Repurposing flow-through shares to promote innovation

May 13, 2025

On April 28, 2025, the Canadian electorate re-elected the Liberal Party to a fourth consecutive term. One of the proposed tax measures contained in the Liberal Party election platform (the Election Platform) was the expansion of the current flow-through share tax regime to innovative industries, such as artificial intelligence, quantum computing, biotechnology and advanced manufacturing.

Currently, mining, oil and gas and renewable energy corporations may enter into flow-through share agreements with investors to effectively transfer the tax deductions associated with qualifying exploration and development expenses from the corporation to the investor. This transfer of tax deductions from the corporation to the investor benefits the (i) corporation by reducing its cost of capital since flow-through shares are normally issued at a premium to common shares, and (ii) investor by providing them with an immediate return on their investment equal to the tax savings associated with their deduction of the transferred deductions in computing their taxable income. As a result, resource corporations get greater access to capital and investors get a lower risk investment.

The Election Platform contains a number of proposals that focus on innovation, emerging industries, and Canadian startups. As it relates to the latter, the Election Platform noted the Liberal Party's intent to incentivize investment in innovation, particularly with respect to Canadian startups, by extending the flow-through share regime to the Canadian startup ecosystem. Under this proposal, corporations engaged in artificial intelligence, quantum computing, biotech and advanced manufacturing would be permitted to issue flow-through shares in respect of eligible research and development expenses. The intent of the proposal is to accelerate the growth of innovative Canadian startup businesses by giving them greater access to capital.

Unfortunately, the Election Platform is light on technical details. No legislation has been proposed and no timeline has been announced.

Takeaways:

1. Innovative Canadian startup corporations may soon be able to source capital through flow-through share agreements.

2. Investors familiar with the tax benefits of flow-through shares may soon have investment opportunities outside of the resource sector.
3. Startup flow-through share limited partnerships are likely to be established to facilitate investment in innovative Canadian startups, like commonly seen in the mining sector, and could be used by private equity firms to enhance investor returns on early-stage investments.

For more information on this topic, please contact any of the key contacts listed below.

By

Robert Nearing

Expertise

Tax, StartUp & Grow™, Technology, Artificial Intelligence (AI)

BLG | Canada's Law Firm

As the largest, truly full-service Canadian law firm, Borden Ladner Gervais LLP (BLG) delivers practical legal advice for domestic and international clients across more practices and industries than any Canadian firm. With over 800 lawyers, intellectual property agents and other professionals, BLG serves the legal needs of businesses and institutions across Canada and beyond – from M&A and capital markets, to disputes, financing, and trademark & patent registration.

blg.com

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

The information contained herein is of a general nature and is not intended to constitute legal advice, a complete statement of the law, or an opinion on any subject. No one should act upon it or refrain from acting without a thorough examination of the law after the facts of a specific situation are considered. You are urged to consult your legal adviser in cases of specific questions or concerns. BLG does not warrant or guarantee the accuracy, currency or completeness of this publication. No part of this publication may be reproduced without prior written permission of Borden Ladner Gervais LLP. If this publication was sent to you by BLG and you do not wish to receive further publications from BLG, you may ask to remove your contact information from our mailing lists by emailing unsubscribe@blg.com or manage your subscription preferences at blg.com/MyPreferences. If you feel you have received this message in error please contact communications@blg.com. BLG's privacy policy for publications may be found at blg.com/en/privacy.

© 2026 Borden Ladner Gervais LLP. Borden Ladner Gervais LLP is an Ontario Limited Liability Partnership.