Productivity Mega Deduction could reshape mining flow-through financings

September 24, 2026

The federal government's proposed Productivity Mega Deduction (PMD) may have significant implications for Canada's mining sector, particularly for companies that rely on flow-through share financings. (See the latest article "Canada proposes new Productivity Mega Deduction".)

While much of the discussion surrounding the PMD has focused on immediate expensing of capital property, the draft legislation also introduces 100 per cent deduction for qualifying Canadian development expenses (CDE), which can be renounced through flow-through shares for mining companies. For mining issuers and investors, that change could increase the attractiveness of qualifying CDE in a flow-through financing context.

PMD increases attractiveness of CDE in mining financings

In mining, Canadian exploration expense (CEE) has historically been more attractive as it is 100 per cent deductible. CEE generally relates to earlier-stage exploration work to identify or evaluate a mineral resource.

However, qualifying CDE historically provided a deduction of 30 per cent on a declining-balance basis, which was later enhanced for many expenditures under the Accelerated Investment Incentive (AII). CDE generally covers late-stage development work on a known mineral resource, including certain mine development expenditures. The definition of CDE has not changed but the timing of its deduction has shifted.

The PMD would generally allow an immediate 100 per cent deduction for CDE that is:

- Incurred on or after Sept. 15, 2026 (Announcement Day);
- Not successored; and
- Not acquired from a non-arm's length person or partnership.

The draft legislation also expressly accommodates certain CDE renounced under the existing flow-through share rules. Under these proposals, qualifying CDE incurred by a mining issuer and renounced under a flow-through share agreement entered on or after Announcement Day may become immediately deductible for investors.

However, the proposed changes do not expand the existing look-back rules. For current flow-through share planning, CDE lacks a practical look-back rule. The existing CDE references in the look-back rule apply to oil and gas CDE, but those expenditures can no longer support flow-through share financings. Mining CDE must therefore generally be incurred before it is renounced.

The timing of deductions has often influenced how mining issuers structured and marketed flow-through financings. If qualifying CDE becomes immediately deductible for investors, expenditures traditionally viewed as less attractive than CEE for flow-through financing purposes may warrant fresh consideration when planning exploration and development programs and evaluating financing alternatives.

At the project level, earlier deductions may improve cash flow and net present value, particularly for development-stage projects with significant upfront spending before commercial production. That said, this is a timing advantage rather than a separate subsidy, and its value will depend on the issuer’s ability to claim or monetize the deduction and on the investor economics of a particular financing.

Oil and gas benefits remain at the corporate level

The PMD may also be relevant to oil and gas companies because many expenditures that now qualify as CDE could potentially become immediately deductible under the proposed rules.

However, the PMD does not appear to change the existing flow-through share restrictions applicable to oil, gas and coal exploration and development expenditures. Those restrictions were introduced in 2022 to remove fossil fuel exploration and development expenditures from the flow-through share regime for agreements entered after March 2023.

As a result, while the PMD may improve deductions available to oil and gas companies at the corporate level, its flow-through financing implications are expected to be concentrated in the mining sector.

What mining issuers should consider now

For mining issuers, the PMD may broaden the range of expenditures that can be financed through flow-through shares:

- **Broader expense eligibility:** Companies that have historically concentrated on generating and renouncing CEE may wish to reconsider the role that qualifying CDE can play in future financing strategies;
- **Immediate investor write-offs:** Qualifying mining CDE renounced under agreements entered on or after Announcement Day, could offer investors an immediate 100 per cent deduction rather than the historical 30 to 45 per cent declining-balance rate; and

- **Sector-specific impact:** While oil and gas companies benefit at the corporate level, flow-through advantages remain restricted largely to the mining sector.

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