"Super" Flow-through Shares

After-Tax Cost of a $1,000 Investment by an Individual Investor by Province in 2002
(based on legislation and administrative positions as of April 30, 2002)

The table courtesy of PricewaterhouseCoopers LLP

			Quebec	B.C.	Manitoba	Sask.	Ontario	Nfld.	P.E.I.	Nova Scotia	New Brunswick	Yukon	NWT & Nunuvut	Alta.
Combined federal/provincial tax rate – 2002		A	48.22%	43.70%	46.40%	44.50%	46.41%	48.64%	47.37%	47.34%	46.84%	42.40%	42.05%	39.00%
Combined federal/provincial tax rate – 2003		B	48.22%	43.70%	46.40%	44.50%	46.41%	48.64%	47.37%	47.34%	46.84%	42.40%	42.05%	39.00%
Federal tax rate – 2002		C	24.22%	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 – 2002		D	24.00%	14.70%	17.40%	15.50%	17.41%	19.64%	18.37%	18.34%	17.84%	13.40%	13.05%	10.00%
Federal tax credit		E	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Provincial tax credit		F	-	20%	10%	10%	5%	-	-	-	-	-	-	-
Amount of investment		G	$ 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		GxC	(242)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)
Less: tax benefit of deduction of flow-through investment – provincial	**(2)**	GxD	(420)	(147)	(174)	(155)	(174)	(196)	(184)	(183)	(178)	(134)	(130)	(100)
subtotal			(662)	(437)	(464)	(445)	(464)	(486)	(474)	(473)	(468)	(424)	(420)	(390)
Less: 15% non-refundable federal investment tax credit	**(1)**	H=G(1-F)xE	(150)	(120)	(135)	(135)	(143)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Less: provincial tax credit	**(3)**	I=FxG	-	(200)	(100)	(100)	(50)	-	-	-	-	-	-	-
Add: income tax on inclusion of federal tax credit in 2003		HxB	36	52	63	60	66	73	71	71	70	64	63	59
Add: income tax on inclusion of provincial tax credit	**(6)**	IxA	-	87	46	45	23	-	-	-	-	-	-	-
			(776)	(618)	(590)	(575)	(568)	(563)	(553)	(552)	(548)	(510)	(507)	(481)
Net cost of $1,000 investment in flow-through shares	**(4),(5)**		$ 224	382	410	425	432	437	447	448	452	490	493	519

Notes

(1) The federal government allows a credit of 15% of qualifying expenditures incurred before January 1, 2004.

(2) The Province of Quebec allows a deduction of up to 175% of qualifying expenditures, incurred in certain areas, before January 1, 2004.

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

(4) 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 100% of the sales proceeds (at an inclusion rate of 50%). For Quebec, a deduction up to the cost of the investment in the flow-through shares is available. Therefore, only the amount received in excess of the investment in the flow-through shares will be taxable.

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

(6) In case of B.C., the provincial tax credit is included as income in 2003.

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.
- 2003 tax rates are assumed to be the same as those for 2002.

WHAT YOU SHOULD KNOW ABOUT

"SUPER" FLOW-THROUGH SHARES

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

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What are "super" flow-through shares?

In October 2000, the Canadian federal government introduced a 15% non-refundable tax credit. The credit is in addition to the existing 100% deduction of eligible exploration expenditures and is deductible from the federal portion of one's taxes. To distinguish it from the fully deductible regular flow-through, investors are calling this new credit-enhanced version **"super" flow-through**.

Major changes have been implemented

Now there are two types of flow-through share investments:

"SUPER" – additional federal tax credits for "grassroots" exploration

and REGULAR

...plus provincial and territorial sweeteners

For taxpayers

at the highest marginal tax rate:

- **the federal 15% non-refundable tax credit, when added to the regular 100% deduction, is equivalent to a 137% exploration expense deduction for federal tax purposes**
- **this compares favourably:**
  - **to the regular and ongoing 100% deduction**
  - **to the mid-1980s enhancement of a 133% deduction, a tax shelter that was enthusiastically received by investors**

Are there additional provincial tax incentives?

Yes. Several provincial flow-through initiatives have been announced that will apply in 2002 to the provincial portion of income tax relating to eligible expenses in relevant jurisdictions. These include harmonizing incentives by Ontario, Saskatchewan, British Columbia and Manitoba. The effect of these incentives varies depending on the jurisdiction as shown on the accompanying table.

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

Quebec extended until Dec. 31, 2003, the maximum 175% deduction 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 for income tax purposes and marginal tax rate. At present, **Quebec** offers the largest potential tax savings for flow-through share investments, followed by **B.C.**, **Manitoba**, **Saskatchewan** and then **Ontario** (see accompanying table).

The provincial deductions and tax credits apply only to eligible expenditures in the applicable province, and only to residents for tax purposes in that province.

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 2003 for every eligible $1,000 invested in 2002 (see accompanying table).

Do tax incentives work?

Yes. **In the 1980s the following billion-dollar-plus mines were discovered by funds raised with the 133% deduction:**

ESKAY CREEK (Stikine/Prime)
LOUVICOURT (Aur Resources)
LINDSLEY (Falconbridge)

Features of the 15% federal mining Exploration Investment Tax Credit

- **unused tax credits may be carried back three years or forward ten years**
- applies to eligible expenditures incurred between Oct. 17, 2000 and Jan. 1, 2004
- 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 subject to the tax credit
- exclusive to Mine Exploration 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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