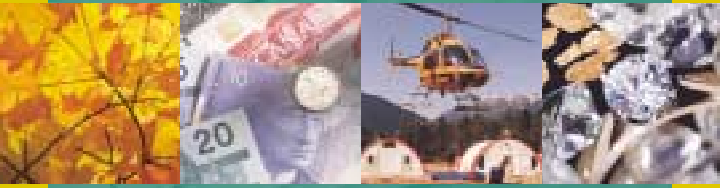
WHAT YOU SHOULD KNOW ABOUT

“SUPER” FLOW-THROUGH SHARES



What they are

What they mean for investors

PDAC

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 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 136.7% 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 2001 to the provincial portion of income tax relating to eligible expenses in relevant jurisdictions. These include incentives by Quebec, Ontario, Saskatchewan and British Columbia. The effect of these incentives varies depending on the jurisdiction as shown on the accompanying table.

Ontario and Saskatchewan offer 5% and 10% tax credits respectively.

British Columbia announced that the 20% refundable Mining Exploration Tax Credit to companies could be passed on to flow-through share investors, retroactive to Aug. 1, 1998.

Quebec extended until Dec. 31, 2001, 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 Saskatchewan, B.C. 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 almost 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 seven 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, a taxpayer 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 Ontario would add $200, being $150 (federal) and $50 (provincial) to income in 2002 for every eligible $1,000 invested in 2001 (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

- 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
- unused tax credits may be carried back three years or forward seven years
- 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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