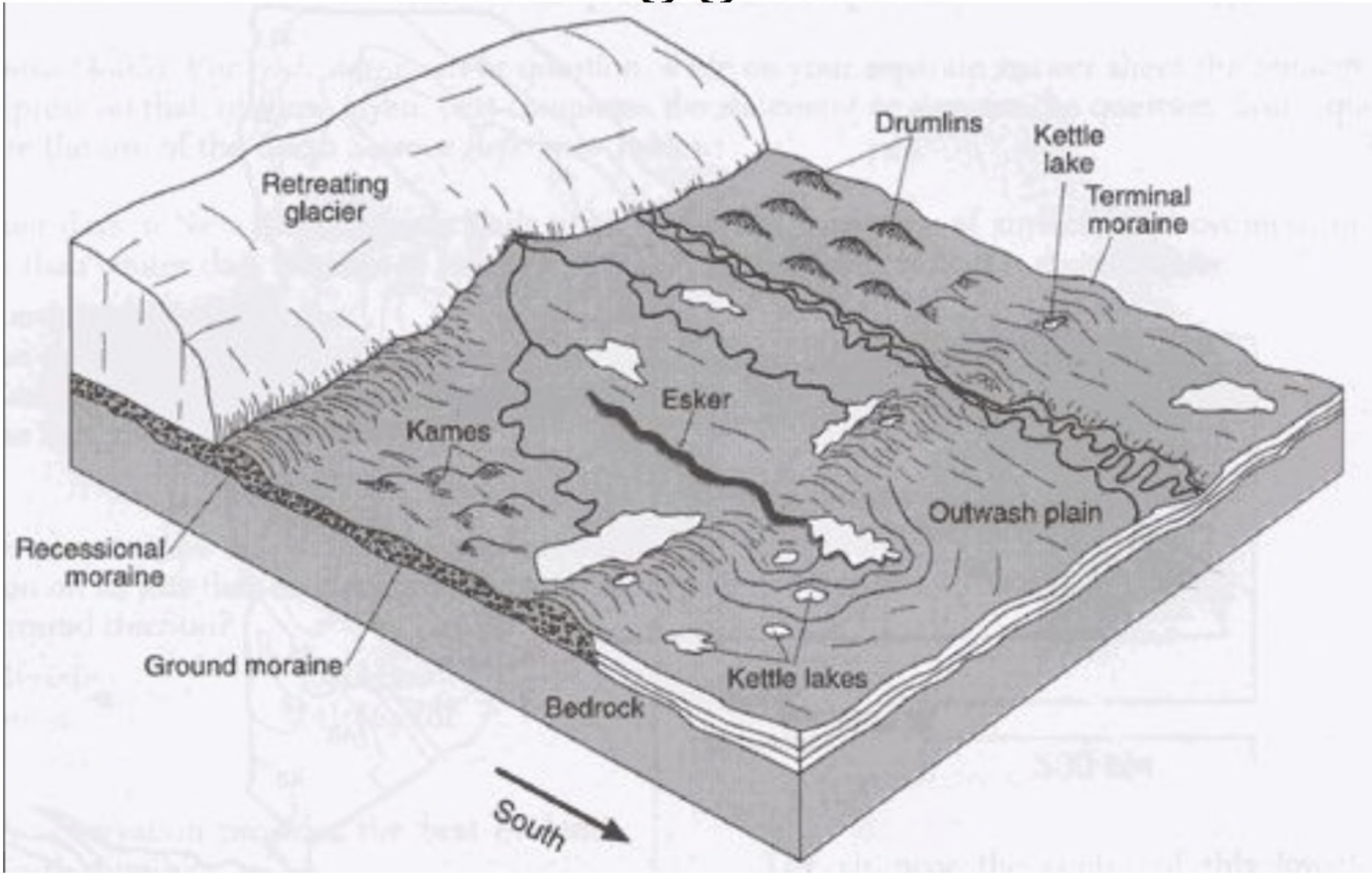


Pleistocene Glaciation

Note:

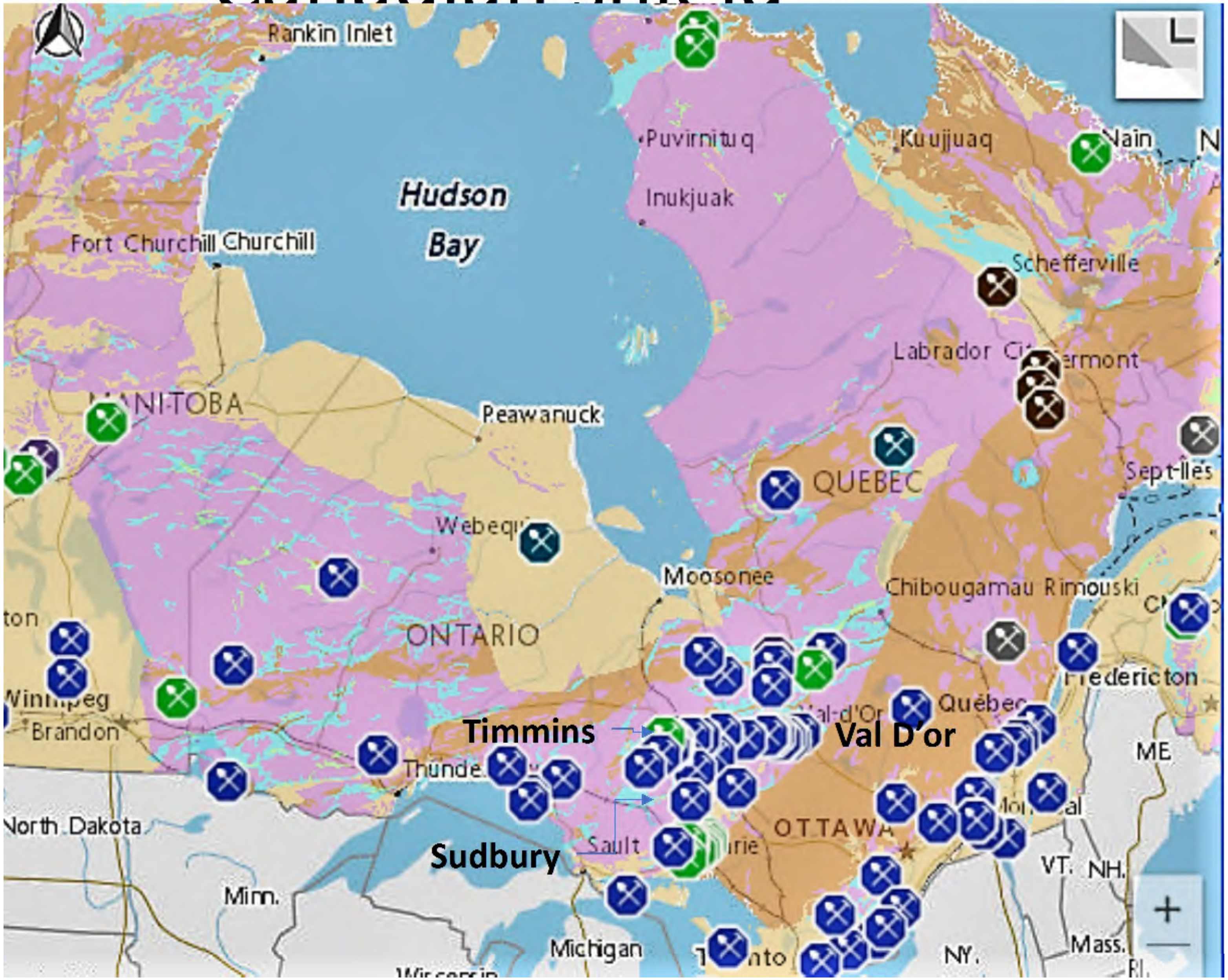
- Alpine Glaciers
- Continental Glaciers
- Ice Marginal Rivers
- Alaska Ice Free Area

Retreating glacier

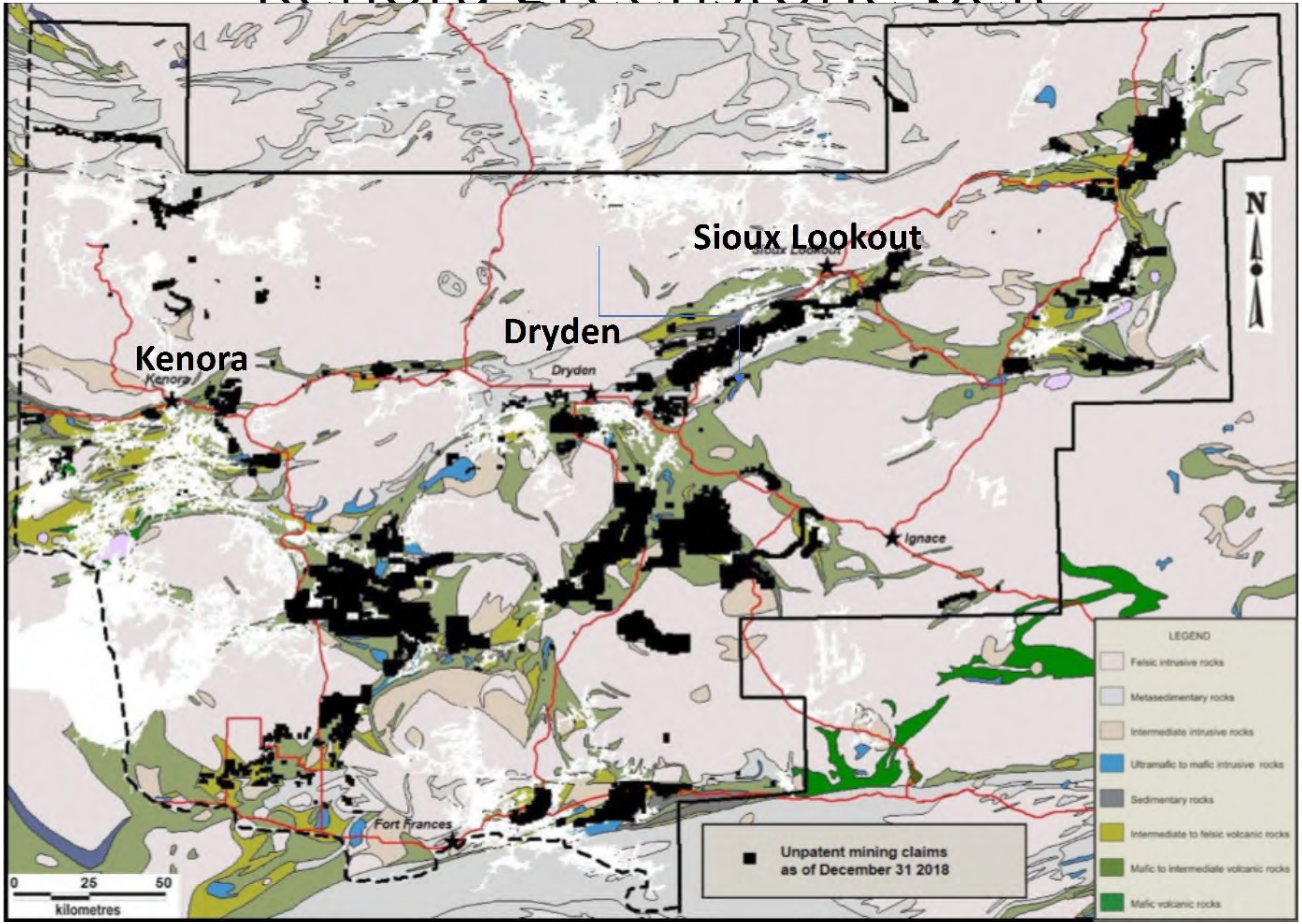


Glacial Till

Canadian shield



Kenora greenstone belt



Wildlife hazards

Goldcorp mine N

Summer lake drilling

Wait for winter

First Nations

BC Mines and infrastructure

Line Creek coal

Pleistocene Glaciation

Note:

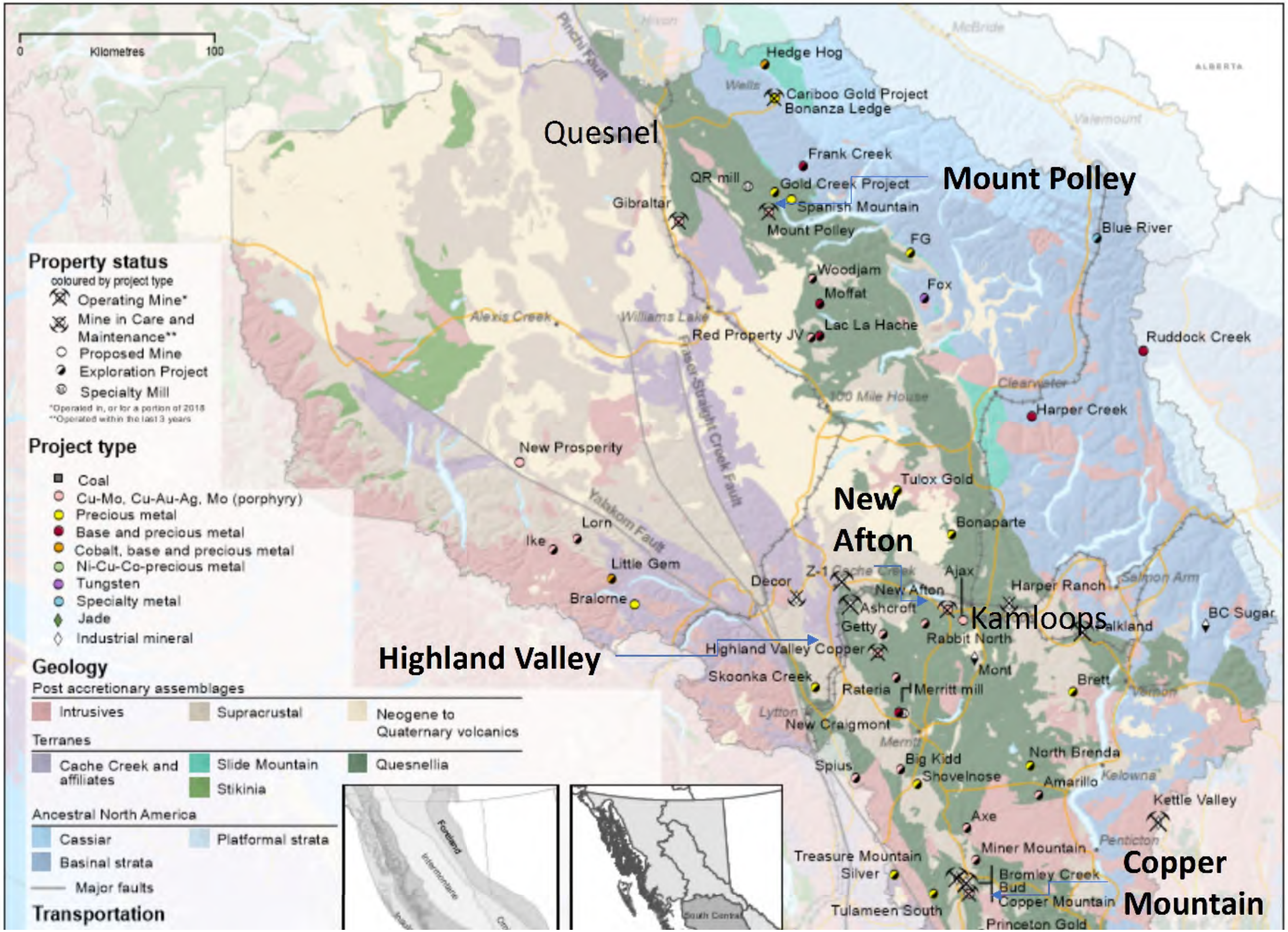
- Alpine Glaciers
- Continental Glaciers
- Ice Marginal Rivers
- Alaska Ice Free Area

Mountain drainage

Exploration and

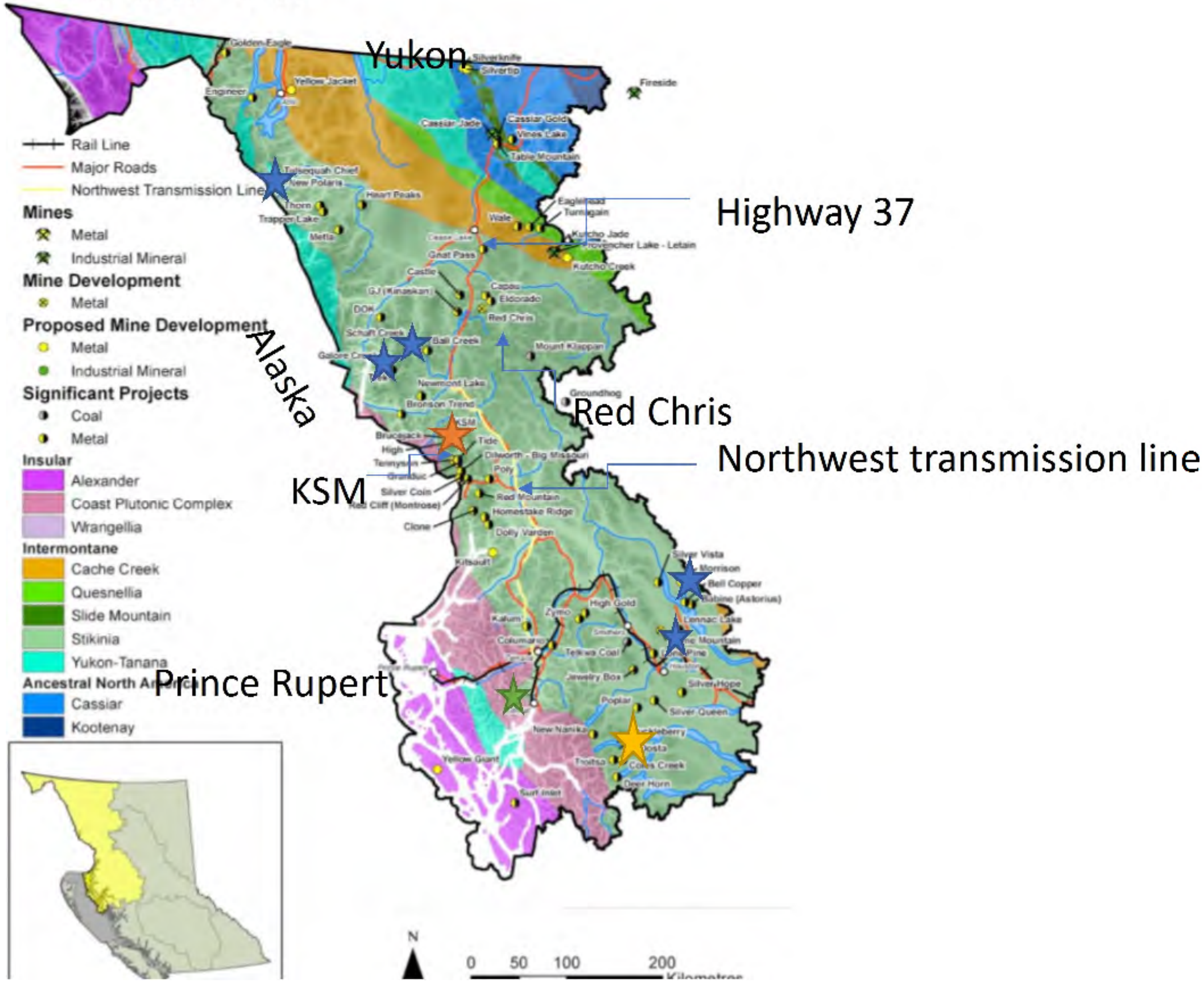
Unwelcome

Highland Valley Cu-Au



Highland Valley Cu -

Skeena Region NW BC



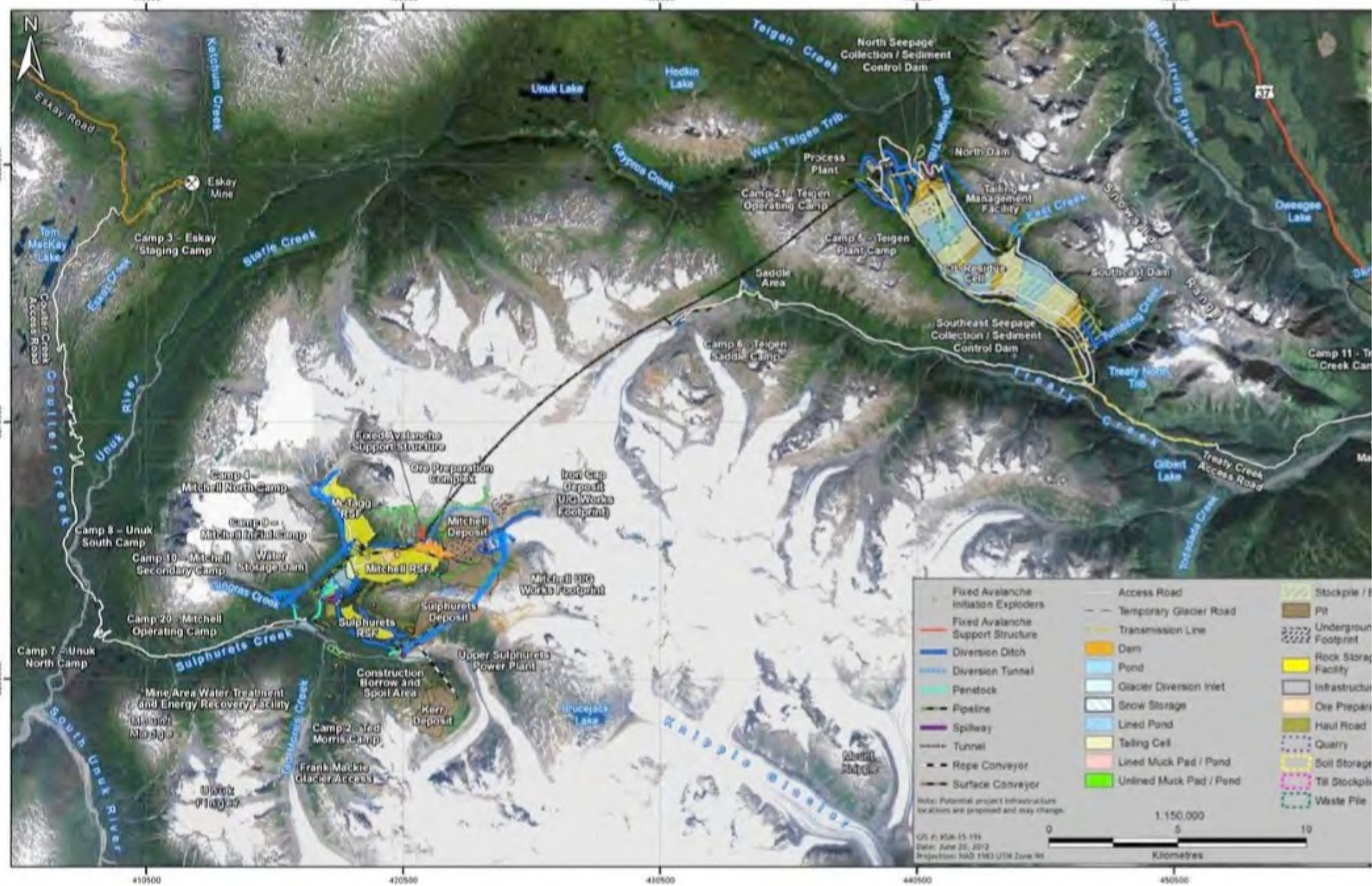


Figure 2.11. Proposed site layout of the KSM project. Courtesy of Seabridge gold.

KSM potential mine site

High risk drilling

Granduc mine and

British Columbia incentives

INFRASTRUCTURE ROYALTY CREDIT PROGRAM

DEEP WELL, DEEP RE-ENTRY WELL, AND DEEP DISCOVERY WELL ROYALTY CREDIT PROGRAM

B.C. MINING EXPLORATION TAX CREDIT (BC METC)

B.C. MINING FLOW-THROUGH SHARE TAX CREDIT (BC MFTS)

NEW MINE ALLOWANCE

B.C. TRAINING TAX CREDIT

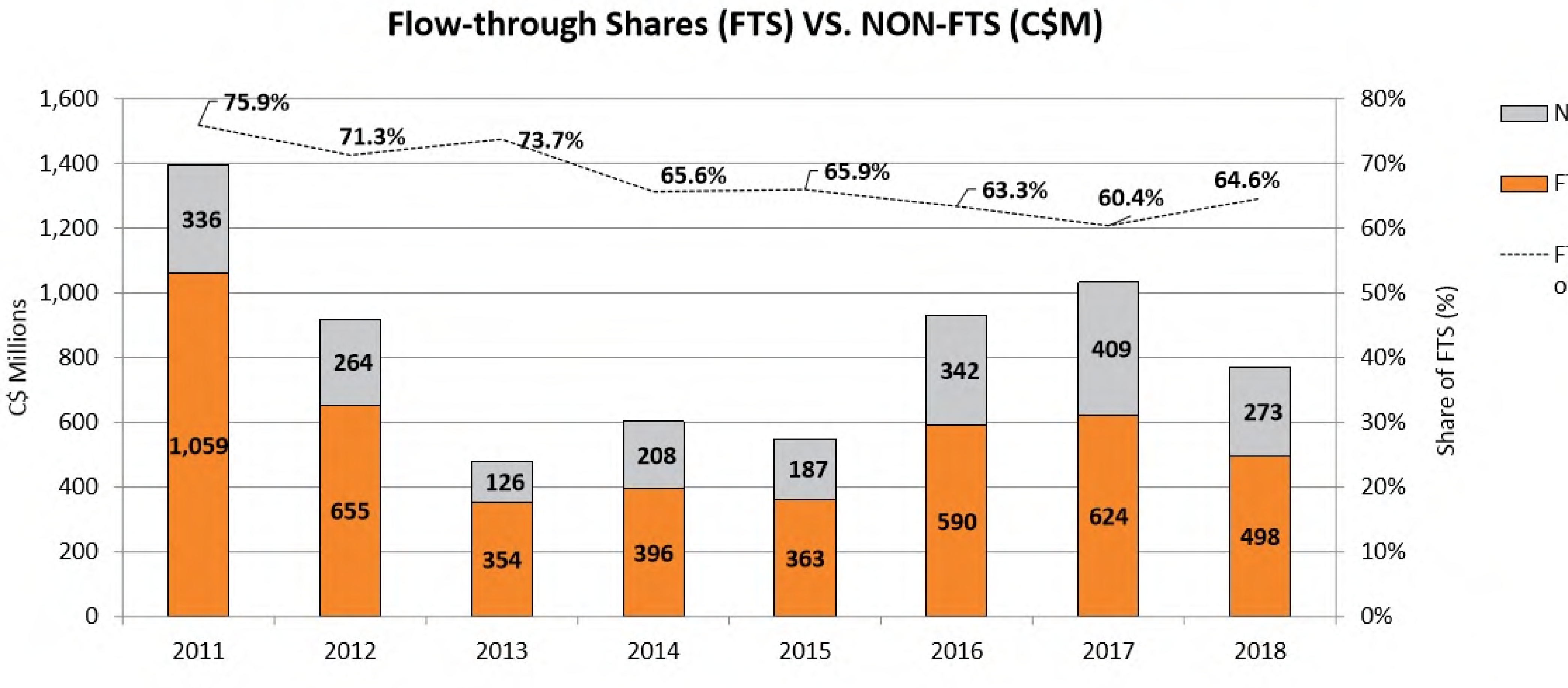
INTERNATIONAL BUSINESS ACTIVITY ACT

CAPITAL COST ADVANTAGES

PROPERTY TAX EXEMPTIONS

PROPERTY TAX CREDITS

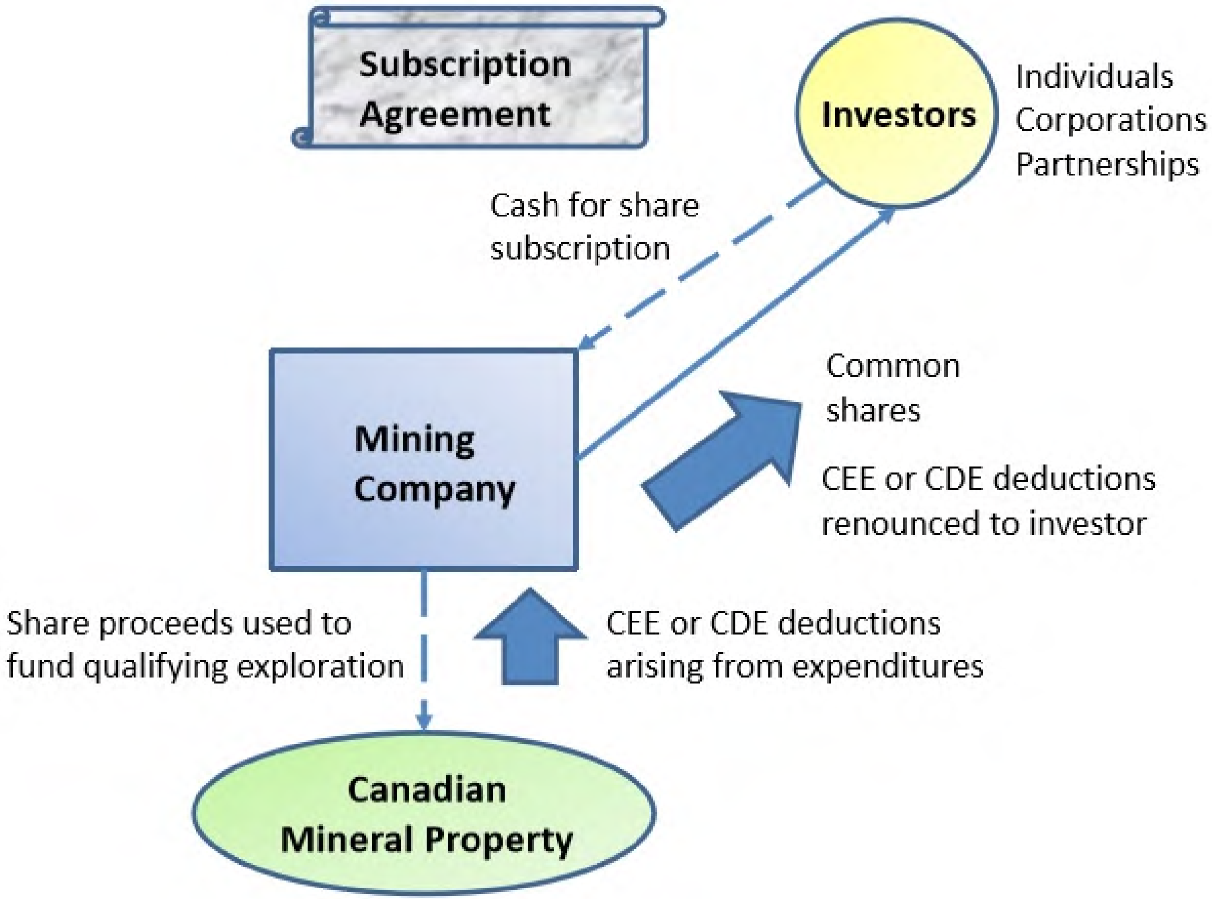
EQUITY FINANCING IN CANADA FOR CANADIAN EXPLORATION



Source: TMX Group, S&P Global Market Intelligence and PDAC analysis

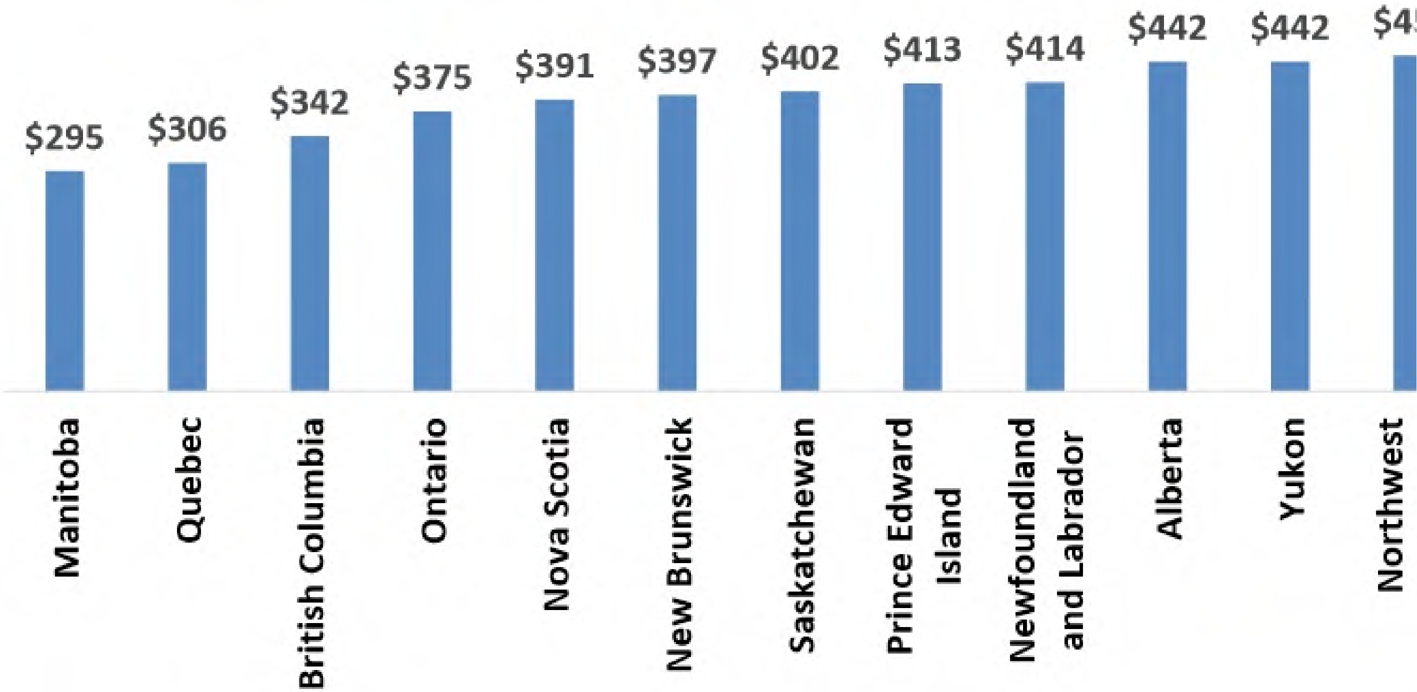
FLOW-THROUGH SHARES: MECHANISM

- **History:** Current flow-through share regime was introduced in 1986, but previous forms have been allowed since the 1950s.
- **Benefits to mining companies:** help juniors in raising capital (usually at a premium), especially in tough times.
- **Benefits for Investors:** Tax deductions as "sweetener" or compensation for investing in high risk sector
- **Benefits to Canada:** FTS Must be related to qualifying exploration activities <u>carried out in Canada</u>



FLOW-THROUGH SHARES:
NET COST FOR INVESTOR- CANADA WIDE COMPARISO

Investors' Net Cost for a $1,000 investment in FTS



Provincial METC

- Ontario – 5%
- Saskatchewan – 10%
- British Columbia – 20%
- Manitoba – 30%

Extra Tax Deduction in Quebec:

- 120% provincial tax deduction
- Only for Qualified Corporations

PRESENTERS

LISA DAVIS
CEO, PearTree Securities Inc.

MICHAEL LONG
Tax Partner, KPMG

FLOW-THROUGH SHARES: QUALIFYING EXPENSES

- Only a "principal-business corporation" (**PBC**) can issue flow-through shares
- Canadian exploration expenses (**CEE**)
  - Grassroots exploration
- Canadian development expenses (**CDE**)
  - Mine development expenses
- If expenses incurred by a PBC are not qualifying CEE or CDE, the renunciation of expenses is nc
- FTS subscriber preference for CEE over CDE

MINERAL EXPLORATION TAX CREDIT (METC

- There are 2 types of CEE flow-through share investments:
  - **REGULAR**: 100% deduction of subscription amount when CEE renounced
  - **SUPER**: REGULAR flow-through shares + <u>Additional 15% federal tax credit</u> for grassroots ex (METC) + Applicable Provincial/Territorial deductions and tax credits
    - METC available to individuals only (not corporations)
- To be eligible for METC, the expenditures must be "Flow-Through Mining Expenditures" (**FTME**
- 2018 Fall Economic update announced a **five year extension** of the METC to March 31, 2024

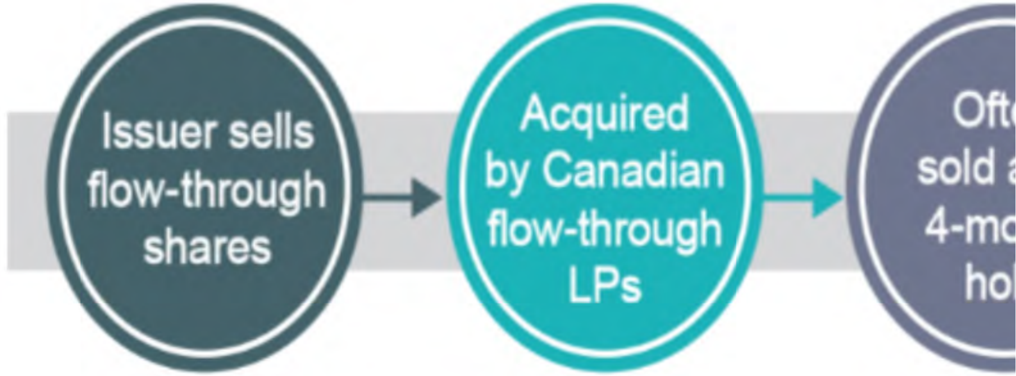
CANADIAN DEVELOPMENT EXPENSES (CDE)

- **Pre-production:** costs incurred for the purpose of bringing a new mine in Canada into productio reasonable commercial quantities"
  - Includes expenses for clearing, removing overburden, stripping, sinking a mine shaft or constructing an adit or other underground entry
  - Incurred before the new mine reaches a commercial level of production
- **Post-production:** cost of sinking or excavating a mine shaft, constructing a main haulage way, or carrying out similar underground work designed for continuing use <u>after</u> the mine has come into production
- Excludes the capital cost of depreciable property of a prescribed class
- Costs of a Canadian resource property are <u>not</u> FTS qualifying expenses

TRADITIONAL FTS VS. CHARITABLE FTS

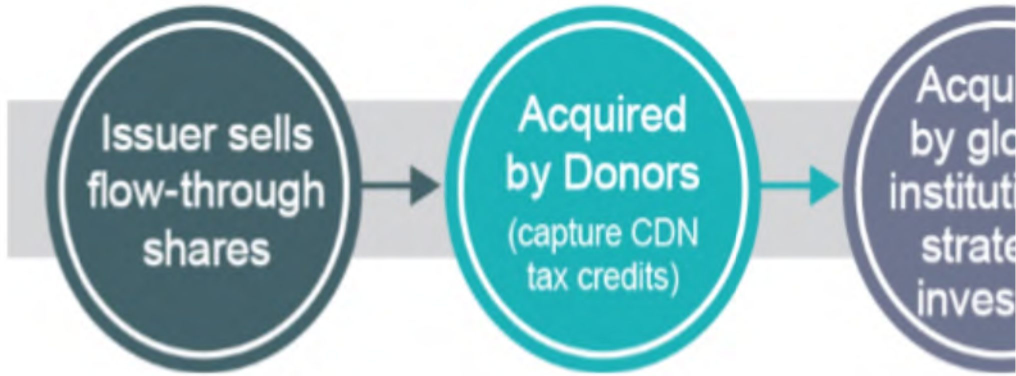
Traditional Flow-Through

- Purchasers are individual Canadian taxpayers
- Typically a short investment horizon



Charitable Flow-Through

- Purchasers are global, strategic and institutional investors, many with long term investment horizon
- Less dilutive – shares issued at a premium to market



CHARITABLE FTS ILLUSTRATION: Quebec and National

Issuer → *Flow-Through Shares/ Units* → PearTree Donors → *Common Shares/ Units* → Canadian Charities → *Common Shares/ Units* → Global Investors

Total of $20 million, composed of:

Quebec:	**National:**
$10 million	**$10 million**
@ $1.67/share	@ $1.35/share
67% premium	**35% premium**

Previous Close
@ $1.10/share

Quebec: PearTree Donors subscribe for FT shares at **$1.67** (Retain Federal & Quebec Tax Benefits)

National: PearTree Donors subscribe for FT shares at **$1.35** (Retain Federal Tax Benefits)

Shares donated to Canadian Charities

$13.395 million
@ $1.00/share

Charities sell common shares to Global Investors*

At market price

Delta: The ratio between the Issue Price and the Charity Sale Price. In this example the **Quebec Delta is 1.67** ($1.67 ÷ $1.00) and the **National Delta is 1.35** ($1.35 ÷ $1.00). Deltas vary by province/territory depending on the availability/size of provincial tax credits. For a detailed discussion of the Flow-Through regime see the Prospectors & Developers Association of Canada website.

RECENT DEVELOPMENTS IN SUPPORT OF CANA MINING EXPLORATION

1. Extension of the Mineral Exploration Tax Credit (METC) for a 5-years period (until 2024).

2. BC provincial government makes the B.C. Mining Exploration Tax Credit a permanent incentive.

3. Greater clarity from federal and Quebec governments on scope of expenditures eligible for fiscal incentives.


Prospectors and Developers Association of Canada (PDAC)
21 hrs ·
Celebrating the 2018 Fall Economic Statement and 5-year renewal of the Mineral Exploration Tax Credit over breakfast with Bill Morneau this morning.

It has been a good week for Canada's mineral exploration sector!

PDAC 2019


PDAC 2019
CONVENTION
HIGHLIGHTS
INVESTORS
EXCHANGE
531 Booths
407 Exhibitors
10 Prospectors Tents
25,843 Attendees
Outside of Canada the largest number of attendees came from: USA, Australia, United Kingdom, Mexico, Peru, Chile, Brazil, Argentina, South Africa, Germany, China
29.6% International attendees
132 Countries
1,054 Students
>500 Self-identified Indigenous attendees
359 Media
47 Sponsors
Teck
Café
Teck
2,510
INVESTORS
8 < CORE MAGAZINE

CHARITABLE FTS ILLUSTRATION:
Quebec and National

Issuer

Flow-Through Shares/ Units →

Common Shares/ Units →

Common Shares/ Units →

Total of $20 million, composed of:

Quebec:	**National:**
$10 million	**$10 million**
@ $1.67/share	@ $1.35/share
67% premium	**35% premium**

Previous Close
@ $1.10/share

Quebec: PearTree Donors subscribe for FT shares at **$1.67** (Retain Federal & Quebec Tax Benefits)

National: PearTree Donors subscribe for FT shares at **$1.35** (Retain Federal Tax Benefits)

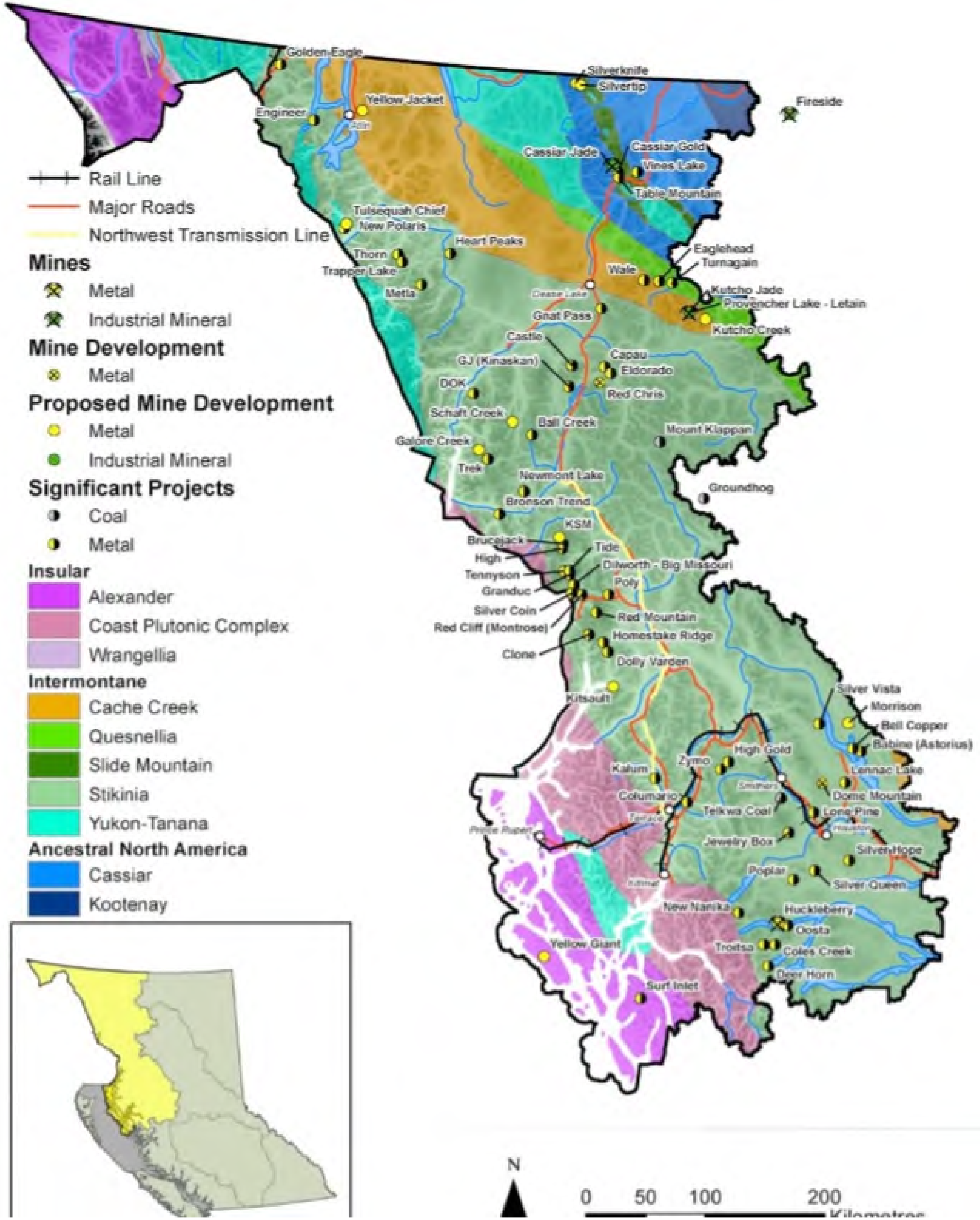
Shares donated to Canadian Charities

$13.395 million
@ $1.00/share

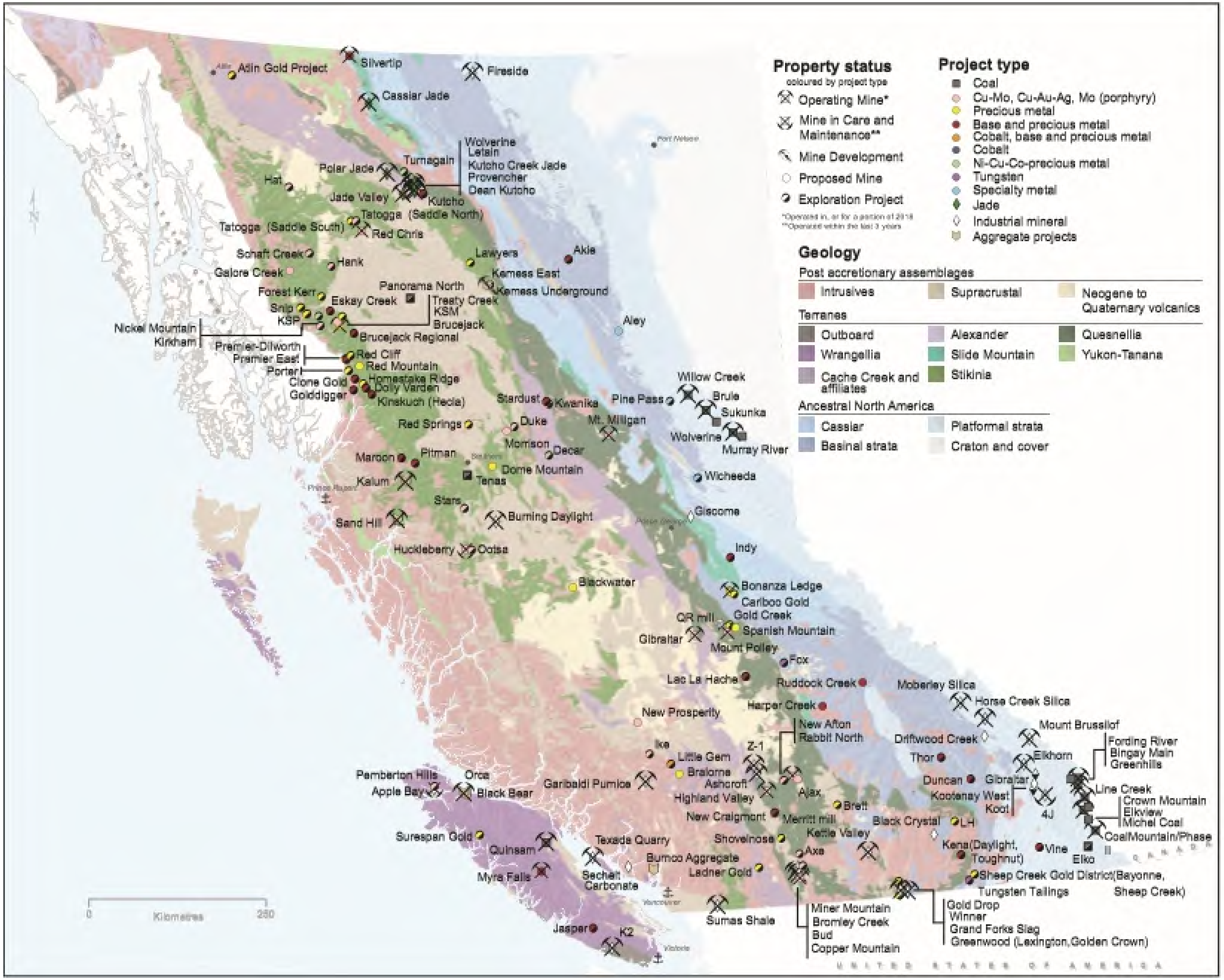
Charities sell common shares to Global Investors*

At market price

Delta: The ratio between the Issue Price and the Charity Sale Price. In this example the **Quebec Delta is 1.67** ($1.67 ÷ $1.00) and the **National Delta is 1.35** ($1.35 ÷ $1.00). Deltas vary by province/territory depending on the availability/size of provincial tax credits. For a detailed discussion of the Flow-Through regime see the Prospectors & Developers Association of Canada website.



Rail Line
Major Roads
Northwest Transmission Line
Mines
Metal
Industrial Mineral
Mine Development
Metal
Proposed Mine Development
Metal
Industrial Mineral
Significant Projects
Coal
Metal
Insular
Alexander
Coast Plutonic Complex
Wrangellia
Intermontane
Cache Creek
Quesnellia
Slide Mountain
Stikinia
Yukon-Tanana
Ancestral North America
Cassiar
Kootenay
Golden Eagle
Silverknife
Silvertip
Fireside
Yellow Jacket
Engineer
Atlin
Cassiar Jade
Cassiar Gold
Vines Lake
Table Mountain
Tulsequah Chief
New Polaris
Heart Peaks
Thorn
Trapper Lake
Eaglehead
Turnagain
Wale
Metla
Dease Lake
Kutcho Jade
Provencher Lake - Letain
Kutcho Creek
Gnat Pass
Castle
GJ (Kinaskan)
Capau
Eldorado
DOK
Red Chris
Schaft Creek
Ball Creek
Mount Klappan
Galore Creek
Trek
Newmont Lake
Groundhog
Bronson Trend
KSM
Brucejack
Tide
High
Tennyson
Dilworth - Big Missouri
Granduc
Poly
Silver Coin
Red Mountain
Red Cliff (Montrose)
Homestake Ridge
Clone
Dolly Varden
Kitsault
Silver Vista
Morrison
Bell Copper
Babine (Astorius)
High Gold
Zymo
Kalum
Lennac Lake
Smithers
Columario
Dome Mountain
Telkwa Coal
Terrace
Lone Pine
Houston
Prince Rupert
Jewelry Box
Silver Hope
Poplar
Silver Queen
Kitimat
New Nanika
Huckleberry
Ootsa
Yellow Giant
Troitsa
Coles Creek
Deer Horn
Surf Inlet
N
0
50
100
200
Kilometres



Property status
coloured by project type
Operating Mine*
Mine in Care and Maintenance**
Mine Development
Proposed Mine
Exploration Project
Project type
Coal
Cu-Mo, Cu-Au-Ag, Mo (porphyry)
Precious metal
Base and precious metal
Cobalt, base and precious metal
Cobalt
Ni-Cu-Co-precious metal
Tungsten
Specialty metal
Jade
Industrial mineral
Aggregate projects
Geology
Post accretionary assemblages
Intrusives
Supracrustal
Neogene to Quaternary volcanics
Terranes
Outboard
Alexander
Quesnellia
Wrangellia
Slide Mountain
Yukon-Tanana
Cache Creek and affiliates
Stikinia
Ancestral North America
Cassiar
Platformal strata
Basinal strata
Craton and cover
Atlin Gold Project
Silvertip
Fireside
Cassiar Jade
Wolverine
Letain
Kutcho Creek Jade
Provencher
Dean Kutcho
Turnagain
Polar Jade
Hat
Jade Valley
Kutcho
Tatogga (Saddle North)
Tatogga (Saddle South)
Red Chris
Schaft Creek
Hank
Lawyers
Akie
Galore Creek
Kemess East
Kemess Underground
Panorama North
Forest Kerr
Eskay Creek
Treaty Creek
KSM
Brucejack
Snip
KSP
Nickel Mountain
Kirkham
Brucejack Regional
Aley
Premier-Dilworth
Premier East
Red Cliff
Red Mountain
Porter
Homestake Ridge
Clone Gold
Golddigger
Dolly Varden
Kinskuch (Hecla)
Stardust
Kwanika
Willow Creek
Pine Pass
Brule
Sukunka
Mt. Milligan
Wolverine
Murray River
Red Springs
Duke
Morrison
Decar
Maroon
Pitman
Dome Mountain
Tenas
Wicheeda
Kalum
Stars
Burning Daylight
Giscome
Sand Hill
Huckleberry
Ootsa
Indy
Blackwater
Bonanza Ledge
Cariboo Gold
Gold Creek
QR mill
Spanish Mountain
Gibraltar
Mount Polley
Fox
Lac La Hache
Ruddock Creek
Moberley Silica
Horse Creek Silica
Harper Creek
New Prosperity
New Afton
Rabbit North
Mount Brussilof
Driftwood Creek
Fording River
Bingay Main
Greenhills
Z-1
Ike
Little Gem
Thor
Elkhorn
Bralorne
Pemberton Hills
Orca
Ashcroft
Duncan
Gibraltar
Apple Bay
Black Bear
Garibaldi Pumice
Highland Valley
Ajax
Kootenay West
Line Creek
Crown Mountain
Elkview
Michel Coal
CoalMountain/Phase II
Brett
Koot
4J
New Craigmont
Merritt mill
Black Crystal
LH
Surespan Gold
Quinsam
Texada Quarry
Shovelnose
Kettle Valley
Kena(Daylight, Toughnut)
Vine
Elko
Axe
Burnco Aggregate
Ladner Gold
Sheep Creek Gold District(Bayonne, Sheep Creek)
Myra Falls
Sechelt Carbonate
Tungsten Tailings
Gold Drop
Winner
Grand Forks Slag
Greenwood (Lexington,Golden Crown)
Miner Mountain
Bromley Creek
Bud
Copper Mountain
Sumas Shale
Jasper
K2
0
Kilometres
250
C A N A D A
UNITED STATES OF AMERICA

TAKE ADVANTAGE OF INCENTIVES

British Columbia provides many incentives to encourage business investment and innovation. Royalty credits, tax credits or refunds are available for research and development, machinery and equipment investment and other sector-specific activities.

INFRASTRUCTURE ROYALTY CREDIT PROGRAM	Petroleum and natural gas companies receive credits for up to half the cost of constructing roads, pipelines and associated facilities to remote or underdeveloped areas in B.C. The credits offset royalties the companies would owe.
DEEP WELL, DEEP RE-ENTRY WELL, AND DEEP DISCOVERY WELL ROYALTY CREDIT PROGRAM	Available to natural gas companies to receive credits to reflect the increased costs associated with drilling in deep resource plays, which encourages greater exploratory drilling activity and maximizes the development of known resources. The credits offset royalties the companies would owe from production from deep wells.
B.C. MINING EXPLORATION TAX CREDIT (BC METC)	This program provides a refundable tax credit equal to 20 per cent of eligible B.C. grassroots mineral exploration expenditures. In areas affected by the mountain pine beetle, an additional 10 per cent credit to a maximum of 30 per cent is available.
B.C. MINING FLOW-THROUGH SHARE TAX CREDIT (BC MFTS)	An individual with flow-through-shares receives a non-refundable tax credit equal to 20 per cent of a company's eligible B.C. grassroots exploration expenditures. The BC MFTS fully harmonizes with the federal Mineral Exploration Tax Credit (METC) and is in place through December 31, 2013.

NEW MINE ALLOWANCE	This allowance grants developers of new m capital expenditures for new mine develop expansions brought into production befor means 133.3 per cent of a mine's qualifyin can be added to its Cumulative Expenditu
B.C. TRAINING TAX CREDIT	Provides refundable tax credits for employ engaged in apprenticeship programs adm Industry Training Authority.
INTERNATIONAL BUSINESS ACTIVITY ACT	Canadian companies with permanent esta may claim a refund of 75 per cent (up to $8 income tax paid on income derived from i transactions. This provides an incentive fo locate some administrative functions for t in B.C. Some producers may also be able t for the provincial portion of sales taxes pa equipment and machinery.
CAPITAL COST ADVANTAGES	Companies may put individual capital asse for income tax depreciation purposes inst them into broad classes established for cla Allowances. Eligible assets include produc equipment, computer equipment, and tel
PROPERTY TAX EXEMPTIONS	Tangible personal property, such as produ business equipment, furniture, and invent property taxes in B.C.
PROPERTY TAX CREDITS	Mine operators and other industrial busin industrial property tax credits for school p credit is 60 per cent of school property tax and subsequent years.

CEE: GRASSROOTS EXPLORATION

Expenses incurred for the purpose of determining the existence, location, extent, or quality of a mineral resource

- **Includes:**
  - Prospecting,
  - Carrying out geological, geophysical or geochemical surveys,
  - Drilling by rotary, diamond, percussion or other methods, or
  - Trenching, digging test pits and preliminary sampling

- **Excludes:**
  - A CDE
  - The capital cost of depreciable property of a prescribed class
  - Expenses related to a mine that has come into commercial production

- Recent amendments for certain environmental / community costs incurred to acquire an exploration permit/

FLOW-THROUGH SHARES: TRAPS

- Need to incur "qualifying expenditures" <u>within</u> required timelines
- Government assistance or proceeds from activities (e.g. sale of ore produced from bulk sample)
  amount of the expenditures that can be renounced
- Failure to implement back-to-back arrangements
- What if corporation fails to meet its obligations ?
  - Subject to a 10% penalty tax
  - Must amend renunciation forms previously issued to investors
  - May need to reimburse investors for reduction in tax savings
  - Damage reputation among investor base – impact on future equity raises
- Provincial mining tax may eliminate deductions to corporations for expenses renounced to inves

FLOW-THROUGH SHARES: TRAPS (continued)

- Interpretive difficulties:
  - When does a mine come into production in reasonable commercial quantities?
  - New mine vs. existing mine

- Consider "purpose test" and CRA guidelines:
  - Environmental studies
  - Community consultation
  - Feasibility studies

- Underground exploration expenditures may qualify as grassroots CEE if incurred for the purpose o further defining a resource, and not for mine development purposes
  - No "bright-line" test to determine when expenditures are considered to be incurred to bring mine into production (CDE)

TIMING: GENERAL RULE OR "LOOK-BACK"

- Only qualifying expenditures incurred **after** the subscription agreement is executed may be renou
FTS holder
- PBC must incur qualifying expenditures during the following period:
    - Begins on the date the subscription agreement is signed
    - Ends 24 months after the end of the month the subscription agreement is signed
- "Look-Back Rule":
    - Effect is to accelerate the deduction of CEE renounced to the subscriber
    - Permits a PBC that incurs certain qualifying expenses in a calendar year to renounce the
subscriber effective December 31 of the previous year
    - Must meet requirements