



TAX-ASSISTED INVESTMENTS

WHAT ARE FLOW-THROUGH SHARES?

The Federal Government allows Canadian resource companies that invest in the mining sector to fully deduct certain exploration expenses, known as Canadian Exploration Expenses (CEE). To raise capital for exploration, those companies often issue flow-through shares and pass along the rights to claim the CEE to the purchasers of those shares. The shareholders are then able to deduct the CEE against their own income.

Net Income	
For your total income from line 150	110
Personal exemption (line 63 of all T1 slips and box 104 of all T4 slips)	200
Registered pension plan deduction (line 28 of all T4 slips and box 032 of all T4A slips)	500
CCRA/CRS deduction (line 43 of T4 slips, T4 or all other receipts)	100
Deduction for amount paid on previous income tax payments (Form T1013)	100
Charitable contributions (line 16 of all T4 slips, and receipts)	100
Medical expenses (reported on the slips from all of all T4 slips, and receipts)	100
Unclaimed Child Care benefit (reported line 12 of all T4 slips)	100
CRRA Loan forgiveness (attach Form T779)	100
Charitable receipts deduction	100
Business development bank - Gross 200 Allowable deduction 100	100
Medical expenses	100
Support structure costs - Total 200 Allowable deduction 100	100
Capital, financial and personal support (attach Schedule O)	100
Deduction for CPP or QPP contributions on public employment and other earnings	100
Exploration and development expenses (Part VI.225)	100
Charitable contributions	100
Other deductions - Spouse 100	100
Other deductions - Spouse 100	100
Line 100 minus line 101 (if negative, enter 0)	100
Social benefits (amount of your reported income on line 110, 111, or 144, see line 235 in the guide) (Use the filing method to calculate your reported)	100
Line 234 minus line 235 (if negative, enter 0)	100
If you have a spouse or common-law partner, see Line 236 in the guide. This is your net income.	100

Benefits of investing in Flow-through shares

+ TAX SAVINGS:

The entire cost of flow-through shares is tax-deductible in the year they are purchased. In addition, the proceeds from the disposition of those shares are taxable as capital gains.

+ TAX DEFERRAL:

It could be advantageous to pay taxes in the future rather than today.

+ TAX EFFICIENCY:

Investing in flow-through shares effectively converts income into capital gains, allowing investors to take advantage of any capital loss carry-forwards.

Who should invest in flow-through shares?

Flow-through investing can be a great option for investors taxed at the highest marginal tax rates and who can accept the risk of investing in small to mid-size resource companies.



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SIGHTLINE FLOW-THROUGH LIMITED PARTNERSHIPS

Investors can access the flow-through market by purchasing shares directly or by investing in a flow-through limited partnership. Flow-through limited partnerships are investment vehicles that add three important benefits to the tax advantages of flow-through investing:

1) Professional management 2) Access to a broad range of flow-through issues 3) Diversification.

The risk of investing in smaller resource companies may be reduced when experienced, professional investment managers select a well-diversified portfolio of companies.

How do flow-through limited partnerships work?

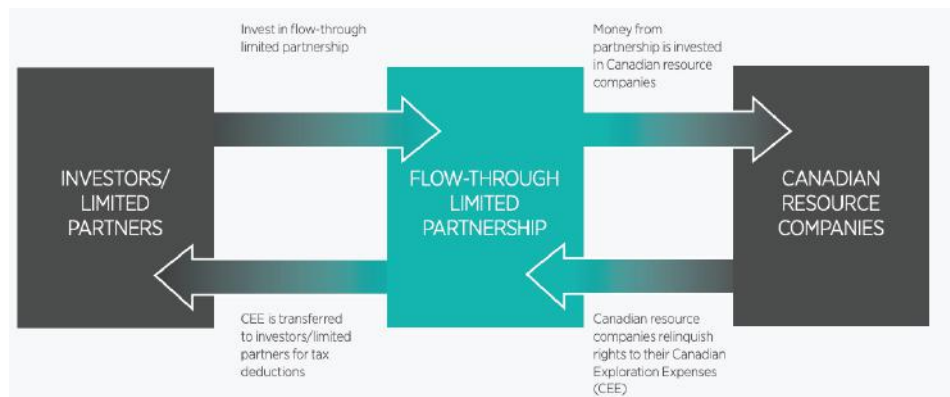
Flow-through limited partnerships provide the same tax benefits as investing in flow-through shares directly. The amounts invested are generally fully or almost fully deductible against taxable income in the year the investment is made.

The illustration below shows how flow-through limited partnerships work.

Investors purchase units of a flow-through limited partnership and the net proceeds are used by the limited partnership to purchase the flow-through shares of resource companies. The resource companies relinquish their CEE rights to the limited partnership, which then allocates the CEE to its investors. The investors can then deduct the CEE against their income.

Most flow-through limited partnerships have a life span of one to two years, enough time to allocate most of the tax deductions to investors. The adjusted cost base of the units (ACB) is reduced by the tax deductions and increased by any capital gains from the investments sold within the limited partnership portfolio. Those capital gains are allocated to investors annually.

At termination, the flow-through limited partnership unitholders receive shares of a corporate class mutual fund and the rollover transaction is completed without triggering an immediate tax liability. This allows investors the option to defer their tax liability further, until they redeem the mutual fund.





SAMPLE TAX-PLANNING STRATEGIES USING SIGHTLINE FLOW-THROUGH

There are several ways that investments in Flow-Through Limited Partnerships can be leveraged in tax planning. Investors should always consult with their tax professional to ensure that any strategy is appropriate for their unique situation.

I Reduce Taxes

The entire amount invested in a Sightline Flow-Through Limited Partnership may be tax-deductible in the year purchased (subject to certain assumptions, outlined in the prospectus). When the Flow-Through Limited Partnership terminates, the shares are taxable as capital gains. This means you would only pay taxes on half of the total amount at your marginal tax rate (please note that tax rates differ by province).

*Here is an example of how this strategy works.***

For simplicity purposes we will assume an investment of \$10,000 with no net gain or loss at the end of the term, so a final share value of \$10,000. We will assume an investor marginal tax rate of 53.53%*.

Similar to an RRSP, with a Flow Through L.P. the investor benefits from a tax savings at their marginal tax rate.

With the initial investment of \$10,000, the investor would receive a tax benefit of \$5,353. (\$10,000 x marginal tax rate of 53.53% = \$5,353 tax benefit).

At the end of the term, the \$10,000 investment (assuming no gain or loss occurred) is rolled into shares of a corporate class mutual fund.

When selling the shares, the entire \$10,000 amount is considered a capital gain.

As a result, the investor would be taxed (at their marginal rate) on only half of that amount. (\$5,000 x 53.53% = \$2,677 owed in taxes).

In summary, the investor initially received a tax benefit of \$5,353 and then had to pay \$2,677 in taxes upon sale of the shares. The net income advantage on the \$10,000 in this example is \$2,676 (\$5,353 benefit minus \$2,677 owing).

* Ontario highest tax rate.

** For illustration purposes only. We are not tax advisors. Always consult with your tax professional



SAMPLE TAX-PLANNING STRATEGIES USING SIGHTLINE FLOW-THROUGH

2 Utilize Capital Losses

Investing in flow-through shares effectively converts income into capital gains, allowing investors to take advantage of any capital loss carry-forwards.

*Here is an example of how this strategy works:***

An investor buys \$10,000 of Sightline Flow-Through L.P. and deducts 100% of the investment against personal income. Upon termination of the Flow-Through L.P. and its rollover to Sightline Resource Class, the investor sells all Class shares. The investor also has \$10,000 of unused capital losses, which he uses to offset the capital gains from the disposition of the Flow-Through, further enhancing the after-tax returns.

3 Improve Tax-Efficiency of Charitable Donations

By investing in a flow-through limited partnership and donating the shares to a registered charity, investors can further reduce the cost of their charitable giving.

*Here is an example of how this strategy works:***

An investor buys \$10,000 of Sightline Flow-Through L.P. and deducts 100% of the investment against personal income. Upon termination of the Flow-Through, she donates the shares of Sightline Resource Class to a registered charity and receives a donation tax credit* of \$4,368. The donation also triggers a capital gains liability for the investor, resulting in an after-tax cost of the donation of approximately \$2,956.

	YEAR 1	YEAR 3
SIGHTLINE FLOW-THROUGH INVESTMENT	\$10,000	
TAX SAVINGS	\$5,353	
SIGHTLINE RESOURCE CLASS DONATION		\$10,000
CAPITAL GAINS TAX		\$2,677
DONATION TAX CREDIT		\$4,368
COMBINED TAX BENEFITS		\$9,721
AFTER TAX COST OF DONATION		\$2,956

* Assuming Ontario individual at top marginal tax rate of 53.53% and investors take into consideration both Federal and Ontario Tax Credits.

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