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DOCNUM 2012-0466731R3  
REFDATE 12XXXX  
SUBJECT Donation of flow-through shares  
SECTION 110.1; 118.1; 38(a.1); 248(32)

Please note that the following document, although believed to be correct at the time of issue, may not represent the current position of the CRA. Prenez note que ce document, bien qu'exact au moment émis, peut ne pas représenter la position actuelle de l'ARC.

PRINCIPAL ISSUES: Whether the donation of flow-through shares constitutes a gift for income tax purposes.  
POSITION: Yes, in this particular situation.  
REASONS: Based on the facts and having regard to the caveats provided in the Ruling, it is our view that the donation would constitute a gift for income tax purposes and that the CEE renounced to the donor and any investment tax credit claimed pursuant to the flow-through share financing agreement will not constitute an advantage under the draft split-receipting provisions.

XXXXXXXXXXXX

2012-046673

XXXXXXXXXXXX, 2012

Dear XXXXXXXXXXXX:

Re: Advance Income Tax Ruling Request  
XXXXXXXXXXXX  
The Donors and Charities XXXXXXXXXXXX

This is in reply to your letter of XXXXXXXXXXXX in which you requested an advance income tax ruling on behalf of the above named taxpayers. We also acknowledge the information provided in subsequent correspondence and during our various telephone conversations in connection with your request (XXXXXXXXXXXX).

This letter is based solely on the facts and proposed transactions described below. Any documentation submitted in respect of your request does not form part of the facts and proposed transactions and any references thereto are provided solely for the convenience of the reader.

We understand that, to the best of your knowledge and that of the taxpayers involved, none of the issues involved in the ruling request:

- A. is in an earlier return of the taxpayers or a related person;
- B. is being considered by a Tax Services Office or Taxation Centre in connection with a previously filed tax return of the taxpayers or a related person;

C. is under objection by the taxpayers or a related person;

D. is before the courts or, if a judgment has been issued, the time limit for appeal to a higher court has expired; or

E. is the subject of a ruling previously issued to the taxpayers by the Directorate, other than rulings XXXXXXXXXXXX.

Unless otherwise stated, all references to a statute are to the Income Tax Act R.S.C. 1985, 5th Supplement, c.1, as amended, (the “Act”) and all terms used herein that are defined in the Act or the Income Tax Regulations (the “Regulations”) have the meaning given in such definition unless otherwise indicated.

Our understanding of the relevant definitions, the facts, proposed transactions and the purpose of the proposed transactions is as follows:

#### DEFINITIONS

“Agent” means XXXXXXXXXXXX;

“Arrangement” means the proposed transactions as described in 13 to 36 below;

“BCo” means XXXXXXXXXXXX;

XXXXXXXXXXXX;

“Canadian-controlled private corporation” has the meaning assigned by subsection 125(7);

“Canadian partnership” has the meaning assigned by subsection 102(1);

“capital dividend account” has the meaning assigned by subsection 89(1);

“CDS” means Canadian Depository for Securities;

“CEE” means Canadian exploration expense as defined in subsection 66.1(6);

“Charity” means each Charity XXXXXXXXXXXX, individually, and “Charities” means such charities, collectively;

“Charity A” means XXXXXXXXXXXX;

“CRA” means the Canada Revenue Agency;

“Donated Share” means a Share that a Donor will donate to a Charity of their choice as described in 22 below and “Donated Shares” means such shares, collectively;

“Donor” means each donor XXXXXXXXXXXX, individually, and “Donors” means such donors, collectively;

“Exchange” means the XXXXXXXXXXXX;

“flow-through mining expenditure” has the meaning assigned by subsection 127(9);

“flow-through share” has the meaning assigned by subsection 66(15);

“Individual Donor” means a Donor XXXXXXXXXXXX except for BCo and the Partnership, and “Individual Donors” means such donors, collectively;

“investment tax credit” has the meaning assigned by subsection 127(9);

“Liquidity Provider A” means XXXXXXXXXXXX;

“Liquidity Provider B” means XXXXXXXXXXXX;

“Liquidity Providers” means Liquidity Provider A and Liquidity Provider B, collectively;

“Mr. X” means XXXXXXXXXXXX;

“Mr. Y” means XXXXXXXXXXXX;

“Offering” means the offering of Shares described in 10 and 11 below;

“Partnership” means XXXXXXXXXXXX;

“principal-business corporation” has the meaning assigned by subsection 66(15);

“Promoter” means XXXXXXXXXXXX;

“public corporation” has the meaning assigned by subsection 89(1);

“qualified donee” has the meaning assigned by subsection 149.1(1);

XXXXXXXXXXXX;

“registered charity” has the meaning assigned by subsection 248(1);

“Resource Company” means XXXXXXXXXXXX;

“Sale Share” means a Share that a Donor will sell to a Liquidity Provider as described in 29 below and “Sale Shares” means such shares, collectively;

“Share” means a common share of the Resource Company;

“specified person” has the meaning assigned by subsection 6202.1(5) of the Regulations;

“Subscriber” means any person or partnership who subscribes for the Shares;

“taxable Canadian corporation” has the meaning assigned by subsection 89(1); and

“Underwriters” means a syndicate of underwriters led by XXXXXXXXXXXX.

## FACTS

1. The Promoter was incorporated on XXXXXXXXXXXX, under the Business Corporations Act (XXXXXXXXXX). It is a taxable Canadian corporation. Its tax services office is the XXXXXXXXXXXX TSO and its tax centre is the XXXXXXXXXXXX Tax Centre. It has a fiscal year ending on XXXXXXXXXXXX.
2. The Promoter carries on the business of XXXXXXXXXXXX. The Promoter is not registered under the Securities Act (XXXXXXXXXX) to engage in or advise on trading securities.
3. The Promoter has applied for and received tax shelter identification number XXXXXXXXXXXX in respect of the Arrangement in accordance with and pursuant to subsection 237.1(2).
4. The Donors XXXXXXXXXXXX consist of the following:
  - (a) the Individual Donors who are individuals resident in Canada;
  - (b) BCo, a Canadian-controlled private corporation; and
  - (c) the Partnership, a Canadian partnership, the members of which are a trust resident in Canada and a Canadian-controlled private corporation.
5. Each of the Donors is not a trader or dealer in securities and does not hold securities as inventory.
6. The Resource Company is a taxable Canadian corporation and a public corporation. It is a XXXXXXXXXXXX company and a principal-business corporation. The Shares of the Resource Company are listed on the Exchange under the trading symbol XXXXXXXXXXXX.
7. Each Charity is a registered charity in Canada and a qualified donee. Charity A is the only private XXXXXXXXXXXX. Mr. Y, a Donor XXXXXXXXXXXX, does not deal at arm’s length with Charity A; however, the terms of Mr. Y’s donation to Charity A will be the same as arm’s length donations by other Donors to arm’s length Charities. In addition, the percentage of Shares of the Resource Company held or to be held by Charity A at any time will not exceed XXXXXXXXXXXX% of all the issued and outstanding Shares of the Resource Company.
8. The Liquidity Providers are independent parties which will acquire the Shares in the ordinary course of their business.
9. The Promoter, the Resource Company, the Agent, the Liquidity Providers and the Donors deal with each other at arm's length. Each Charity also deals at arm's length with the Promoter, the Resource Company, the Agent and the Liquidity Providers. With the exception of Mr. Y, who is making a donation to Charity A, each Donor deals with their respective Charity at

arm's length.

10. On XXXXXXXXXXXX, the Resource Company entered into an agreement with the Underwriters, whereby the Underwriters agreed to arrange, on a "bought deal" basis, for purchasers to purchase XXXXXXXXXXXX Shares of the Resource Company for gross proceeds of \$XXXXXXXXXXXX. The Resource Company has committed to use the proceeds of the Offering for exploration activities on its properties in XXXXXXXXXXXX.

11. The Offering is being made by way of private placement. The Underwriters negotiated the terms of the Offering, including the subscription price and premium over market trading price, with the Resource Company. The Offering has the following three parts:

(a) an offering of XXXXXXXXXXXX shares to residents of XXXXXXXXXXXX at a price of \$XXXXXXXXXXXX per share for total proceeds of \$XXXXXXXXXXXX;

(b) an offering of XXXXXXXXXXXX shares to investors not resident in XXXXXXXXXXXX at a price of \$XXXXXXXXXXXX per share for proceeds of \$XXXXXXXXXXXX; and

(c) a "XXXXXXXXXX" of XXXXXXXXXXXX shares which will be distributed by one of the Underwriters to XXXXXXXXXXXX residents at a price of \$XXXXXXXXXXXX per share for total proceeds of \$XXXXXXXXXXXX.

XXXXXXXXXX. The terms of this offering were announced in a press release issued XXXXXXXXXXXX.

12. The Agent is not one of the Underwriters.

## PROPOSED TRANSACTIONS

13. Donors will subscribe for XXXXXXXXXXXX Shares under parts (a) and (b) of the Offering described in 11 above. The remaining Shares will be offered to investors who are not participating in the Arrangement.

14. Each Donor will open an account with the Agent and will deposit sufficient cash to pay the entire subscription price for the Shares. The Donors will not borrow the funds used to subscribe for the Shares. Each Charity will establish an account with the Agent to facilitate the receipt and sale of the Donated Shares.

15. The Agent will provide the following services:

a) opening and maintaining accounts to demonstrate the chain of title for the Shares.

b) as is customary in the industry, signing the subscription agreement on behalf of the Donors to avoid the logistics of having multiple subscribers;

c) completing client identification procedures to comply with anti-money laundering rules;

- d) completing procedures necessary to satisfy “know your client” and suitability requirements under applicable securities legislation;
- e) acting as escrow agent for funds received by Donors involved in the Arrangement;
- f) recording all trades in its internal records, again consistent with industry practice;
- g) issuing confirmations of trade as required by applicable securities law; and
- h) providing settlement services as most transactions are settled electronically and can only be completed through CDS participants.

16. The Resource Company will enter into subscription agreements with the Agent on behalf of the Donors and, in each case, the agreement will be one described in the definition of flow-through share in subsection 66(15). There will be two forms of subscription agreement – one for residents of XXXXXXXXXXXX under which the Resource Company will incur exploration expenses in XXXXXXXXXXXX, and one for residents of XXXXXXXXXXXX under which the Resource Company will incur exploration expenses in XXXXXXXXXXXX. Other than the difference in price and the commitment on where funds will be expended, the subscription agreements will be essentially the same.

17. The Agent will not receive any commissions from the Resource Company in respect of the subscription for the Shares.

18. XXXXXXXXXXXX, Individual Donors will subscribe for XXXXXXXXXXXX Shares, BCo will subscribe for XXXXXXXXXXXX Shares and the Partnership will subscribe for XXXXXXXXXXXX Shares. The Shares will be issued pursuant to the terms of the subscription agreements described in 16 above. The subscription price for the Shares issued to the Donors will be paid from the funds deposited by the Donors with the Agent. Once issued, the Shares will be listed on the Exchange.

19. None of the Promoter, the Donors, the Charities, the Agent or the Liquidity Providers is or will be a specified person in respect of the Resource Company within the meaning of subsection 6202.1(5) of the Regulations.

20. Pursuant to the terms of the subscription agreement described in 16 above, the Resource Company will incur and renounce eligible CEE to the Donors pursuant to subsection 66(12.6). All attendant tax reporting and renunciation forms will be prepared and filed by the Resource Company in accordance with the Act and Regulations.

21. In the event that any of the CEE renounced qualifies as a flow-through mining expenditure, an Individual Donor will claim an investment tax credit to the extent provided for in subparagraph 127(5)(a)(i). XXXXXXXXXXXX.

22. While not obligated to do so, each Donor intends to donate the Donated Shares unconditionally to the Donor’s respective Charity XXXXXXXXXXXX by

deed of gift. A total of XXXXXXXXXXXX Shares will be donated by the Donors XXXXXXXXXXXX. Each Donor, as the subscriber and purchaser of the Shares, will issue a direction to the Agent, the Resource Company and its transfer agent to transfer the Donated Shares to the account of the Donor's respective Charity. Each Charity will issue a donation receipt to the respective Donor equal to the fair market value of the Donated Shares. The receipt will contain the information required by subsection 3501(1) of the Regulations.

23. The Charities have indicated that they do not want to retain the Donated Shares, but instead want to sell them to realize cash for their charitable purposes.

24. The Promoter on behalf of the Charities has engaged the Agent to find purchasers for the Donated Shares. Since the Promoter is acting on behalf of the Charities, and its fees are based on the sale price received by the Charities, it has economic and legal incentives to ensure the Charities receive the highest possible price for the sale of the Donated Shares.

25. Each Charity intends to sell all of its respective Donated Shares to the Liquidity Providers XXXXXXXXXXXX. The Liquidity Providers will make an offer to purchase all Donated Shares from the Charities.

26. The Charities will enter into share purchase agreements with the Liquidity Providers. The price payable by the Liquidity Providers will be an amount that is the fair market value at the time the Donated Shares are acquired by the Liquidity Providers. The Liquidity Providers and the Promoter and Agent, on behalf of the Charities, have negotiated this price at arm's length, without any direction or influence from the Donors or the Resource Company. The Charities will direct the Agent, the Resource Company and its transfer agent to transfer title to the Donated Shares from their respective accounts to accounts established by the Liquidity Providers. A total of XXXXXXXXXXXX Donated Shares will be sold by the Charities XXXXXXXXXXXX.

27. Until their formal acceptance of the offer from the Liquidity Providers, none of the Charities has given any undertaking or is obliged in any manner to sell the Donated Shares to the Liquidity Providers. A Charity can still participate in the Arrangement if it chooses not to sell the Donated Shares. If a Charity wished to hold the Donated Shares and sell them later (either within the hold period of XXXXXXXXXXXX months from the date of closing to another accredited investor, or after the hold period into the market), the Charity will be required to pay the Promoter its XXXXXXXXXXXX% fee as described in 31 below based on that ultimate sale price. However, since holding the Donated Shares involves considerable risk of changing prices, no Charity is likely to assume such a price risk and will sell the Donated Shares to the Liquidity Providers.

28. The Liquidity Providers will advise the Underwriters that they are prepared to purchase any Shares issued under the Offering from any Subscriber of the Shares on the same terms and conditions as the Donated Shares the Liquidity Providers will purchase from the Charities. There will be no restrictions on the number of Shares of the Offering that the Liquidity Providers are willing to purchase.

29. The Liquidity Providers will agree to purchase the Sale Shares from the Donors for an amount that is the fair market value at the time the Sale Shares are acquired by the Liquidity Providers (determined without regard to any agreement). A total of XXXXXXXXXXXX Sale Shares will be sold by the Donors XXXXXXXXXXXX. The Donors will direct the Agent to transfer title to the Sale Shares from their respective accounts to accounts established by the Liquidity Providers.

30. In its internal records, the Agent will show the purchase of the Shares by the Donors, the subsequent transfer of the Donated Shares to the Charities, the Charities' ultimate sale of the Donated Shares to the Liquidity Providers, and the Donors' sale of the Sale Shares to the Liquidity Providers. The records of the Resource Company will also show the Donors as the purchasers of the Shares and will issue tax reporting forms to the Donors.

31. As consideration for having arranged the series of transactions, the Charities will pay a fee to the Promoter totalling XXXXXXXXXXXX% of the gross selling price of any Donated Shares sold to the Liquidity Providers. This fee includes such services as document preparation for the Donors and the Charities; administrative support to ensure all documents are properly and validly executed, that funds necessary to complete the subscription for flow-through shares are in place for closing, that funds to purchase the Donated Shares pursuant to share purchase agreements with Liquidity Providers are in place for closing; due diligence on the Resource Company, negotiations with the Agent and final reporting.

32. The Charities will pay a financial services fee to the Agent for its services in selling the Donated Shares to the Liquidity Providers. This sales commission will be XXXXXXXXXXXX% of the gross purchase price of the Donated Shares paid by the Liquidity Providers.

33. Donors who sell Sale Shares will also pay a financial services fee to the Agent for its services in selling those shares to the Liquidity Providers. This sales commission will be XXXXXXXXXXXX% of the gross purchase price of the Sale Shares paid by the Liquidity Providers.

34. No fees, commissions, or compensation of any kind will be paid by or received by any participants in the proposed transactions other than commissions payable by the Resource Company to the Underwriters in accordance with the Underwriting Agreement and those described in 31, 32 and 33 above.

35. All purchases, transfers and dispositions of the Shares will comply with all applicable securities laws.

36. Other than the tax incentives relating to the CEE, the investment tax credit, the XXXXXXXXXXXX, the Donors and persons or partnerships not dealing at arm's length with the Donors, will not receive any benefit or advantage in respect of the donation of the Donated Shares to the Charities.

PURPOSE OF THE PROPOSED TRANSACTIONS



37. The purpose of the proposed transactions is to allow donors to respond to government initiatives designed to encourage philanthropy by providing preferential income tax treatment for gifts of publicly traded shares to charitable organizations. However, notwithstanding that flow-through shares may be publicly traded, there may not be an active market so that charitable organizations cannot convert the shares received as donations into readily available cash. Under the proposed transactions, the Liquidity Providers, in accordance with their own independent investment objectives, will purchase the Donated Shares from the Charities so they can convert the gift in kind into funds which can be applied for their charitable purposes.

#### OTHER INFORMATION

38. You advise that Mr. X is not a Donor but will subscribe for XXXXXXXXXXXX Shares through the Promoter. Mr. X will agree to sell such Shares to Liquidity Provider A on the same terms and conditions as the Liquidity Providers' purchase of the Shares from the Donors and the Charities. In addition, Mr. X will pay a financial service fee to the Agent equal to XXXXXXXXXXXX% of the gross purchase price of the Shares paid by Liquidity Provider A.

#### RULINGS GIVEN

Provided that the preceding statements constitute a complete and accurate disclosure of all the relevant facts, the proposed transactions, and purpose of the proposed transactions, and provided further that the proposed transactions are carried out as described above, we confirm that:

A. The Arrangement will constitute a gifting arrangement pursuant to paragraph (a) of the definition of "gifting arrangement" and a tax shelter pursuant to paragraph (b) of the definition of "tax shelter" in subsection 237.1(1).

B. Provided the parties to the Arrangement and in particular the Resource Company and the Liquidity Providers deal at arm's length, neither the donation of a Donated Share to the Charity by a Donor nor the sale of that Donated Share to the Liquidity Providers as described above will, in and by themselves, cause the Donated Share to be a "prescribed share", within the meaning of subsection 6202.1(1) of the Regulations, for purposes of the definition of flow-through share in subsection 66(15).

C. An amount equal to the fair market value on the date of donation of the Shares donated by each Individual Donor to the Individual Donor's respective Charity as described in 22 above, will qualify as a gift for the purposes of the definition of "total charitable gifts" in subsection 118.1(1) provided an official receipt containing prescribed information is filed as required by subsection 118.1(2).

D. An amount equal to the fair market value on the date of donation of the Shares donated by BCo, to its Charity as described in 22 above, will qualify as a gift under paragraph 110.1(1)(a) provided an official receipt containing prescribed information is filed as required by subsection 110.1(2).

E. An amount equal to the fair market value on the date of donation of the Shares donated by the Partnership to its Charity as described in 22 above, will be deemed to be a gift made by each member of the Partnership to the extent of each member's share thereof under subsection 110.1(4) or 118.1(8), as the case may be, provided that an official receipt containing prescribed information is filed as required by subsection 110.1(2) or 118.1(2), as the case may be.

F. Provided that a Donated Share is capital property to a Donor, no portion of the capital gain arising from the disposition of the Donated Share, if any, resulting from the making of the gift to the Donor's Charity will be included in computing the Donor's taxable capital gain to the extent provided for in paragraph 38(a.1).

G. Provided the parties to the Arrangement deal at arm's length with one another, provided the sale of a Sale Share to a Liquidity Provider by a Donor is for the fair market value of the Share at the time the Share is acquired by the Liquidity Provider (determined without regard to any agreement for the sale of the Share), and provided there are no other agreements or obligations, whether absolute or contingent, in addition to those disclosed in the facts herein, the agreement for the sale of, and the sale of, the Sale Share by each Donor to a Liquidity Provider will not, in and of itself, cause the Sale Share issued by the Resource Company to be a "prescribed share", within the meaning of subsection 6202.1(1) of the Regulations, for the purposes of the definition of a flow-through share in subsection 66(15).

The above rulings are given subject to the limitations and qualifications set out in Information Circular 70-6R5 and are binding, subject to the caveats noted below, on the CRA provided that the proposed transactions are completed before XXXXXXXXXXXX.

## OPINION

As stated in paragraph 20 of Information Circular 70-6R5, although the CRA does not provide advance income tax rulings on draft legislation, it will give non-binding technical interpretations.

In this regard, provided that the above statements constitute a complete and accurate disclosure of all the relevant facts, proposed transactions and purpose of the proposed transactions, and provided that the applicable amendments to the Act as set out in the Notice of Ways and Means Motion of October 24, 2012 are enacted substantially as proposed, it is our opinion, subject to the caveats noted below, that the CEE renounced to the Donors pursuant to the agreement described in the definition of flow-through share and any investment tax credit or XXXXXXXXXXXX tax credit claimed by an Individual Donor pursuant to the flow-through share financing will not constitute an advantage for the purposes of proposed subsection 248(32).

## CAVEATS

Except as expressly stated, this letter does not imply acceptance, approval or confirmation of any other income tax implications of the facts

or proposed transactions described herein. For greater certainty, the CRA has not considered, reviewed, agreed to or ruled on:

- a) the determination of the fair market value of the Shares including, in the determination of the fair market value of the Sale Shares, whether the price that has been negotiated by the Promoter and Agent, on behalf of the Charities, with the Liquidity Providers will be an amount equal to the fair market value of the Shares at the time they are acquired by the Liquidity Providers (determined without regard to the agreement for the sale of the Shares at the negotiated price). We also note that the sales price received by the Charities from the sale of the Donated Shares to the Liquidity Providers as described in 26 above may not be representative of the fair market value of the Donated Shares at the time the Donated Shares are donated by the Donors to the Charities. It is the responsibility of the Charities to support that the amount reported on the donation receipt reflects the fair market value of the property donated to the Charities;
- b) the determination of arm's length between any of the parties referred to herein;
- c) whether any of the Shares issued by the Resource Company will be a flow-through share within the meaning of that term in subsection 66(15);
- d) whether any of the expenses renounced by the Resource Company to the Donors will qualify as either a CEE within the meaning of that term in subsection 66.1(6), a flow-through mining expenditure within the meaning of that term in subsection 127(9), or XXXXXXXXXXXX;
- e) whether the Shares held by the Donors are held on income or capital account. We refer to the letter from the Business and Trusts Division to you dated XXXXXXXXXXXX which provides general comments in this regard;
- f) whether subsection 40(12) will apply to deem the Donors to have a capital gain from the disposition of the Donated Shares and whether any amount relating to the disposition of the Donated Shares by BCo is to be included in BCo's capital dividend account. We refer to our letter to you dated XXXXXXXXXXXX which provides general comments in this regard; and
- g) any other tax consequence relating to the facts or proposed transactions described herein other than those specifically described in the rulings given above.

Yours truly,

XXXXXXXXXXXX  
Section Manager  
for Division Director  
Financial Industries and Trusts Division  
Income Tax Rulings Directorate  
Legislative Policy and Regulatory Affairs Branch