CDE Flow-Through Tax Deduction
~ A Laddering Strategy ~

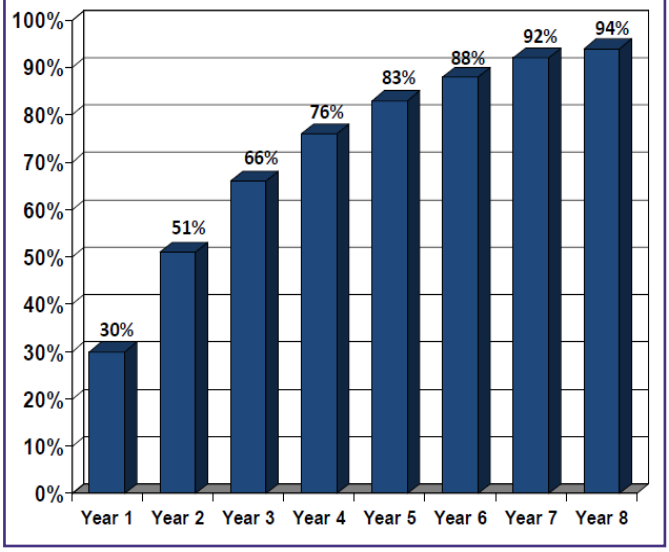
Tax planning professionals who work with flow-through investors are looking beyond the traditional Canadian Exploration Expense ("CEE") flow-through limited partnership ("LP") investment to an investment in Canadian Development Expense ("CDE") flow-through LP to achieve a desired tax deduction and investment and risk objectives.

Performance and Risk: CDE flow-through LP investments have less risk due to the profile of the companies which issue CDE flow-through shares. As the CDE name suggests, it is less risky to develop an oil or gas well than to explore for one.

Tax Deductions: An investment in a CDE flow-through LP provides an investment with a 100% tax deduction which is deducted on an annual 30% declining balance basis starting the year of the investment.

CDE Tax Deduction Laddering Strategy: Purchasing a CDE flow-through LP annually produces a tremendous tax planning method called "laddering". It is important to know the investor can deduct 100% of their CDE on a 30% declining balance basis regardless of when the LP rolls over. The following illustrates the first 8 years of the tax deduction laddering effect investing in a CDE flow-through LP annually:

Illustration of Cumulative Tax Deduction



Tax Deduction Calculation Details

Year 1:

30% tax deduction: 100% tax deduction x 30%
(70% remains deductible)

Year 2:

51% tax deduction: 30% + 21%
(70% x 30% = 21%, leaves 49% deductible from yr 1)

Year 3:

66% tax deduction: 30% + 21% + 14.7%
(49% x 30% = 14.7%, leaves 34.3% deductible from yr 1)

Year 4:

76% tax deduction: 30% + 21% + 14.7% + 10.29%
(34.3% x 30% = 10.29%, leaves 24.01% deductible from yr 1)

Year 5:

83% tax deduction: 30% + 21% + 14.7% + 10.29% + 7.29%
(24.01% x 30% = 7.2%, leaves 16.81% deductible from year 1)

Year 6:

88% tax deduction: 30% + 21% + 14.7% + 10.29% + 7.29% + 5.04%
(16.81% x 30% = 5.04%, leaves 11.77% deductible from year 1)

Year 7:

92% tax deduction: 30% + 21% + 14.7% + 10.29% + 7.29% + 5.04% +3.53%
(11.77% x 30% = 3.53%, leaves 8.24% deductible from year 1)

Year 8:

94% tax deduction: 30% + 21% + 14.7% + 10.29% + 7.29% + 5.04% +3.53% +2.47%
(8.24% x 30% = 2.47%, leaves 5.77% deductible from year 1)

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