

Understanding Tax Benefits: CEE and CDE Flow-Through LPs

In the early 1980s, the Canadian government established an incentive for Canadians to invest in companies in the natural resource sector. These companies were permitted to “flow through” their Canadian Exploration Expenses and Canadian Development Expenses to investors so that investors can deduct these expenses against their taxable income.



Flow-through
Limited Partnership
investments provide
Canadians and
Canadian resource
companies the
opportunity to invest
together in our vital
natural resource
sector and also
receive attractive tax
deductions

Tax deductions for CEE funds and CDE funds

With Qwest's flow-through LPs, investors can choose a CEE fund for a 100% tax deduction in the year of investment or may choose a CDE fund for a 100% tax deduction calculated on a 30% declining balance basis starting in the year of investment as illustrated in the CEE fund and CDE fund tables below.

Investors who purchase a CDE fund on an annual basis will realize increasing cumulative percentage tax deductions (illustrates first 5 years only):

Year 1: 30%
 Year 2: 51%
 Year 3: 66%
 Year 4: 76%
 Year 5: 83%

Tax Deduction Table for CEE Funds: Based on a \$10,000 investment

100% tax deduction	Tax Savings
Year 1 tax savings: $\$10,000 \times 100 \times 45\%^* =$	\$4,500

* Assumes 45% marginal tax rate and full investment deduction

Tax Deduction Table for CDE Funds: Based on a \$10,000 investment

30% declining balance basis tax deduction	Tax Savings	Cumulative Tax Savings
Year 1 tax savings: $\$10,000 \times 30\% = \$3,000 \times 45\%^* =$	\$1,350.00	\$1,350.00
Year 2 tax savings: $\$7,000 \times 30\% = \$2,100 \times 45\%^* =$	\$ 945.00	\$2,295.00
Year 3 tax savings: $\$4,900 \times 30\% = \$1,470 \times 45\%^* =$	\$ 661.50	\$2,956.50
Year 4 tax savings: $\$3,430 \times 30\% = \$1,029 \times 45\%^* =$	\$ 463.05	\$3,419.05
Year 5 tax savings: $\$2,401 \times 30\% = \$720.30 \times 45\%^* =$	\$ 324.14	\$3,743.69**

* Assumes 45% marginal tax rate

** This table only shows the first 5 years of tax savings. Tax deductions continue until 100% of the investment is fully deducted.

Qwest flow-through LP taxation cycle

Year of flow-through investment

- 1 Investor purchases units in a Qwest flow-through LP.
- 2 Investor receives a "T5013A Statement of Partnership Income" tax slip from their brokerage firm in the following year, typically in March, that assigns the amount of their CEE and/or CDE tax deductions.
- 3 Any capital gain realized in the flow-through LP portfolio during this year will increase the investment's Adjusted Cost Base ("ACB"). Investors will receive a T5013A tax slip the following year which indicates the amount of this capital gain created by portfolio activity.

Rollover year

- 1 The Qwest flow-through LP rolls its assets, on a tax-deferred basis, to a Qwest Funds Corp. mutual fund and investors receive shares in the mutual fund.
- 2 Investors may choose to hold on to the mutual fund shares once the flow-through portfolio has rolled into the mutual fund.
- 3 Investors may redeem their mutual fund shares for cash, which triggers a tax event. The amount of capital gain or capital loss will depend on the value of the redemption proceeds minus the ACB. The yearly ACB is posted on Qwest's website (www.qwestfunds.com). If you have invested in more than one LP, please contact Qwest directly for your average ACB.
- 4 Any capital gain realized in the Qwest flow-through LP portfolio during this year will increase the ACB. Investors will receive a final T5013A tax slip the following year which indicates the amount of this capital gain and any additional tax deductions.

Subsequent years

- 1 Investors may continue to deduct any unclaimed CEE and CDE flow-through tax deductions against their taxable income.

Completing your tax return to claim flow-through tax deductions

The following is an example of where to insert CEE and CDE flow-through information on tax return forms.

Net income **T1 General**

Enter your **total income** from line 150. 150

Pension adjustment (box 52 of all T4 slips and box 034 of all T4A slips) 206

Registered pension plan deduction (box 20 of all T4 slips and box 032 of all T4A slips) 207

RRSP deduction (see Schedule 7, and **attach** receipts) 208 +

Deduction for elected split-pension amount (**attach** Form T1032) 210 +

Annual union, professional, or like dues (box 44 of all T4 slips, and receipts) 212 +

Universal child care benefit repayment (box 12 of all RC62 slips) 213 +

Child care expenses (**attach** Form T778) 214 +

Disability supports deduction 215 +

Business investment loss Gross 228 Allowable deduction 217 +

Moving expenses 219 +

Support payments made Total 230 Allowable deduction 220 +

Carrying charges and interest expenses (**attach** Schedule 4) 221 +

Deduction for CPP or QPP contributions on self-employment and other earnings (**attach** Schedule 8) 222 +

Exploration and development expenses (attach** Form T1229)** 224 +

Other employment expenses 229 +

Clergy residence deduction 231 +

Other deductions Specify: 232 +

Add lines 207 to 224, 229, 231, and 232. 233 =

Line 150 minus line 233 (if negative, enter "0") This is your net income before adjustments. 234 =

Social benefits repayment (if you reported income on line 113, 119, or 146, see line 235 in the guide). Use the federal worksheet to calculate your repayment. 235 -

Line 234 minus line 235 (if negative, enter "0") This is your net income. 236 =

If you have a spouse or common-law partner, see line 236 in the guide.

CEE and CDE claimed to reduce your taxable income

Canada Revenue Agency **Agence du revenu du Canada**

STATEMENT OF RESOURCE EXPENSES AND DEPLETION ALLOWANCE **T1229**

Use this form to calculate your resource expenditure pools, exploration and development expense deduction, expenses renounced in respect of flow-through shares which qualify for investment tax credits and to claim your depletion allowance. Attach your T101, T5013, T5013A and T5 slip(s) to the statement. If you do not have any of these slips, attach a statement that identifies you as a participant in the venture. Attach a separate sheet of paper if you need additional space for Areas I, IV or V. Attach a completed copy of this form to your T1 General Income Tax and Benefit Return.

I. Summary of T101 and T5013A slips (Renounced Canadian Exploration and Development Expenses)

Identification number (*)	Canadian exploration expense (CEE)		Canadian development expense (CDE)		Expenses qualifying for an ITC
	Renunciation	Assistance	Renunciation	Assistance	
Total					

Portion of any reduction subject to an interest free period. Portion subject to an interest free period

Enter the total of the amounts reported in box 130 of your T101 or T5013A slips. Enter the total of the amounts reported in box 129 of your T101 or T5013A slips.

(*) Identification number on Form T101 – Statement of Resource Expenses or the partnership's filer identification number on Form T5013A – Statement of Partnership Income for Tax Shelters and Renounced Resource Expenses.

II. Canadian resource expenditure pools

The amounts calculated in Area I above form part of your CCEE (Cumulative Canadian Exploration Expense) and CCDE (Cumulative Canadian Development Expense) pools, as the case may be. In most cases the CCOGP (Cumulative Canadian Oil and Gas Property Expense) pool is relevant only if you have an opening balance.

	CCEE	CCDE	CCOGPE
Balance at the beginning of the year	(1)		
Add: Total current year renunciation from Area I			
Other resource expenses (T5013 slips: boxes 90 to 92)			
Other (specify):			
Subtotal (2)			
Deduct: Total assistance from Area 1			
Previous year's claim for federal investment tax credit			
Provincial flow-through share tax credit received or entitled to receive Assistance (T5013 slips: boxes 96 to 98)			
Other (specify):			
Subtotal (3)			
Balance available	[(1)+(2)-(3)] A		
Rate	X 100%	X 30%	X 10%
Maximum exploration and development expenses available for deduction (If negative enter zero)	(4)		
Exploration and development expenses claimed	B		
Enter the amount in (4) or a lesser amount			
Balance at the end of the year	[A - B]		

CEE and CDE deductions received are provided in a T5013A tax slip from investor's brokerage firm

Start with the unused balance from prior year

Add any new CEE or CDE received for the taxation year

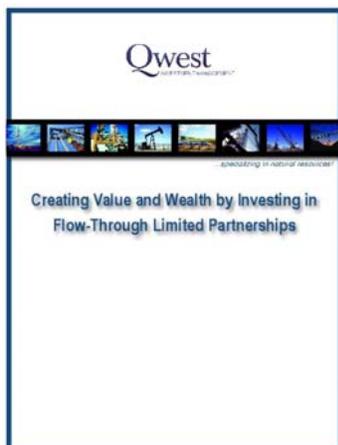
The available balance in each pool

The maximum allowable deduction for the taxable year
100% of CEE pool
30% of CDE pool

Amount claimed for taxation year

Ending balance in the pool for deduction in future years

Contact Us



Qwest designed and created a “**Flow-Through Value & Wealth**” booklet to provide flow-through investors with an understanding of flow-through investing and how to make their flow-through tax savings work for them.

To view the our Flow-Through Value & Wealth booklet, visit our website at:

www.qwestfunds.com and click on “**Getting to Know Flow-Through LPs and Various Strategies**”.

For more information about Qwest Investment Management Corp., our flow-through products and flow-through information, please contact us 1-866-602-1142 (ext. #1) or at info@qwestfunds.com.

www.qwestfunds.com

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