



# **Flow-through Shares for Canada's Biotechnology Industry**

December 1<sup>st</sup>, 2010



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## Table of Contents

Executive Summary.....	4
A. Introduction .....	6
B. The Issue .....	7
C. Proposal: Design of a Flow-through Shares Program for Canada's Biotechnology Sector .....	8
i. Direct & Portfolio Investment Models	
ii. Eligible Corporations	
iii. Eligible Expenditures	
iv. Eligible Investors	
v. Eligible Shares	
vi. Restrictions	
D. Analysis: Flow-through Shares for Biotechnology Companies .....	12
i. Economic Benefits	
ii. Cost of Program	
iii. Discussion	
E. Conclusion .....	15
<b>Appendix</b> .....	16
Exhibit A – Definition of a biotechnology business	
Exhibit B – Summary Results: Flow-through Shares Economic Impact Model	
Exhibit C – Sensitivity Cost Analysis	



## Executive Summary

### THE ISSUE

Building Canada's future bio-economy requires a strong capital environment enabling Canadian SMEs engaged in research and development (R&D) to fund, and grow their businesses. Canada's flow-through shares (FTS) program was enacted by the federal government in 1954 as a means of encouraging private sector investment for natural resources exploration. Today, FTS issued by oil, gas, mining and renewable energy companies are only one of the tax-assisted investments available to Canadian investors that represent an attractive opportunity, and have been instrumental in Canada's success as a leading resource nation.

Similar to junior mining companies, Canada's junior biotechnology companies require a tremendous amount of time and risk capital to reach profitability. Permitting such biotechnology companies to issue FTS would stimulate more research investment, jobs, and commercialization of high-tech goods and services in Canada. It is estimated expanding the FTS program to Canada's biotechnology industry would generate nearly \$1 billion in gross output and create nearly 8,000 new jobs over a four year period.

With world-renowned research institutions, labs, and universities, Canada is among the global leaders in life sciences and biotechnology. Canada's bio-economy is worth over \$84 billion or more than 6.5% of our GDP, and supports an employment network of more than 1 million jobs. Canada's 663 biotechnology companies, spending over \$1.7 billion annually, represent over 10% of the country's business expenditures on research and development (BERD).

### RECOMMENDATION

Finance experts estimate the overall industry requires \$1 -1.5 billion per year in private investment in order to sustain the biotech sector in the long run. The industry recommends the government:

*Expand the applicability of the federal government's flow-through share program to Canada's biotechnology industry.*

A mechanism that helped to position Canada's resource sector as a global leader, FTS can have similar results if implemented in the biotechnology industry. This is a 'Made in Canada' solution that will ensure R&D is performed within our borders.

Given the current state of the economy and our industry, it is critically important to the success of these emerging technology companies and to the health of the industry in Canada that the federal government continue to create an advantageous business climate to sustain and grow these R&D activities and enable them to commercialise.



The number one issue facing Canada's junior biotechnology companies today is access to capital. The industry needs new incentives to be introduced into the financing ecosystem to sustain the industry.

"Over the past several years I've had hands-on involvement with a large number of early stage health-related companies and, without exception, the most difficult barrier to overcome has been access to the necessary financial resources to enter the global marketplace," Peter Morand, former President of the Natural Sciences and Engineering Research Council (NSERC).

Expanding the FTS program to the biotech industry is expected to result in a number of benefits. Some of these include:

- 1) incremental R&D undertaken that would otherwise not be undertaken;
- 2) direct and indirect employment growth, and translation into commercial good and services;
- 3) an increase in the demand for goods and services in other industries, resulting in benefits over and above direct spending on R&D;
- 4) assurance that business-sector R&D is performed in Canada;
- 5) assurance that Canada attracts and retains the brightest scientific research and entrepreneurial minds.
- 6) the realisation of global industry leadership as Canada becomes recognised as a centre for life sciences risk capital formation; and
- 7) financial returns on investments and as such, government revenues.

Investing in this economy is one way for governments to improve their nations' productivity. The Government of Canada has fallen behind other governments in making investments to attract foreign multinationals, create innovative small and medium sized businesses domestically, and incentivise risk capital within these sectors. In order to improve our productivity and reap the economic returns from the next generation of fiscal growth, Canada must support these emerging sectors today. Biotechnology is at the forefront of emerging, next generation industries.



## **A. Introduction**

Biotechnology has been labeled an “enabling technology.” Enabling technologies (information and communications technology, biotechnology and nanotechnology) were identified by the federal government in *Mobilizing Science and Technology to Canada’s Advantage*, as “underpinning many of the most transformative advances in science and technology.” These advances establish the foundation to build strategic advantages for Canada in a competitive global marketplace. The potential impact of these enabling technologies touches all four of the government’s stated priorities: environment, energy, health and life sciences, information and communications technologies.

Biotechnology is an important transformative technology. Slowly but surely, the emerging companies are moving bio-based goods and services from laboratories into manufacturing plants. The commercial application of biotechnology is improving our country’s productivity. The intangible socio-economic benefits of commercialising drugs, therapies, food and other agricultural goods, environmentally-conscious products, renewable resources and energy, cannot be understated.

Canada’s bio-economy, all businesses active in biotechnology and those using the products of biotechnology to supply firms active in these areas, is now estimated to contribute over \$84 billion to Canada’s economy. The bio-economy is now larger than the auto and aerospace industries combined. Yet, Canada’s bio-economy is vulnerable to foreign governments looking to get a head-start on the next wave of economic growth, spurred by the commercialisation of innovative products aimed at addressing the world’s most urgent priorities: improving health care, feeding growing populations, combating climate change, and integrating clean sources of energy into daily life.

### *Beyond Moose and Mountains*

Canada’s biotechnology industry launched a landmark report, *The Canadian Blueprint Beyond Moose and Mountains*, as a strategy aimed at positioning Canada as the world’s leading bio-economy. Canada can do this by focusing on three independent priorities: people, capital, and the operating environment. Our economy is driven by more than our crops, minerals, oil and gas – Canada is also a global leader in science and innovation. Biotechnology and the bio-economy can be the next wave of innovation and prosperity, taking our future “*beyond moose and mountains*.” In order to reap the benefits of the bio-economy, Canada must position and implement the necessary policies to retain the brightest minds, build the next-generation of leading innovative companies, and remove the impediments to the sustainability and growth of a crucially important sector. Today, the main challenge to the sustainability of Canada’s bio-economy and commercialising the discoveries generated by our world class R&D is a severe and chronic shortage of risk capital, and fierce competition from foreign jurisdictions as they position their biotech industries as primary economic drivers.



## **B. The Issue**

On June 16, 2010, BIOTECanada held the Bio-economy Roundtable on Sustainable Capital Formation in support of the Canadian Blueprint's priority on capital formation. The Roundtable was held to identify, analyse, and propose unique alternatives to facilitate sustainable capital formation for Canada's junior biotechnology companies, the segment of the industry without commercialised product on the market and representative of the majority of the industry. BIOTECanada and Burrill & Co. estimate Canada's biotechnology industry requires approximately \$1-\$1.5 billion in capital every year to maintain the current level of the industry at a no-growth state<sup>1</sup>. This amount of capital comes from a number of sources in the private and public markets including angel capital, venture capital, initial public offerings (IPOs), private investment in public equity (PIPE), follow-on financings, and commercial debt. As a result of the economic downturn, numerous indicators suggest Canada's biotechnology industry has experienced a tremendous hit over the last two years. Now is the time to address the intrinsic capital formation problems facing Canada's biotechnology sector.

Throughout the spring of 2010, BIOTECanada engaged in cross-country consultations with industry stakeholders to gather a wide-range of perspectives about the intrinsic capital formation problem(s) facing the industry, defining the size and scope of the problem(s), and developing one or more solutions to help resolve the identified problem(s). Among the most commonly stated problems, stakeholders converged on the lack of a sufficient amount of risk capital to sustain Canada's biotechnology industry in the long-term. There is a growing concern there is not enough risk capital to support Canadian firms—especially the early-stage capital required to create new companies and projects and the financing required to take products through the long and capital-intensive development cycle. The change in the traditional risk capital funding model for emerging or junior biotechs, was identified as the primary cause of the capital formation gap experienced in the industry. With the continued shift away from risk taking in Canada, as evidenced in declining industry market valuations and venture capital investments, foreign jurisdictions with more attractive regulatory frameworks, financing environments, and investment communities were viewed as immediate threats to the industry's long-term viability. With the recognised lack of risk capital in Canada, and the numerous fiscal, regulatory, and general business incentives provided by the United States (U.S.), the relocation of Canadian firms and Canadian jobs to the U.S. was viewed as a primary threat to the industry's future.

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<sup>1</sup> Burrill & Company.



### C. Proposal: Design of a FTS Program for Canada’s Biotechnology Industry

The intent of this section is to depict how FTS for Canada’s biotechnology industry could be structured. The goal of the FTS program is to encourage incremental investment in the industry, promote the uptake of new R&D projects, and assist junior biotech companies with limited access to traditional sources of risk capital.

Figure 1: Summary Details: Proposal Eligibility Criteria

Corporations	Investors	Type of Investments	Expenditures	Tax Deduction	Shares
Research-based biotechnology companies	Individuals, corporations, and trusts	Direct and portfolio investments	SR&ED eligible activities performed in Canada.	100% of investment	Regular common shares

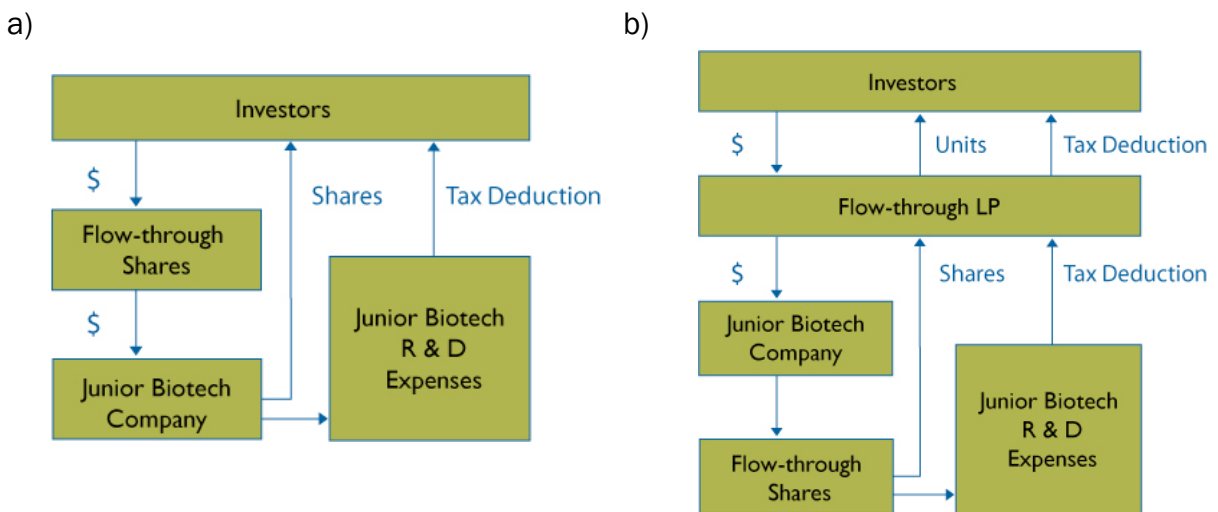
#### i. Direct & Portfolio Investment Models

In the current FTS system, private and publicly-traded companies can issue FTS.

Publicly-traded companies can raise capital directly from investors through offerings on the public markets. The direct investment model is ideal for investors who want to only invest in the company of interest.

Private and public companies can issue FTS through an intermediary limited partnership (LP) that pools FTS issued by the companies and in turn sells them to individual investors. The portfolio model is ideal for investors who want to pool their capital with others and rely on professional management to select a diverse portfolio of investment opportunities.

Figure 2: Direct Investment Model (a) and Portfolio Investment Model (b)





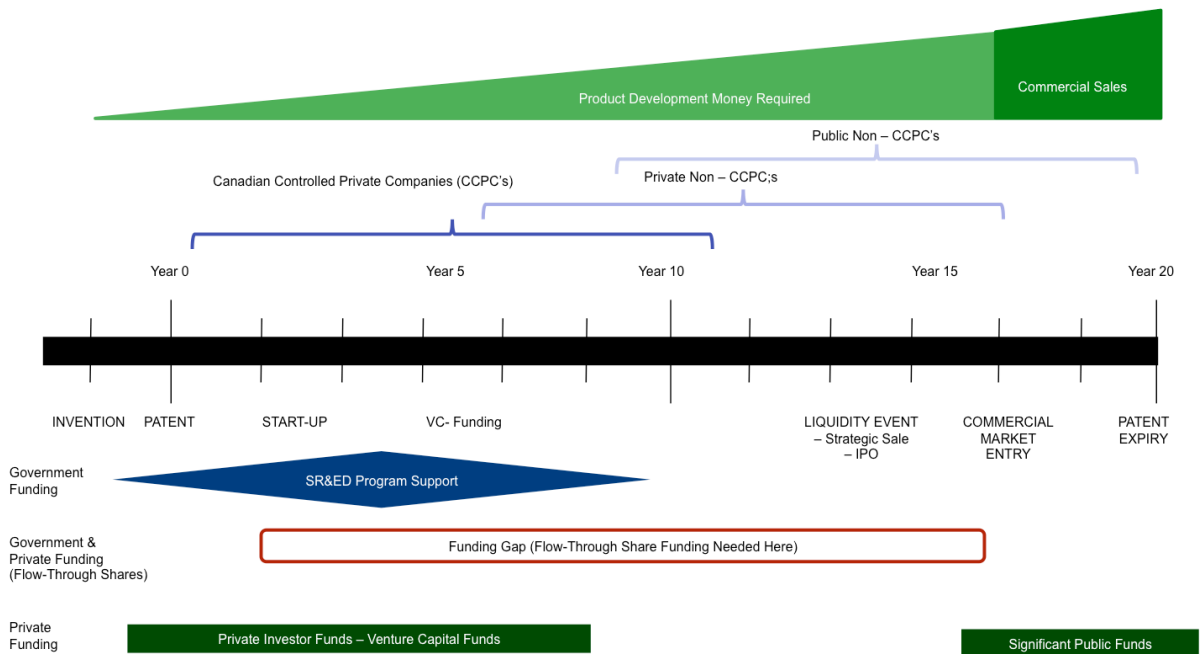
In the case of direct investments, FTS become normally traded shares. The issue of liquidity for investments in flow-through LPs is one to be considered. Typically, eighteen to twenty-four months from the close of an LP offering, the flow-through portfolio assets are liquidated, typically by way of a tax-deferred rollover of the LP's assets to a mutual fund. Investors can then choose to either hold or sell the mutual fund units.

ii. Eligible Corporations

The intent of the FTS program is to provide a mechanism for channeling equity capital to support the biotechnology industry in Canada, particularly early-stage companies with no commercial product on the market, and therefore, little or no revenue.

The term “biotechnology” is broadly defined and the biotechnology industry is made up of several sectors involved in health, agriculture, energy, environmental sustainability, and aquaculture. For the issuing firm, the use of FTS is measured by the extent to which FTS reduced the cost of alternative equity-based financing tools. FTS is of principal benefit to non-taxpaying entities as they are unable to benefit from income tax deductions. The intent of the program is to help small and medium sized biotechnology companies access risk capital.

Figure 2: Junior Biotech Financing Lifecycle



Source: Paradigm Capital



The recommended definition of eligible corporations is Canadian companies principally in the business of biotechnology. This restriction is also found in the resource sector, where only a principal-business corporation (PBC) can issue FTS. As a general rule, a corporation engaged in both biotechnology and other business operations may qualify as a PBC if, when considered together, the corporation's biotech activities represent a larger or more important business operation than all other activities of the corporation combined (which implies 50% or more). The determination of the size or importance of the biotechnology business in relation to the corporation's other business operations is determined by an examination and comparison of all the facts concerning each of the business operations in which the corporation is engaged. Eligible expenditures must be spent in Canada and therefore, are a tremendous benefit to the Canadian economy, and the company renouncing its expenditures will itself be taxable in Canada once it becomes profitable. A corporation whose principal business involves specific R&D activities related to the commercialisation of biotechnology goods and services qualifies for FTS (see definition - Exhibit A).

### iii. Eligible Expenditures

It is proposed that R&D activities performed in Canada and qualifying for Canada's Scientific Research and Experimental Development (SR&ED) tax credit program be eligible to be passed onto investors via FTS. This is attractive since such expenditures are common to all biotechnology companies and can be audited by the existing SR&ED group within CRA. All SR&ED audit risk would be borne by the investors.

Most Canadian biotechnology companies have accumulated significant pools of undeducted SR&ED expenditures and tax credits, which they cannot currently utilise. Using the existing definition of SR&ED eligible expenditures for investment tax credits, the definition of eligible expenditures for the FTS program would include Canadian expenditures of a current and capital nature, including salaries, overhead costs, and direct expenses. The current FTS system permits resource companies to pass eligible expenditures within the last two years in the form of FTS to investors. Therefore, commensurate with the look-back rule, biotech companies would be able to use eligible expenditures within the last two years for the purposes of FTS issuances.

Consistent with current provisions of Canadian tax law while maximizing the benefits to Canada and in order to limit the cost of the program to the Treasury, it is recommended that only SR&ED eligible expenses incurred in Canada be eligible.



#### iv. Eligible Investors

Eligible investors include Canadian taxpaying entities. These entities include individuals, trusts, corporations, and partnerships. Significant cost and administration to the FTS program is limited by allowing any taxable investor to purchase FTS. There are a finite number of high-net worth individuals in Canada and it is expected FTS issued by biotechnology companies will primarily draw interest from these individuals, many of whom currently invest in resource FTS.

#### v. Eligible Shares

It is important to establish the type of share that companies will be allowed to issue as FTS. The shares a biotechnology corporation can issue under the program would be limited to common shares and would have attributes that are similar to those which are currently being used in the resource FTS program.

#### vi. Restrictions

The FTS program would mirror the existing structure without a cap. A restriction on the amount of FTS issued in any given year has the potential to eliminate the funding of quality R&D projects. In addition, many investors look to finance R&D projects on a partnered basis so as to limit their risk exposure. Placing restrictions on the program can have unintended consequences and the leveraging of capital through incremental spending on R&D could be curbed.

Administration of the FTS program for the biotechnology sector would not be different from that in the resource sector. From a control and monitoring perspective, the CRA has significant infrastructure in place for auditing and delivering the SR&ED tax credit and years of experience administering the FTS program for the resource sector.

When investors purchase FTS, the price of the share reflects the extent of the renounced expenditures that are eligible deductions for the investor. However, if the issuing company fails to incur the expenses or renounces less than the full amount of the subscription proceeds, the investor will not be able to deduct any expenditures that were not renounced. This would also be the case if the CRA subsequently denied certain expenditures during an audit of the company.



**D. Analysis: Flow-through Shares**

Research on the federal government’s FTS program in the mining sector demonstrates it to be an effective method of providing tax-assisted risk capital to junior mining companies. The parallels between the junior mining company and the junior biotech company are striking. The risk profile for the two sectors are vastly similar, with the key difference being Canadian biotechnology companies have a much lengthier development period, and require much more capital to reach profitability. It is fair to assume these two sectors represent fairly similar risk in terms of the probability of success in the development of commercial goods and services.

According to the Metals Economics Group (MEG), Canada has been the number one country in the world for mineral exploration since 2002. In 2007, 21.2% of total world exploration expenditures were for projects in Canada. MEG attributes Canada’s continuous top spot in part to the FTS program. Exploration expenditures in Canada have risen from approximately \$300 million in the late 1990s to approximately \$2.6 billion in 2007<sup>2</sup>.

“Flow-through shares make Canada a favored resource investment destination and encourage early-stage exploration,” Ed Thompson, past president of the Prospectors and Developers Association of Canada (PDAC).

	Junior Biotechnology	Junior Mining
Risk Profile	High-risk	High-risk
Operating Losses	Carry-forward during long development cycle	Carry-forward during long development cycle
Capital Structure	Equity financing; minimal leverage	Equity financing; easier access to debt markets
Development Outcome	Intellectual Property	Physical Commodity

i. Economic Benefits

Expanding FTS shares to the bio-economy is expected to result in a number of benefits:

- 1) incremental R&D undertaken that would otherwise not be undertaken;
- 2) direct and indirect employment growth, and translation into commercial good and services;
- 3) an increase in the demand for goods and services in other industries, resulting in benefits over and above direct spending on R&D;

<sup>2</sup> Metals Economics Group



- 4) assurance that business-sector R&D is performed in Canada;
- 5) assurance that Canada attracts and retains the brightest scientific research and entrepreneurial minds.
- 6) the realisation of global industry leadership as Canada becomes recognised as a centre for life sciences risk capital formation; and
- 7) financial returns on investments and as such, government revenues.

## ii. Cost of Program

The variety of alternative design features of a FTS program for the biotechnology industry impact the potential cost of the program. Numerous considerations exist in determining the yearly cost of implementing a FTS regime for biotechnology companies. Some of these considerations include:

- the number of firms in the industry that would be eligible to issue FTS;
- the expenditures eligible for FTS financing;
- the potential uptake and growth in FTS financing;
- the number of new entrants into the industry;
- the investor appetite for FTS; and
- the introduction of additional FTS incentives at the federal and provincial levels.

The cost to the Treasury would depend on the deduction amount permitted to the investor. For the purposes of this explanation, it is reasonable to assume SR&ED eligible expenditures incurred by Canadian biotechs fall in-line with Canadian Exploration Expenditures (CEE). This is also a fair assumption considering Canadian Renewable and Conservation Expenses (CRCE) also fall under the definition of CEE. Exhibit C – Sensitivity Cost Analysis for potential costs based on FTS uptake. \$411 million in new spending results from the FTS program (as a result of FTS dollars and leveraging new dollars). This implies a shared cost of approximately \$183 million; \$119 million to the federal government and \$64 million to the provinces (Exhibit C).

## iii. Discussion

R&D intensive companies, such as biotech companies, can utilize their significant expenses – accumulated throughout the long development cycle - in a much more efficient manner by passing them onto investors and raising capital to continue R&D. This has the potential to create a self-sustaining financing ecosystem. By reducing the investor's adjusted-cost base to zero, the federal government will effectively tax all proceeds from the investor's share sales, albeit at capital gains rates. However, by only passing the deduction through to the investor, rather than the deduction and the corresponding SR&ED tax credits, this reduces the potential cost to the federal



government. Passing company expenses, without the corresponding tax credits to the investor significantly reduces the government’s future liability accounting for accumulated tax losses and tax credits that carry forward. Companies are required to spend the proceeds from the issuance of FTS in Canada, effectively ensuring that high-paying research jobs are kept within Canada’s innovation economy. The risk nature of R&D implies the usual negative return from investment must be offset by significant incentives not only to the company, but also to the investor.

“Flow-through shares will have a major impact on ability of biotechnology companies to access capital. High tax bracket angel investors will have an incentive to invest and the overall risk of investment will be lower, while potential returns unaffected,” Igor Sherman, CEO of Alpha Cancer Technologies.

	PROS	CONS
Government of Canada	<ul style="list-style-type: none"> <li>• Increases Canada’s globally competitiveness.</li> <li>• Incentivises flow of risk capital to a priority industry.</li> <li>• Positive economic spill-over to other industries.</li> <li>• Ensures managerial talent and scientific intellectual capital remains in Canada.</li> <li>• Additional tax revenues provided as a result of incremental company revenues.</li> </ul>	<ul style="list-style-type: none"> <li>• Although minimal, requires government auditing and program evaluation.</li> <li>• Incurs an expense by foregoing tax that would otherwise be paid by investors.</li> <li>• Accelerates benefit of deduction.</li> </ul>
Companies	<ul style="list-style-type: none"> <li>• High value for emerging companies with little or no revenues.</li> <li>• Active option for acquiring private sector investment.</li> <li>• Companies can continuously look to fundraise via FTS over the long-development cycle.</li> <li>• Companies can reap greater proceeds by pricing FTS at a premium.</li> </ul>	<ul style="list-style-type: none"> <li>• Proceeds received from FTS must be spent on qualified expenditures in Canada.</li> <li>• Companies have two years to spend the proceeds.</li> <li>• Unspent proceeds are returned to the investor and the percentage deductible will be added back into income.</li> <li>• The company does not get to use the expenses or tax credits for tax purposes (i.e. advantages to tax losses is lost).</li> </ul>
Investors	<ul style="list-style-type: none"> <li>• Dual option: invest directly in a company or through a flow-through LP.</li> <li>• 100% of an investment can be used as a tax deduction.</li> <li>• Potential additional capital gains exemption on qualifying private companies (adjusted cost base is zero).</li> <li>• Ability to use capital losses on other investments to offset capital gains from FTS shares.</li> </ul>	<ul style="list-style-type: none"> <li>• Better suited to experienced investors.</li> <li>• Shares are issued at a premium; if the premium is too high, it’s harder to realize returns.</li> <li>• No initial liquidity; shares must be held 18 – 24 months, after which they may be sold.</li> <li>• Investors best positioned are those in highest tax bracket.</li> </ul>



## **E. Conclusion**

The FTS program is an integral part of Canada's global reputation as a leading natural resource economy. Over the last 56 years, it has helped to position Canada as the number one destination for risk capital in the resource sector, foreign multinational source companies, and export of mineral goods and services. Canada became a global leader by introducing a provision that mobilised risk capital into the resource sector. It is truly a unique "Made in Canada" success. Now is the time to expand on the successes of the program by expanding FTS to Canada's biotechnology companies.

FTS for Canada's biotechnology industry would incentivise investors to help finance high-risk R&D ventures, similar to exploration in the mining sector. FTS is structured for both private and publicly-traded companies and the shares can be issued directly to investors or through an established flow-through LP. Canada's biotechnology companies can make use of their R&D expenditures by passing them onto investors and move their innovative products through the long development cycle. The program is generally only attractive to pre-revenue companies with no commercialised products. These are corporations that do not need the tax deductions to reduce taxable income, but would rather raise capital through passing these deductions to investors to raise risk capital.

The extension of the FTS program to the biotech industry is estimated to result in increased R&D of \$411 million over four years. This, in turn, will result in nearly \$1 billion in incremental gross output, \$558 million in incremental GDP, and nearly 8,000 new jobs in Canada. The most reasonable estimates indicate the program would cost \$183 million, split between the federal treasury and the provincial governments. With a return on investment (ROI) of more than 200%, the broad economic gains from this program cannot be ignored. The federal treasury will easily recoup its investment based on the following outcomes:

- companies become successful and pay taxes;
- investors sell their shares and pay significantly more capital gains taxes;
- companies purchase materials and capital equipment as part of their R&D activities;
- companies hire R&D personnel, technicians and other support staff;
- R&D will be performed in Canada; and
- other spin-off sectors will be engaged and supported by this industry spending.

The additional R&D spending, spurred by the FTS program, produces many other benefits that will drive the program's return on investment. Productivity benefits, the fiscal impacts associated with successful commercialization of R&D, and other externalities will work in tandem to provide socio-economic returns to the Government of Canada.



## APPENDIX

### Exhibit A – Definition of a biotechnology business

A “biotechnology business” means:

i) a taxable corporation,

ii) the principal business of the operating corporation is primarily engaged in using technology,

(a) in the development of assistive medical devices, pharmaceutical drugs, vaccines, regenerative medicines, and biologics to diagnose, treat, improve or prevent any medical conditions, disease or infection incurred or experienced or reasonably expected to be incurred or experienced by human patients;

or

(b) the production of biofuel, biogas or biomaterial, for the commercial application of marketable goods and services;

or

(c) the development of improved agricultural products (livestock or crop) for food or feed consumption and/or the development of diagnostic tools for the determination of product safety and end-use performance;

or

(d) the development of technology or processes that enable the use of living organisms or biological substances, such as, but not limited to, biomass resource, in the commercial development and production of marketable goods and services.

"biofuel" means a liquid fuel made from a biomass resource and includes the liquid fuels ethanol, methanol and biodiesel; ("biocarburant").

"biogas" means a gaseous fuel made from a biomass resource; ("biogaz").

"biomaterial" means material made from a biomass resource; ("biomatériau").

"biomass resource" means,

(1) organic matter that is derived from a plant and available on a renewable basis, including organic matter derived from dedicated energy crops, dedicated trees, agricultural food and feed crops, or

(2) waste organic material from harvesting or processing agricultural products, including animal waste and rendered animal fat, forestry products, including wood waste, and sewage; ("ressource en biomasse").

#### Sources:

Bill 100, Ideas for the Future Act, 2008, Hon Dwight Duncan, Minister of Finance  
[http://www.ontla.on.ca/web/bills/bills\\_detail.do?locale=en&BillID=2058](http://www.ontla.on.ca/web/bills/bills_detail.do?locale=en&BillID=2058)



### Exhibit B – Summary Results: Flow-through Shares Economic Impact Model

Gross Output Economic Impacts of Increased Junior Biotech R&D Expenditures (millions)

	Direct	Indirect	Induced	Total Impact
Median	\$411.4	\$366.9	\$189.0	\$967.3
High	\$568.3	\$506.8	\$261.0	\$1,336.1
Low	\$254.5	\$227.0	\$116.9	\$598.5

Economic Impact Results of Median Increase in Junior Biotech R&D expenditures

	Direct	Indirect	Induced	Total Impact
Gross Output, millions	\$411.4	\$366.9	\$189.0	\$967.3
Value Added (GDP), millions	\$246.1	\$158.4	\$153.6	\$558.0
Wages and Salaries, millions	\$201.8	\$69.1	\$65.8	\$336.7
Employment (full-time equivalent)	4,420	1,442	2,082	7,644
Government taxes	\$44.9	\$13.1	\$22.8	\$80.8

Source: PricewaterhouseCoopers, Economic Impact of Flow-through Shares in Biotechnology Industry, September 14, 2010

### Exhibit C – Sensitivity Cost Analysis

	Flow-through Shares Issued				
	\$250	\$500	\$750	\$1,000	\$411
Cost to federal government	\$73	\$145	\$218	\$290	<b>\$119</b>
Cost to provincial governments	\$39	\$78	\$116	\$155	<b>\$64</b>
<b>Total Cost</b>	<b>\$112</b>	<b>\$223</b>	<b>\$334</b>	<b>\$445</b>	<b>\$183</b>

#### Notes:

- All amounts are in CAD millions.
- Deduction level is 100% and tax deductions are exercised in full.
- No additional federal and provincial incentives apply.
- Taxpayers are subject to income taxes at top federal and provincial marginal tax rates (federal rate of 29%; weighted average provincial rate of 15.5%).
- Qualifying expenditures are made in the applicable province and the taxpayer is a resident of that province for tax purposes. All rates as of August 1, 2010.