Flow-Through Shares

Investor Guide

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Gravitas Investments | Asset Management for Modern Markets

What are
Flow-Through Shares?

A Flow-Though Share is a type of common share allowing Canadian resource companies to transfer (or “renounce”) to investors their tax deductions related to resource exploration. Investors, in turn, can claim them against their own personal or corporate income tax.

The flow-through program is an incentive devised by the Canadian federal government. The program helps Canadian companies fund resource exploration in anticipation that these companies will find deposits, extract them, and in the process support remote communities, providing jobs for people that might otherwise be unemployed. The activity benefits the Canadian economy, Canadian people and is a successful program which has been in the Canadian Income Tax Act since 1977.

Benefits of Investment in Flow-Through Shares

- Shelter income at highest marginal rate
- Convert income to capital gain at disposition
- Tax savings provide downside protection against adverse investment performance
- Up to 100% income tax deduction from any Canadian source (Canadian Exploration Expense ”CEE”)
- **Plus:** Mineral exploration results in additional federal Mineral Exploration Tax Credits (“METC”) – and potentially, extra Provincial tax credits
- Pre-existing capital losses can be used to offset capital gains from flow-through to provide even better after-tax returns

Why a Gravitas Flow-Through Limited Partnership?

- Receive up to 100% Canadian Exploration Expense income tax deduction
- On sale of shares, only 50% of realized capital gains are included in income
- “Super Flow-Through” – the portfolio is almost exclusively mineral-oriented, and delivers additional METC federal and provincial tax credits
- Tax savings provide downside protection against adverse investment performance
- Pre-existing capital losses can be used to offset capital gains from flow-through to provide even better after-tax returns

Flow-through shares
two tax benefits are available

1. REGULAR – provides up to 100% deduction write-off for exploration. This is "CEE" or Canadian Exploration Expense.

A corporation may incur expenses that qualify only for the CEE deduction.

2. SUPER – provides the regular 100% deduction as above, plus an additional 15% Mineral Exploration Tax Credits (METC), a further federal incentive. Additionally, various provincial and territorial deductions and tax credits may apply. Unused tax credits may be carried back three years or forward 20 years. METC is:

- available the year the investment is made
- non-refundable (reduces tax payable but no cash refund)
- taxable in the year following the claim

The METC is only available for expenses related to exploration carried out from or above the surface of the earth.

The onus is on the corporation to identify and renounce the different categories of exploration expenses for federal income tax purposes.

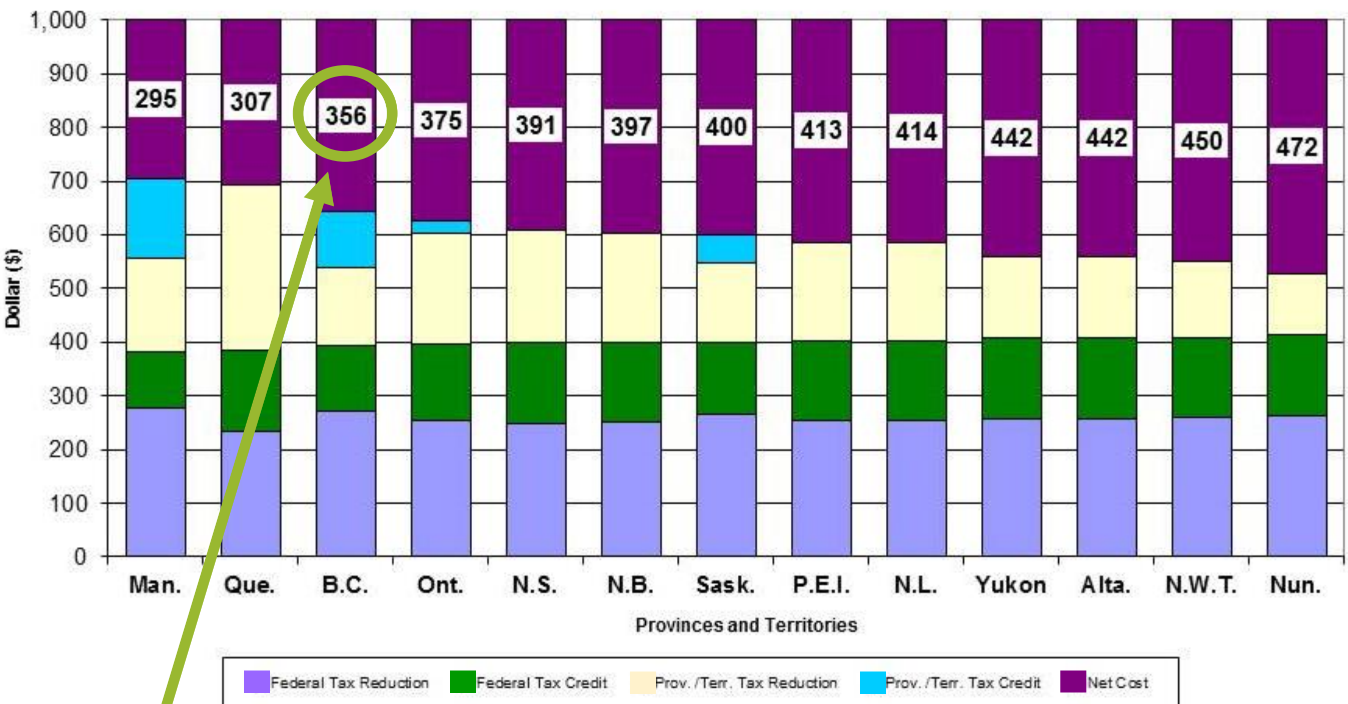
Important!

An investment in Units of any flow-through fund (or direct investments in flow-through shares) will have a number of tax implications for a prospective subscriber.

An accountant or a professional familiar with the client's specific financial circumstance is best placed to advise on suitability and potential tax advantages that can be achieved.

The Economics of Flow-Through Purchase

After-Tax Cost of a $1,000 Investment in Flow-Through Shares
Using the top marginal tax rates for the 2017 tax year



Source = Government of Canada, Natural Resources Canada: http://www.nrcan.gc.ca/mining-materials/taxation/8874

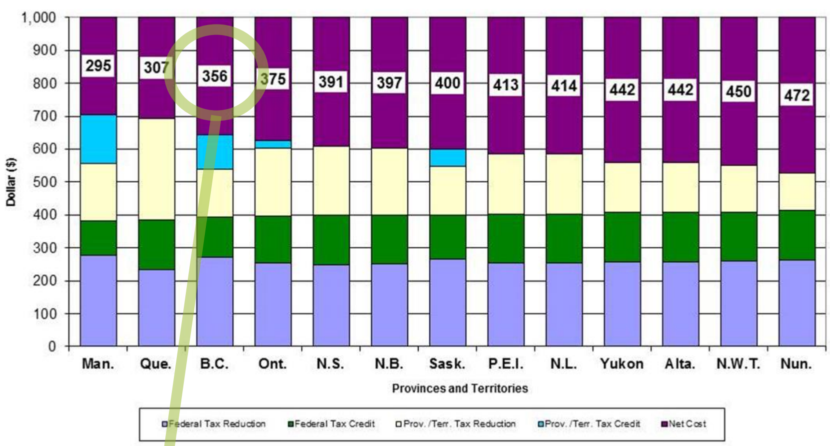
This number represents the actual cost, after all the tax benefits accruing to an investor resident in BC, of a $1,000 investment in flow through shares assuming that the full possible deductions are applicable.

$1,000 is used for simplicity – participation in a flow-through limited partnership requires a larger investment.

Source: Government of Canada, Natural Resources Canada http://www.nrcan.gc.ca/mining-materials/taxation/8874

The Economics of Flow-Through **Purchase**

How does it work?



Investment $10,000

- BC Unitholder invests $10,000
- Receives tax slips & files tax
- After tax cost of investment is $3,560 after all deductions and credits taken into account

Investment Holding Period

- The flow-through shares within the Fund are liquidated after the holding period, and investor receives their share of proceeds.
- Proceeds will be net of investment gain/loss and costs to run the fund
- **Proceeds are taxed in hands of investor as capital gain** (not as income)

Decisions

1. Take proceeds - Pay tax on capital gain
2. Invest in another flow-through and receive more deductions and credits
3. Roll-in on a tax-deferred basis to the Special Situations Fund - roll-out at your preference and control when tax is paid
4. Roll-in on a tax-deferred basis to the Special Situations Fund – hold in an RRSP. Defer taxes to low income earning years

About Gravitas

An independent and growing conglomerate

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