How a Typical Flow-Through Limited Partnership Works

In the early 1980's, the Canadian government created an incentive called "flow-through" for Canadians to invest in Canadian energy and mining companies. The incentive was coined flow-through as it allowed resource sector companies to flow-through their Canadian Exploration Expenses ("CEE") and Canadian Development Expenses ("CDE") to investors. The following are commonly asked questions about flow-through investing.

What is a Flow-Through share?

Flow-through shares are common shares of a resource company which provide flow-through tax deductions to investors. Resource companies issue flow-through shares to attract capital for exploration and development and "flow through" eligible Canadian Exploration Expenses (CEE) and Canadian Development Expenses (CDE) to their flow-through share investors. Shareholders can deduct these flow-through expenses against their taxable income.

Why does the Government of Canada provide investors with a flow-through tax deduction?

The Government of Canada recognizes the economic benefits of the exploration for, and development of, Canada's natural resources and encourages investment with a flow-through tax deduction for investors. Originally, flow-through shares were only deductible against resource income, however, in 1983 the federal government changed legislation which allowed qualifying flow-through expenses to be deductible against other income. In recent years, the federal government and some provinces have introduced additional tax incentives for investors purchasing certain flow-through shares issued by Canadian mining companies to provide additional incentive for investment in Canada's mining industry.These additional benefits are called a Federal Investment Tax Credit "ITC" or Provincial Tax Credit.

What are the tax benefits?

Both a CEE and a CDE flow-through limited partnership offer a 100% tax deduction. The difference is that CEE is deductible 100% in the year of investment, and CDE is deducted on a 30% declining balance basis.

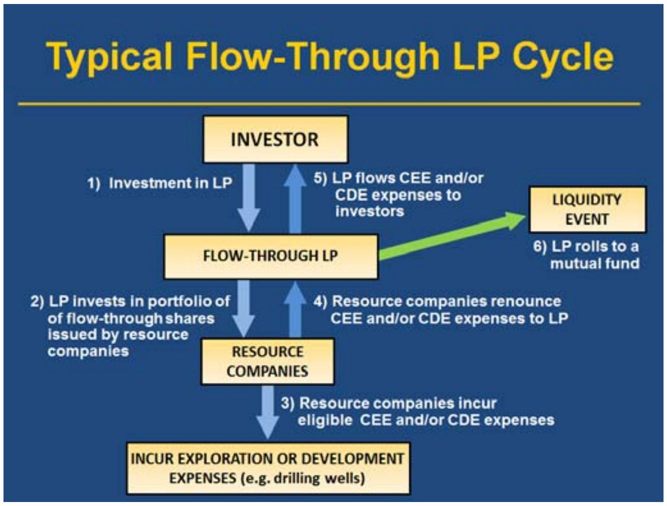
How does a typical flow-through limited partnership work?

1) Investors invest in a flow-through limited partnership.
2) The limited partnership's portfolio manager invests in flow-through shares of resource companies.
3) Resource companies use the flow-through capital to incur eligible CEE and/or CDE expenses.
4) Resource companies "flow through" eligible expenses to flow-through limited partnership (i.e. the shareholder).
5) The limited partnership flows through the eligible expenses to its shareholders, a tax deductible expense against their taxable income.
6) Eighteen to twenty-four months from the close of the limited partnership offering, the flow-through portfolio assets go through a liquidity event by way of a rollover of the limited partnership's assets to a mutual fund. Shareholders choose to either hold or sell the mutual fund units. Another liquidation process is for the entire flow through portfolio of assets be sold and the cash received by the limited partnership to be issued out to Shareholders directly by making a cash distribution within approximately 6 to 18 month time frame from the final closing date of initial investment.

How can individual investors purchase a flow-through investment?

Flow-through investments can be purchased in one of two ways:

1) Purchase flow-through shares directly from a resource company.
   Disadvantages: limited access to direct flow-through investments and the higher risk associated with a lack of portfolio diversification; or



2) Purchase a flow-through limited partnership (through an investment advisor).
   Advantages: portfolio diversification and a portfolio manager who makes the flow-through portfolio investment decisions which reduces risk and increases potential for capital gains.

What should be considered in reviewing a flow-through limited partnership?

There are many aspects of a limited partnership which investors need to consider. They include: a) portfolio management team's experience and track record; b) what part of the resource sector the limited partnership will be investing into (i.e. mining, oil & gas and alternative energy); c) flow-through share premiums; and d) the limited partnership's liquidity strategy. These matters can be reviewed in a limited partnership's offering documents or, by asking your investment advisor.

What are some of the risks with flow-through investments?

Risks can include: 1) the cyclical nature of the resource industry; 2) commodity price fluctuations; 3) the resource company's share price volatility; and 4) the resource company's operational risks. The flow-through tax deduction and the portfolio diversification of a flow-through limited partnership are designed to provide investors with downside risk protection. Investors can review the risk factors for a flow-through offering investment opportunity by reviewing the offering documents or discussing the risk factors with an investment advisor.

How does a flow-through limited partnership provide liquidity for investors?

Liquidity for a flow-through limited partnership typically comes in the form of a "tax-deferred" rollover to units of a mutual fund and usually occurs eighteen to twenty-four months from the closing date of the limited partnership offering. When an investor sells his/her mutual fund units, the value of the units sold are taxable as a capital gain. An additional liquidity event is a limited partnership could also provide liquidity by distributing to Shareholders, on a pro rata basis, cash and/or shares of the resource companies in the flow-through portfolio. The value of the distributed cash and/or shares would be taxable as a capital gain.

Why is the entire value of the proceeds of selling a flow-through investment taxed as a capital gain?

Flow-through investments have an adjusted cost base (ACB) of "zero" because of the flow-through tax deduction. Therefore, the entire value of the proceeds realized from the sale of a flow-through investment is subject to capital gain tax. If an investor's flow-through shares roll to a mutual fund, the capital gain tax is deferred until such time as the imutual fund units are sold.

Is it to my advantage to re-invest my tax savings in another flow-through offering?

One of the most compelling strategies with flow-through investing is "recycling" the tax savings! With this strategy, an investor sells the flow-through upon maturity (and declares a capital gain), then reinvests the proceeds in another flow-though investment where 100% of that invested amount is fully deductible. An investor now legitimately receives recurring tax savings by simply recycling the investment proceeds. This is a simple, yet extremely effective, tax planning strategy.

Advantages of Flow-Through Limited Partnerships

- **Potential for Capital Appreciation:** Flow-through LPs primarily invest in growth-oriented oil & gas and mining exploration, production and development companies.
- **Reduce Current Taxable Income:** CEE flow-through LPs may be structured such that the amount invested is 100% tax deductible against any source of income in the year the investment is made (except in Quebec). Additional deductions may also be available in subsequent years.
- **Preferential Tax Treatment of Capital Gains:** Tax deductions shelter income and reduce the adjusted cost base of the investment to nil. As a result, proceeds realized on disposition are taxed as capital gains.
- **Tax Deferral:** Taxable income in the year of investment is effectively converted to capital gains tax in the year of the disposition.
- **Take Advantage of Capital Losses:** Realized capital losses and/or net capital loss carry-forwards can be used to offset capital gains realized.
- **Diversification:** Flow-through limited partnerships may offer exposure to several public and private issuers of flow-through shares.
- **Professional Investment Management:** Flow-through limited partnerships are actively managed by professional portfolio managers.

Who Can Benefit From Flow-Through Limited Partnerships?

- **High-Income Earners:** High-income earners who are taxable at the highest marginal tax rate.
- **Investors Taxable at Lower Rates in the Future:** Flow-through limited partnerships can be used to defer taxes to periods when an investor will be taxed at a lower tax rate.
- **Recipients of Large Lump Sums of Taxable Income:** A recipient of a large lump sum of taxable income can use flow-through limited partnerships to shelter the payment from taxes.
- **Investors With Capital Losses:** Investors with capital losses and/or net capital loss carry-forwards can offset capital gains realized on disposition of flow-through limited partnership units.
- **Investors Who Plan to Make a Charitable Donation:** Investors can maximize tax savings by donating the mutual fund units from the rollover event to qualified charitable organizations.
- **Investors Saving for Retirement:** Investors can use flow-through limited partnerships to augment their retirement savings while obtaining tax benefits similar to those provided by RRSPs.
- **High-Income Seniors:** High-income seniors can use flow-through limited partnerships to reduce taxable income to maximize OAS benefits.
- **Corporations:** Corporations, including personal holding companies, can also take advantage of many of the benefits offered by flow-through limited partnerships.