"Super" Flow-Through Shares

After-Tax Cost of a $1,000 Investment by an Individual Investor by Province in 2007

(based on existing and proposed legislation, as well as administrative positions, as of June 30, 2007)

	Notes		Quebec	B.C. (Note 7)	Manitoba	Ontario	Nova Scotia	P.E.I.	New Brunswick	Nfld. & Labrador	Sask.	Northwest Territories	Yukon	Nunavut	Alta.
Combined federal/provincial tax rate		A	48.22%	43.70%	46.40%	46.41%	48.25%	47.37%	46.95%	47.04%	44.00%	43.05%	42.40%	40.50%	39.00%
Federal tax rate		B	24.22%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
Provincial tax rate		C	24.00%	14.70%	17.40%	17.41%	19.25%	18.37%	17.95%	18.04%	15.00%	14.05%	13.40%	11.50%	10.00%
Federal tax credit		D	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Provincial tax credit		E	-	20%	10%	5%	-	-	-	-	-	-	-	-	-
Amount of investment		F	$ 1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Less: tax benefit of deduction of flow-through investment – federal		FxB	(242)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)
Less: tax benefit of deduction of flow-through investment – provincial	(2)	FxC	(360)	(147)	(174)	(174)	(193)	(184)	(180)	(180)	(150)	(141)	(134)	(115)	(100)
subtotal			(602)	(437)	(464)	(464)	(483)	(474)	(470)	(470)	(440)	(431)	(424)	(405)	(390)
Less: 15% non-refundable federal investment tax credit	(1)	G=F(1-E)xD	(150)	(120)	(135)	(143)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Less: provincial tax credit	(3)	H=ExF	-	(200)	(100)	(50)	-	-	-	-	-	-	-	-	-
Add: income tax on inclusion of federal tax credit in 2007	(4)	GxA	36	52	63	66	72	71	70	71	66	65	64	61	59
Add: income tax on inclusion of provincial tax credit		HxA	-	87	46	23	-	-	-	-	-	-	-	-	-
			(716)	(618)	(590)	(568)	(561)	(553)	(550)	(549)	(524)	(516)	(510)	(494)	(481)
Net cost of $1,000 investment in flow-through shares	(5),(6)		$ 284	382	410	432	439	447	450	451	476	484	490	506	519

Notes

(1) The federal government allows a credit of 15% of qualifying expenditures incurred (or deemed incurred under the "look-back" rule) before December 31, 2008.

(2) The province of Quebec deduction is 150%.

(3) Provincial tax credits reduce the amount of expenditures qualifying for the federal tax credit.

(4) In the case of Quebec, the formula is "GxB" since the federal investment tax credit is not taxed in Quebec.

(5) Capital gains tax applicable when the shares are sold is ignored – the cost of the shares sold will be nil, therefore capital gains tax applies to 50% of the sales proceeds.

(6) Alternative minimum tax is ignored in this analysis.

(7) BC has an enhanced credit of 30% for projects in prescribed Mountain Pine Beetle affected areas.

Assumptions

- Taxpayers are subject to income taxes at top marginal rates.
- Canadian exploration expenses are 100% eligible for federal and provincial tax credits.
- Available tax deductions are taken in full.
- Exploration expenditures are made in the applicable province and the taxpayer is a resident of that province for tax purposes.

WHAT'S NEW

FOR INVESTORS:
You may now invest in qualifying "super" flow-through shares until March 31, 2008.

FOR ISSUERS: You have until December 31, 2009 to spend funds raised in 2007-2008.

"SUPER" FLOW-THROUGH SHARES

Mineral Exploration Tax Credit [METC]

- **What they are**
- **What they mean for investors**

"The Mineral Exploration Tax Credit program is a boon to this country's exploration industry. Since its introduction in October 2000, the federal tax credit program has helped keep investment in Canada and has provided an incentive for Canadian investors to put money into one of this country's most important resource industries. This is at a time when global competition for exploration investment is fierce. Indeed, there is a general consensus that the METC has helped Canada capture and maintain its position as the number one country in the world for mineral exploration spending," says PDAC President Patricia Dillon.

PDAC

September 2007

What are Flow-Through shares?

Flow-through shares are essentially common shares of an issuer which permit the initial purchaser to claim a deduction up to the amount of the share subscription price against any income in respect of resource expenses renounced by a publicly-traded issuer.

There are two types of flow-through share investments:

REGULAR – 100% deduction write-off for exploration (net of federal and provincial credits)

"SUPER" – as above, plus an additional 15% federal tax credits for grassroots exploration

…plus provincial and territorial deductions and tax credits

"Super" Flow-Through continues

On May 2, 2006, the federal government announced the reinstatement of the "super" flow-through tax credit, a 15% non-refundable tax credit applicable to eligible grassroots exploration in Canada. The credit is deductible from federal income taxes payable and is in addition to the existing 100% deduction of eligible exploration expenditures through the regular flow-through. An investor must subscribe for the flow-through shares before April 1, 2008 to be eligible for the "super" flow-through tax credit. In addition, the issuer of the shares, if it qualifies for the "look-back rules", must spend the proceeds on qualifying exploration activities before January 1, 2010.

For taxpayers

at the highest marginal tax rate:

- **The federal 15% non-refundable tax credit, when added to the regular and ongoing 100% deduction, is equivalent to a 137% exploration expense deduction for federal tax purposes.**

What additional provincial tax incentives exist?

Several provinces offer additional flow-through tax credits that apply to the provincial portion of income tax relating to eligible expenses in relevant jurisdictions. Additional provincial tax incentives exist within British Columbia, Ontario and Manitoba. The effect of these incentives varies depending on the jurisdiction as shown on the accompanying table.

British Columbia (20%), Manitoba (10%), and Ontario (5%) offer harmonizing tax credits. The Ontario tax credits are refundable; the other tax credits are non-refundable.

Quebec allows a deduction to investors of up to 150% of the cost of certain qualifying exploration expenses in certain locations for provincial tax purposes.

What does this mean for investors?

Income tax benefits to individual investors will vary, depending on the taxpayer's jurisdiction of residence and marginal tax rate for income tax purposes. At present, **Quebec** offers the largest potential tax savings for flow-through share investments, followed by the **British Columbia**, **Manitoba** and **Ontario**.

The deductions and tax credits apply only to eligible expenditures in the applicable province and territory and are only available to taxpayers residing within the jurisdiction where the exploration is taking place.

Tax deductions vs tax credits?

Under tax legislation governing flow-through shares, eligible exploration expenditures have been 100% deductible from income from any source for at least two decades. These deductions effectively reduce or shelter before-tax income. Tax credits apply directly to reduce taxes payable.

- **A non-refundable tax credit** reduces taxes to the extent of taxes payable.
- **A refundable tax credit** reduces taxes payable and then, if there is an excess, results in a cash refund.

The federal tax credit is non-refundable (the taxpayer has to pay taxes in order to use the claim). However, it can be carried back and applied against taxes paid in the previous three years. Unused tax credits may also be carried forward for a period of ten years.

Since tax credits fall into the category of "assistance" or are, in effect, a grant, they are also applied to reduce the CEE pool. Accordingly, most taxpayers can deduct the full amount of renounced expenses in the year incurred, but the tax credits claimed are effectively taxed as income in the following year. For example, an investor resident in B.C. would add $320, being $200 (provincial) and $120 (federal) in 2007 for every eligible $1,000 invested in 2006.

Do tax incentives work?

Yes. **According to the Metals Economics Group (MEG), Canada has been the number one country in the world for mineral exploration since 2002. In 2005, 19% of total world exploration expenditures were for projects in Canada. MEG attributes Canada's continuous top spot in part to the flow-through share program.**

- **Exploration expenditures in Canada have risen from approximately $300 million in the late 1990s to approximately $1.3 billion in 2005**

Features of the 15% federal Mineral Exploration Tax Credit

- **unused tax credits may be carried back three years or forward ten years**
- applies to eligible expenditures incurred between May 2, 2006 and December 31, 2009
- is available the year the investment is made
- is non-refundable (no cash refund)
- is taxable in the year following claim
- provincial tax credits received reduce the pool of costs eligible for the tax credit
- expenses eligible for the tax credit are more restricted than expenses eligible for regular flow-through share renunciations.

What is the track record for junior exploration companies?

Multi-billion-dollar mining camps discovered by "grassroots" exploration carried out by junior mining companies include:

GOLD AT HEMLO
DIAMONDS AT LAC DE GRAS
NICKEL/COPPER AT VOISEY'S BAY

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