ARE CHANGES TO THE FLOW-THROUGH SHARE REGIME AROUND THE CORNER?

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Prime Minister Justin Trudeau recently delivered a "Mandate Letter" to the new Minister of Finance, Bill Morneau, that summarized the Prime Minister's policy goals and included a lengthy listing of priorities to be pursued by the Finance Minister.

Of notable interest to those that operate in the Canadian natural resources sector, the Prime Minister's list of priorities included the following statement:

Develop proposals to allow a Canadian Exploration Expenses tax deduction only in cases of unsuccessful exploration and re-direct any savings to investments in new and clean technologies.

The Prime Minister's statement appears to be related to the pledge made by the new Government during the recent federal election campaign to "phase out subsidies for the fossil fuel industry" by limiting Canadian Exploration Expense tax deductions to the deduction of expenses incurred in the course of "unsuccessful exploration".

While it has been speculated that the contemplated restrictions will focus only on oil and gas exploration, no details have been released on how the ability to claim Canadian Exploration Expenses may be limited. Of particular significance, it is unclear how any future-oriented limitations may be reconciled with the provisions of the *Income Tax Act* that permit the current renunciation of Canadian Exploration Expenses to qualifying subscribers of flow-through shares.

Members of the natural resources sector, particularly those actively involved in oil and gas exploration activities, would be well advised to closely monitor the development of this new governmental policy and any resulting legislative proposals.

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.