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DRAFT REGULATIONS ON FLOW-THROUGH SHARE RULES ISSUED

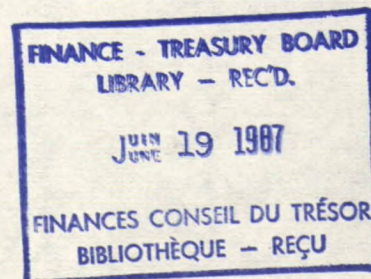
The Honourable Michael Wilson, Minister of Finance, today released draft Income Tax Regulations which relate to the flow-through share provisions of the Income Tax Act.

Under the flow-through share provisions, holders of qualifying shares in a resource corporation may deduct resource expenditures (such as Canadian exploration expense) that are incurred by the corporation and then renounced to the shareholders. These regulations define the shares -- "prescribed shares" -- which do not qualify as flow-through shares. They reflect the changes announced today in the White Paper on Tax Reform.

The Minister said he is releasing draft Regulations now in order to provide certainty in the application of the flow-through share provisions.

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DRAFT REGULATIONS - PRESCRIBED SHARES

1.(1) All that portion of section 6202 of the Income Tax Regulations preceding paragraph (a) is revoked and the following substituted therefor:

"6202.(1) For the purposes of paragraph 66(15)(d.1) and subparagraphs 66.1(6)(a)(v), 66.2(5)(a)(v) and 66.4(5)(a)(iii) of the Act, a share of a class of the capital stock of a corporation (in this section referred to as the "issuing corporation") is a prescribed share if it was issued after December 31, 1982, and"

(2) Section 6202 of the said Regulations is further amended by adding thereto the following subsection:

"(2) For the purposes of paragraph 66(15)(d.1) of the Act, subsection (1) does not apply to a share of the capital stock of an issuing corporation if the share was issued on or after June 18, 1987, unless the share was issued before April 1988

(a) pursuant to an agreement in writing entered into before June 18, 1987;

(b) as part of a distribution of shares of the corporation to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement or an offering memorandum required by law to be filed before distribution of the shares could commence, filed before June 18, 1987 with a public authority in Canada pursuant to and in accordance with the securities legislation of the jurisdiction in which the shares were distributed; or

(c) to a partnership where all partnership interests were issued as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement or an offering memorandum required by law to be filed before any distribution of the interests could commence, filed before June 18, 1987 with a public authority in Canada pursuant to and in accordance with the securities legislation of the jurisdiction in which the interests were distributed."

2. Part LXII of the said Regulations is amended by adding thereto, immediately after section 6202 thereof, the following section:

"6202.1(1) For the purposes of paragraph 66(15)(d.1) of the Act, a new share of the capital stock of a corporation is a prescribed share if, at the time it is issued,

(a) under the terms or conditions of the share or any agreement in respect of the share or its issue,

(i) the amount of the dividends (in this section referred to as the "dividend entitlement") that may be declared or paid on the share is, by way of a formula or otherwise, fixed, limited or established to be not less than a minimum amount,

(ii) the amount (in this section referred to as the "liquidation entitlement") that the holder of the share is entitled to receive in respect of the share on the dissolution, liquidation or winding-up of the corporation or on the redemption, acquisition or cancellation of the share by the corporation or specified person in relation to the corporation is, by way of a formula or otherwise, fixed, limited or established to be not less than a minimum amount,

(iii) the share is convertible unless

(A) it is convertible only into

(I) another share of the corporation that, if issued, would not be a prescribed share,

(II) a right or warrant that, if exercised, would allow the person exercising it to acquire a share of the corporation that, if issued, would not be a prescribed share, or

(III) both a share described in subclause (I) and a right or warrant described in subclause (II), and

(B) all or substantially all the consideration receivable for the exchange of the share on the conversion is the share described in subclause (A)(I) or, the right or warrant described in subclause (A)(II) or both, as the case may be, or

(iv) any person or partnership has, either absolutely or contingently, an obligation to reduce, or to cause the corporation to reduce the paid-up capital in respect of the share (other than pursuant to a conversion of the share, where the right to so convert does not cause the share to be a prescribed share under subparagraph (iii));

(b) any person or partnership has, either absolutely or contingently, an obligation

(i) to provide assistance to acquire the share,

(ii) to make a loan or payment,

(iii) to transfer property, or

(iv) otherwise to confer a benefit by any means whatever, including the payment of a dividend,

that may reasonably be considered to be, directly or indirectly, a repayment or return by the corporation or a specified person in relation to the corporation of all or part of the consideration for which the share was issued;

(c) any person or partnership was obligated, either absolutely or contingently, to effect any undertaking with respect to the share (including any guarantee, security, indemnity, covenant or agreement and including the lending of funds to or the placing of amounts on deposit with, or on behalf of, the holder of the share or any specified person in relation to the holder) that may reasonably be considered to have been given to ensure that

(i) any loss that the holder of the share or a specified person in relation to the holder may sustain by reason of the holding, ownership or disposition of the share or any other property is limited in any respect, or

(ii) the holder of the share or a specified person in relation to the holder will derive earnings by reason of the holding, ownership or disposition of the share or any other property;

(d) the corporation or a specified person in relation to the corporation can reasonably be expected

(i) to acquire or cancel the share in whole or in part,

(ii) to reduce the paid-up capital of the corporation in respect of the share, or

(iii) to make a payment, transfer or other provision, directly or indirectly, by way of a dividend, loan, purchase of shares, financial assistance to any purchaser of the share or in any other manner whatever, that may reasonably be considered to be a repayment or return of all or part of the consideration for which the share was issued

within five years after the date the share is issued, otherwise than as a consequence of an amalgamation of a subsidiary wholly-owned corporation, a winding-up to which subsection 88(1) of the Act applies or the payment of a dividend by a subsidiary wholly-owned corporation to its parent;

(e) any person or partnership can reasonably be expected to effect, within five years after the date the share is issued, any undertaking described in paragraph (c) with respect to the share; or

(f) it can reasonably be expected that, within five years after the time the share is issued,

(i) any of the terms or conditions of the share or any existing agreement relating to the share or its issue will thereafter be modified, or

(ii) any new agreement relating to the share or its issue will be entered into,

in such a manner that the share would be a prescribed share if it had been issued at the time of such modification or at the time the new agreement is entered into.

(2) For the purposes of paragraph 66(15)(d.1) of the Act, a new share of the capital stock of a corporation is a prescribed share if the holder of the share has a right, under any agreement or arrangement entered into under circumstances where it is reasonable to consider that the agreement or arrangement was contemplated at or before the time of issue, to dispose of the share and, through a transaction or event or a series of transactions or events contemplated by the agreement or arrangement, to acquire a share of another corporation that would be a prescribed share under subsection (1), other than a share of a mutual fund corporation that would not be a prescribed share if subsection (1) were read without reference to subparagraph (d)(i) thereof.

(3) For the purposes of subsection (1),

(a) the dividend entitlement of a share of a corporation shall be deemed not to be fixed, limited or established to be not less than a minimum amount where it may reasonably be considered that all or substantially all of the dividend entitlement is determinable by reference to the dividend entitlement of another share of the capital stock of the corporation unless the dividend entitlement of that other share is described in subparagraph (1)(a)(i);

(b) the liquidation entitlement of a share of a corporation shall be deemed not to be fixed, limited or established to be not less than a minimum amount where it may reasonably be considered that all or substantially all of the liquidation entitlement is determinable by reference to the liquidation entitlement of another share of the capital stock of the corporation unless the liquidation entitlement of that other share is described in subparagraph (1)(a)(ii); and

(c) where a corporation has merged or amalgamated with one or more other corporations, the corporation formed as a result of the merger or amalgamation shall be deemed to be the same corporation as, and a continuation of, each of its predecessor corporations and a share issued on the merger or amalgamation as consideration for another share shall be deemed to be the same share as the share for which it was issued, but this paragraph does not apply if the share issued on the merger or amalgamation is a prescribed share at the time of its issue.

(4) For the purposes of paragraphs (1)(c) and (e), an agreement entered into between the first holder of a share and another person or partnership for the sale of the share to that other person or partnership for its market value at the time of the sale (determined without regard to the agreement) shall be deemed not to be an undertaking with respect to the share.

(5) For the purposes of this section,

"new share"
«action nouvelle»

"new share" means a share of the capital stock of a corporation issued on or after June 18, 1987, other than a share issued before April 1988

(a) pursuant to an agreement in writing entered into before June 18, 1987,

(b) as part of a distribution of shares of the corporation to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement or an offering memorandum required by law to be filed before distribution of the shares could commence, filed before June 18, 1987 with a public authority in Canada pursuant to and in accordance with the securities legislation of the jurisdiction in which the shares were distributed, or

(c) to a partnership where all partnership interests were issued as part of a distribution to the public made in accordance with the terms of a prospectus, preliminary prospectus, registration statement or an offering memorandum required by law to be filed before any distribution of the interests could commence, filed before June 18, 1987 with a public authority in Canada pursuant to and in accordance with the securities legislation of the jurisdiction in which the interests were distributed; and

"specified person"
«personne apparentée»

"specified person" in relation to a corporation or a holder of a share, as the case may be, (in this definition referred to as the "taxpayer") means any person or partnership with whom the taxpayer does not deal at arm's length or any partnership or trust of which the taxpayer (or a person or partnership with whom the taxpayer does not deal at arm's length) is a member or beneficiary respectively."

3. Subsection 1(1) is applicable in respect of shares issued after February 1986.

(2) Subsection 1(2) and section 2 are applicable in respect of shares issued after June 17, 1987.