

# Flow-Through Shares

Deal Structure

there is a  
better way to  
**give!**



Where do you  
**want your tax money**  
to go to help society  
the most?



# You have a choice

**Ottawa?**



**Charity of  
your choice?**



**How is this  
possible?**



# Tax advantage # 1

## Flow-through Shares

- Part of the Canadian tax system since 1954
- Fiscal policy to expand Canada's resource sector
- 100% tax deductible

Canada Revenue Agency / Agence du revenu du Canada

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**Chapter 4 – Flow-through entities**

**What is a flow-through entity?**

**Disposing of your shares of, or interest in, a flow-through entity**

**Exempt capital gains balance (ECGB)**

**Example**

1. ECGB carryforward to 2004		\$ 2,250
2. Capital gains tax owed	\$ 2	
3. Capital gains from dispositions	+ 935	3
4. Line 2 plus line 3	= \$ 935	4
5. Capital gains reduction		- 935
6. Unused ECGB at the end of 2004		= \$ 1,315

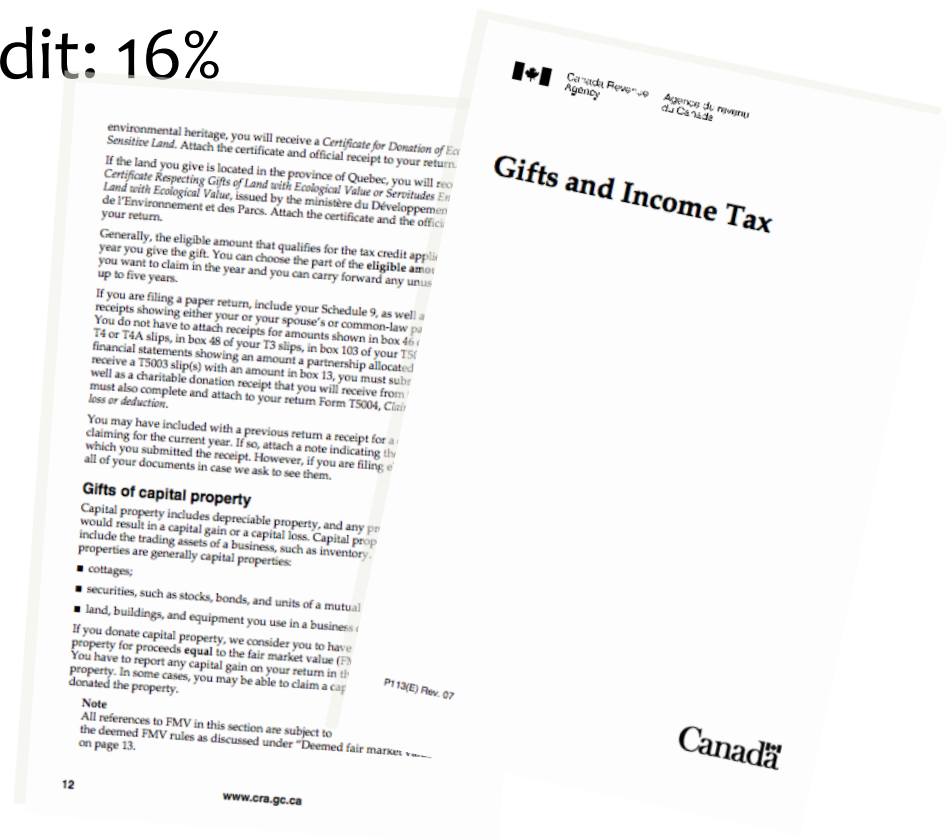
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# Tax advantage #2

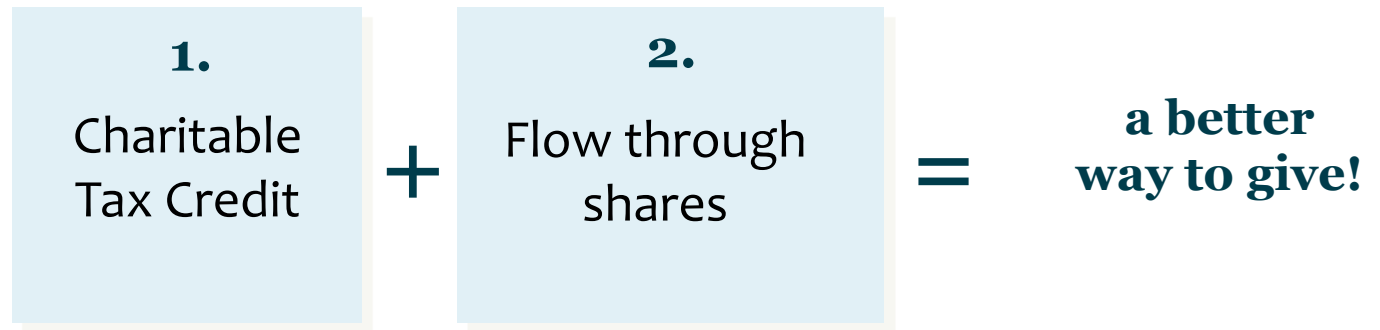
## Charitable Donation Tax Credits:

- Federal Tax Credit: 29%
- Provincial Tax Credit: 16%



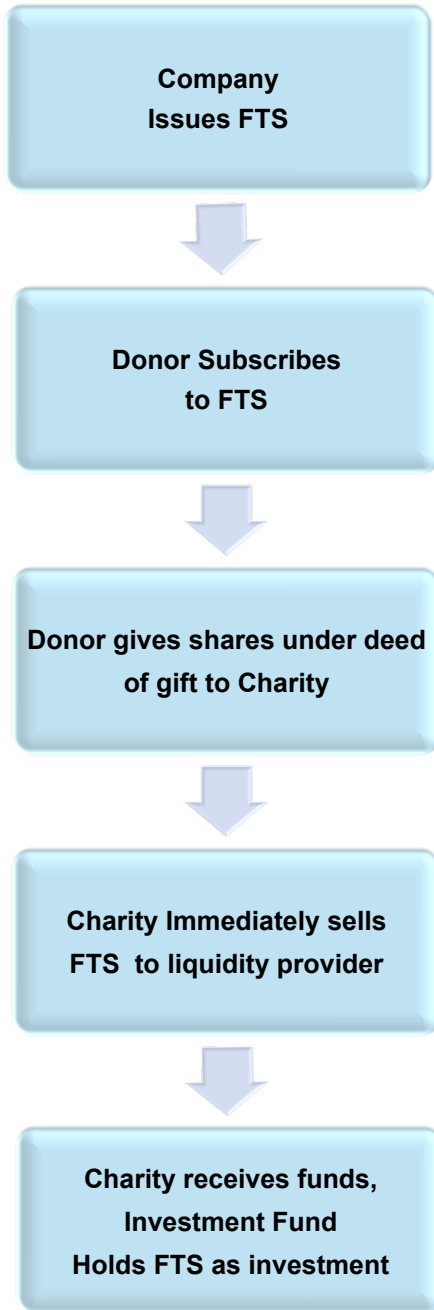
Canada

# Together, a powerful new way to give!





# Dissecting the Flow Through Shares Deal Structure



## IMPORTANT TO NOTE:

**There are 9 advanced tax rulings from the CRA and one ruling from Revenue Quebec**

**The use of this tax shelter does not defer, circumvent or avoid any tax that would otherwise be payable**

**The net result of using Flow Through Shares are 1) better funded charities and 2) strengthened companies in Canada's resource and exploration sector**

# Dissecting the Flow Through Shares Deal Structure

**Company  
Issues FTS**



**Donor Subscribes  
to FTS**



**Donor gives shares under deed  
of gift to Charity**



**Charity Immediately sells  
FTS to liquidity provider**



**Charity receives funds,  
Investment Fund  
Holds FTS as investment**

Canadian company in the mining, oil & gas, renewable energy or energy conservation sector with active exploration and project development activities



Since it has little or no Revenue, it commits to fund a portion of future exploration / development budget through the issuance of flow-through shares ("FTS")

# Dissecting the Flow Through Shares Deal Structure

**Company Issues FTS**



**Donor Subscribes to FTS**



**Donor gives shares under deed of gift to Charity**



**Charity Immediately sells FTS to liquidity provider**



**Charity receives funds, Investment Fund Holds FTS as investment**

**An individual with a high tax burden makes a commitment to a registered Canadian charitable organization**

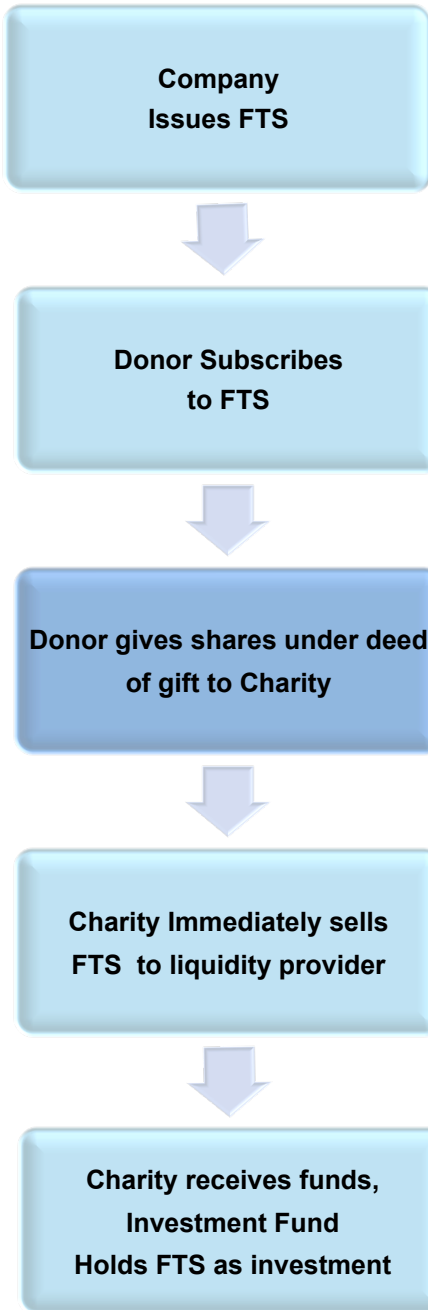


**Purchases FTS and receives the Canadian exploration expenses (“CEEs”) renounced by the Company through the issuance of FTS. Also, in some mining FTS cases, receives additional tax savings via Income Tax Credits (“ITCs”) associated with FTS purchases**



**All funds are held in escrow until the completion of the transaction**

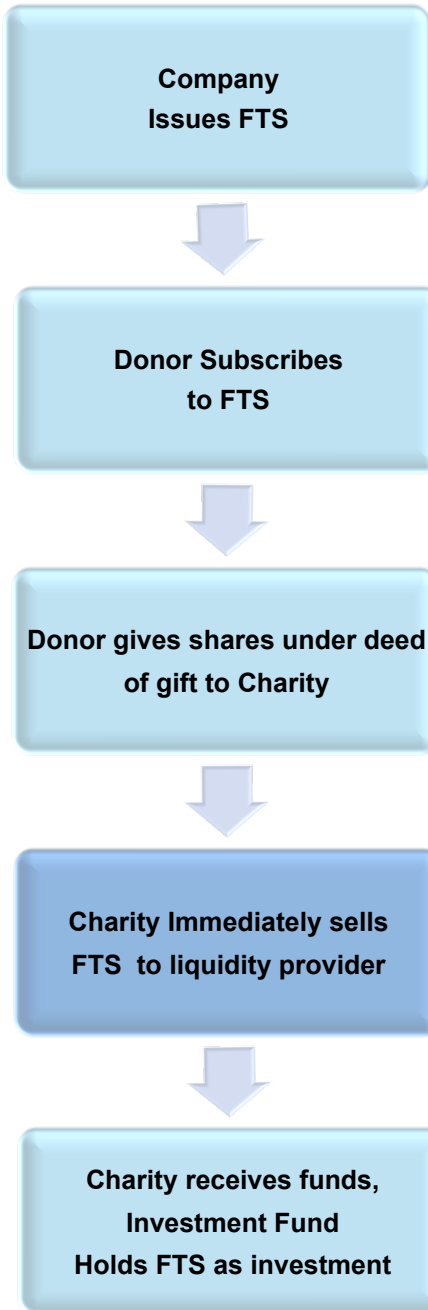
# Dissecting the Flow Through Shares Deal Structure



Donor donates the shares to a charity **of his / her choice** to fulfill commitment and receives the charitable donation tax credit

Net cash outflow, after all tax credits and deductions, is approximately **15% - 25% of amount donated**

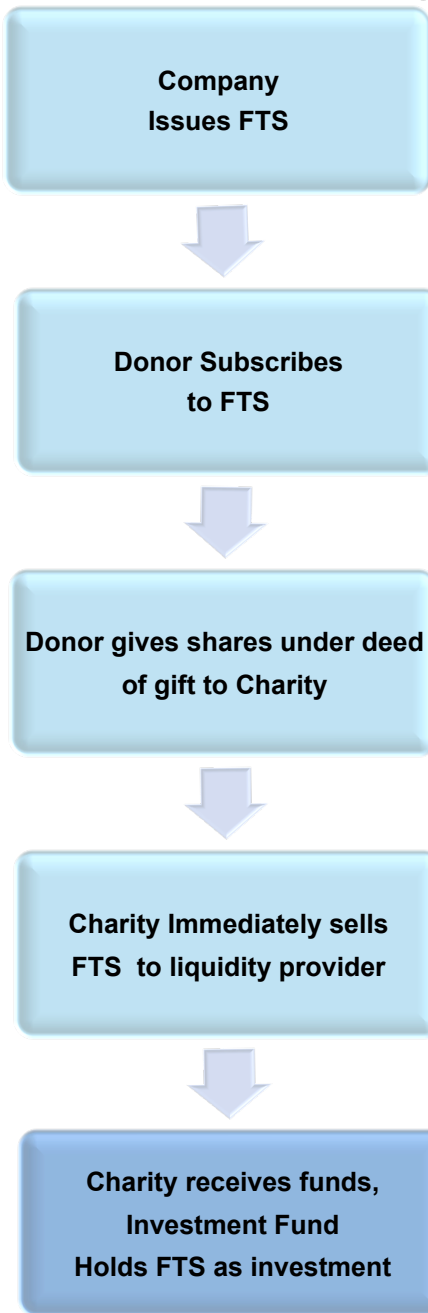
# Dissecting the Flow Through Shares Deal Structure



Charity receives FTS from the Philanthropist and immediately sells the shares to the Investment Fund based on a pre-arranged liquidity agreement

This ensures **certainty of cash** from the sale, thereby allowing the charity to issue a tax receipt for the sale proceeds to the philanthropist

# Dissecting the Flow Through Shares Deal Structure



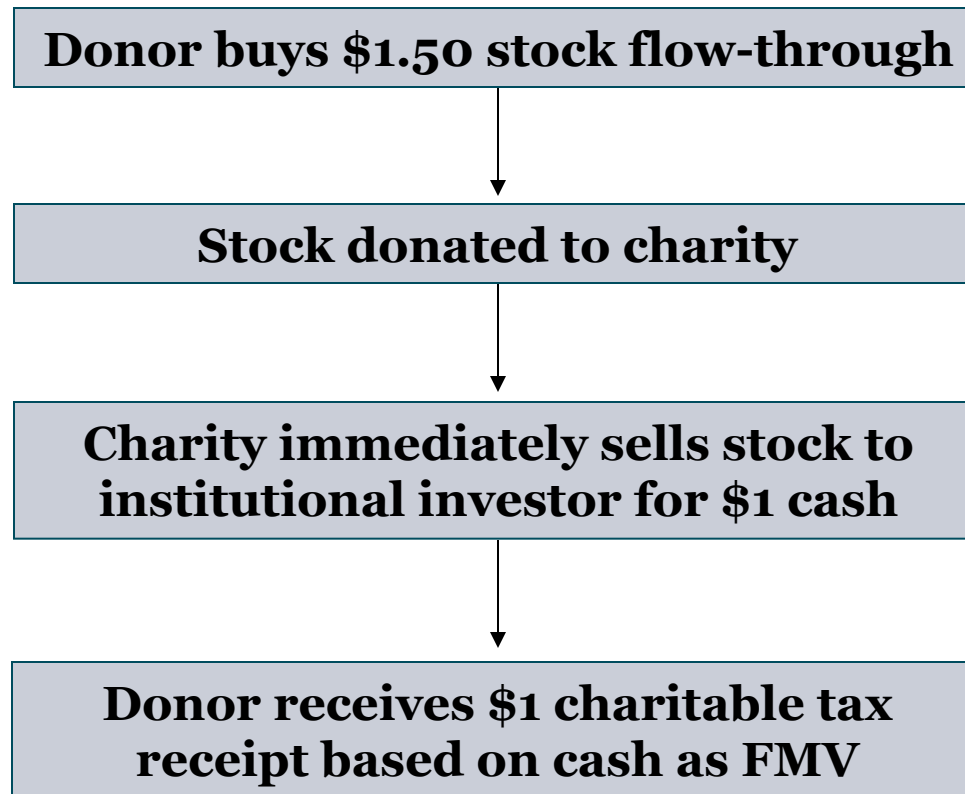
Charity receives funds and issues donation receipt to donor

Investor / Fund buys shares at a sizable discount to current market value (**approximately 20% – 45% below market value**)

Investor / Fund receives warrants associated with the transaction, if any, and obtains the ability to hedge exposure via short sales, equity swap or derivative trade

Most transactions are completed on a private placement basis, therefore stock is **subject to 4-month hold** period before the fund can sell.

# Summary - Guaranteed Benefit *Flow-Through* all happens same day



# A closer look at how this works

## 1. Purchase \$1.50 in flow-through shares



= 75¢ flow-through tax savings (will assume 50% tax rate)





# A closer look at how this works

Philanthropist buys a \$1.50 flow-through stock,  
(usually has a 4 month hold)



stock is immediately donated to charity. Then  
charity sells stock to a pre-arranged institutional  
buyer for \$1



# A closer look at how this works

**The charity gets \$1 in cash from sale of stock to institutional buyer**



**Philanthropist receives \$1 tax receipt from the charity (fair market value is \$1 in cash received)**

**The philanthropist receives 50¢ Charitable tax savings**



# Tax savings on a \$1 Donation using WCPD Guaranteed Flow-Through

**\$1.50 flow-through investment**



**Flow-Through tax savings**



**\$1 Donation**



=



**Charitable tax savings**

+



# Cost of \$1 Donation

Regular stock or cash  
Donation:



**costs**



**VS.**

**Donation using  
WCPD's Guaranteed  
Flow-Through:**



**costs**



**By combining flow-through &  
charitable tax credits**