

# Flow-Through Shares Explained

A main driver of Canada's economic success has been the intelligent use of our plentiful natural resources. The resource companies that explore for and later develop the nation's oil, natural gas, and minerals require debt or equity financing to fund their growth programs. Resource companies are often highly dependent on equity financing (selling shares) early in their corporate lifecycle as they have many attractive resource prospects, but few producing properties that generate sufficient cash flow to finance growth internally.

To address this financing gap, Section 66 of the *Income Tax Act* allows Canadian resource companies to attract Canadian investors by giving the resource company the ability to renounce (or flow-through to the investor) tax-deductible expenses. These expenses are incurred in exploring for resources and later developing their exploration successes.

Therefore, flow-through shares represent a well-established means for Canadians to obtain valuable tax deductions while participating in the growth of resource companies through share price appreciation. The tax deductions received effectively act as downside protection on the investment. Most Canadians obtain the benefits of flow-through investing by purchasing units in a flow-through limited partnership (FTLP) that offers a professional manager to select the most promising flow-through shares. Partnerships may purchase three types of flow-through shares from resource companies:

<p style="text-align: center;"><b>Canadian Exploration Expense (CEE)</b></p> <p style="text-align: center;">Higher-risk activity to drill into previously undiscovered oil and gas reservoirs or mineral deposits</p> <p style="text-align: center;">100% deduction can be used in full by the investor in year one</p>	<p style="text-align: center;"><b>Canadian Development Expense (CDE)</b></p> <p style="text-align: center;">Lower-risk activity to develop already identified oil and gas pools or mineral deposits</p> <p style="text-align: center;">30% deduction each year resulting in a full 100% deduction over time</p>	<p style="text-align: center;"><b>Qualifying Canadian Development Expense</b></p> <p style="text-align: center;">Small resource companies may "re-classify" up to \$1 million per year of CDE as CEE</p> <p style="text-align: center;">100% deduction can be used in full by the investor in year one</p>
---	---	--

## Illustrative Break-even Calculation

	BC	AB	SK	MB	ON	NB	NS	PEI	NL
Top marginal tax rate	43.70%	39.00%	44.00%	46.40%	46.41%	43.30%	48.25%	47.37%	44.50%
Investment	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000
Less: Tax savings	\$4,370	\$3,900	\$4,400	\$4,640	\$4,641	\$4,330	\$4,825	\$4,737	\$4,450
Money at risk	\$5,630	\$6,100	\$5,600	\$5,360	\$5,359	\$5,670	\$5,175	\$5,263	\$5,550
Break-even proceeds	\$7,204	\$7,578	\$7,179	\$6,979	\$6,978	\$7,237	\$6,820	\$6,896	\$7,138
Downside risk protection	27.96%	24.22%	28.21%	30.21%	30.22%	27.63%	31.80%	31.04%	28.62%

Note: Refer to Norrep Performance 2010 Flow-Through Limited Partnership prospectus for detail on the break-even calculation.

The contents of this document are intended for information purposes only and should not be considered an advertisement or offer to sell or solicitation to buy any securities in any jurisdiction. We have made reasonable commercial efforts to ensure that the information contained in this document is accurate, complete, and timely but provide no guarantees of same either express or implied. All opinions expressed herein are subject to change without notice.