

The Distinguished Investor

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Lack of Public Awareness About Flow Through Shares: A Missed Opportunity for Charities?

A general lack of awareness and public misconception about the advantages of oil and gas flow through shares could render into missed opportunities for some charities, according to concerned financial experts.

“Flow through shares can effectively reduce the tax liability for high-income earners when structured properly,” says Dennis da Silva, Senior Vice President, Middlefield Capital Corporation. In fact, flow through shares have been referred to as ‘Canada’s best-kept tax planning secret’ in financial circles.

Flow through shares were designed to encourage the exploration and development of Canadian natural resources. They are common shares issued by Canadian oil and gas, mining and renewable energy companies on a “flow through” basis. They have the same characteristics as other common shares of the companies that offer them, with one important difference: the proceeds must be spent on exploration, and the tax deductions generated must be transferred by the issuer to the initial purchasers of the shares. Current tax legislation allows 100 per cent tax deduction for every dollar spent on exploration.

A philanthropist may use flow through shares as a way to reduce the cost of charitable donations, or alternatively, to donate more without increasing their cost. If a donor decides to give their flow through shares to charity and the shares have sustained their original value, a donor can essentially more than double their charitable contribution.

“For donors interested in increasing their charitable gifts, flow throughs are a good option,” says Henry Goldbach, Partner, Horwarth Orenstein LLP.

While some charities have already reaped the benefits of bigger donations from donors as a result of positive returns from flow through shares, there is definitely potential for a lot more charities in Canada to also realize the rewards associated with flow through shares.

.... Continued on Next Page

*Lack of Public Awareness About Flow Through Shares:
A Missed Opportunity for Charities* ...Continued from Page One

Despite increasingly limited tax shelters in Canada, most investors remain unaware of strategies that take advantage of the tax treatment of capital gains on charitable donations of shares, as well as the tax benefits of flow through share investments. Even when an individual becomes familiar with flow through shares, the shares are not necessarily readily accessible to all.

Most flow through shares are purchased through professionally managed investment limited partnerships. Investment advisors that have long-standing relationships with these professional management companies are at an advantage because they have better access to these managed products, which they can in turn make available to their clients.

It's worth noting that larger national dealers, such as National Bank Financial, are generally favoured over smaller firms by professional management companies and are therefore in a better position to make flow through funds available to clients.

If an investment advisor has not talked about flow through funds with a client as a tax savings opportunity, chances are there is an underlying reason. That reason could very well have to do with the fact that the advisor simply does not have units to offer. Or, it could be that the advisor is not familiar with concepts and strategies to make flow through funds advantageous.

Investment advisors are strongly encouraged to familiarize themselves with flow-through shares, especially as public awareness about these opportunities grows. At the same time, investors may raise the idea of flow through shares with their advisors. If an advisor declines a flow through share

opportunity because they lack the specialized expertise to consult in this area, investors should not get discouraged. The shares are out there for purchasing – it's simply a matter of finding an advisor that has the knowledge and expertise to provide advice.

It's important to keep in mind that flow through fund offerings are time-sensitive, as they only become available during certain windows of opportunity throughout the year. Investors must have an understanding of flow through funds prior to when the units become available so that they can act fast and not miss a purchasing opportunity.

Those that are successful with flow through funds, have generally consulted with their advisor early in the game and have determined their candidacy well before a flow through fund is purchased.

As more awareness about flow through funds spreads, it is expected that charities will reap the benefits over the next several years. Statistics Canada reported a 1.2 per cent increase in charitable giving in Canada last year but if more investors actively seek flow through funds, that number has the potential to grow.

Darryl B. Ura, Vice President, Investment Advisor with National Bank Financial, has been providing financial consulting services to high-net worth individuals for over 17 years. He provides strategies to help clients minimize any risk associated with flow through shares, and gives advice to individuals in order to ensure maximum profitability. He can be reached at 416-869-8812 or by email darryl.ura@nbf.ca.