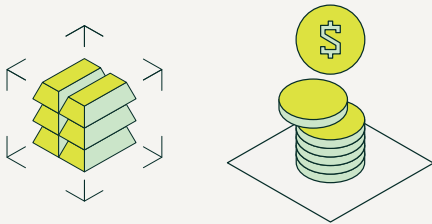


The Tax Planning Advantages of Flow-Through Investing

What is flow-through investing?

- 1** Canadian resource companies need capital for exploration.
- 2** To encourage Canadian resource exploration, the government permits qualifying companies to “flow-through” their exploration expenses to investors, for investor use as a tax offset.
- 3** Investors who invest in a Flow-Through Limited Partnership (LP) may deduct the full investment from their income in the year the investment is made.



Financial planning advantages of flow-through LPs for different investors

In 2 years or less (depending on the duration of the LP), the Limited Partnership terminates and the investment is rolled into a designated mutual fund corporation. The investor may now sell the fund, where their taxable capital gain is limited to 50% of the proceeds.

“I HAVE CAPITAL LOSSES THAT I HAVEN’T USED YET”

Investing in a Flow-Through LP effectively converts income into capital gains, **so investors can take advantage of any unused capital losses** they are carrying when they sell their shares in the mutual fund corporation, thereby reducing their taxable income.

“I’M MOVING TO A LOWER MARGINAL INCOME TAX BRACKET”

An investor who buys shares in a Flow-Through Limited Partnership decides to maintain their exposure to the resource sector and to defer their taxes further. As a result, they do not sell their shares of the mutual fund corporation. When the investor retires and is in a lower marginal tax bracket, they sell the fund and trigger capital gains taxes on 50% of their proceeds, at their new lower marginal tax rate.

“I HAVE A LONGER-TERM INVESTMENT HORIZON (5+ YEARS)”

Similarly, with a longer-term investment time horizon, an investor may be well-positioned to take advantage of a deferred tax strategy by doing a “tax-free rollover” into a mutual fund corporation, which then allows their investment to compound until one of several events occurs:

- **they experience capital losses on other investments which they can now use to offset their capital gain;**
- **they enter a lower marginal tax bracket.**

Examples of flow-through investing

1

Flow-Through investing offers one of the few remaining advanced tax planning strategies in Canada:

Much like RRSPs, Flow-Through investing allows the investor to deduct 100% of the investment against personal income in the year of investment. On termination of the Flow-Through LP, the investment is rolled into a designated mutual fund corporation. The investor may now sell the fund, where their taxable capital gain is limited to 50% of the proceeds.

	YEAR 1	YEAR 2	NET 2YR CASH FLOW
Flow-Through LP Investment	(\$10,000)		(\$10,000)
Tax savings ¹	\$5,350		\$5,350
Investment redemption ²		\$10,000	\$10,000
Capital gains tax payable ³		(\$2,675)	(\$2,675)
After-tax cash flow	(\$4,650)	+	\$7,325 = (\$2,675)
After-tax return ⁴			57%

¹ Assumes highest marginal tax rate in Ontario of 53.5%. Tax rates will vary by province.

² Assumes no net gain or loss at the end of the term. On redemption, in exchange for favourable tax treatment, full value of investment is treated as capital gains.

³ Assumes a 53.5% marginal tax rate x 50% Capital Gains inclusion rate x \$10,000 = \$2,675

⁴ After-tax cost of investment is \$4,650. After-tax return calculated as: \$2,675/\$4,650 = 57%

2

An excellent wealth planning tool:

In combination with the tax deferral achieved by the corporate class roll-over described above, an investor may also take advantage of any capital loss carry-forwards they have, which can be used to offset their capital gain.

	YEAR 1	YEAR 2	NET 2YR CASH FLOW
Flow-Through LP Investment	(\$10,000)		(\$10,000)
Tax savings ¹	\$5,350		\$5,350
Investment redemption ²		\$10,000	\$10,000
Adjusted net capital loss of \$10,000		<i>offsets capital gain</i>	
Capital gains tax payable ³		\$0	\$0
After-tax cash flow	(\$4,650)	+	\$10,000 = \$5,350
After-tax return ⁴			115%

¹ Assumes highest marginal tax rate in Ontario of 53.5%. Tax rates will vary by province.

² Assumes no net gain or loss at the end of the term. On redemption, in exchange for favourable tax treatment, full value of investment is treated as capital gains.

³ Assumes investor has an adjusted net capital loss carry-forward of \$10,000 which they apply to this investment.

⁴ Because capital gain has been reduced to zero, capital gains taxes are likewise zero.

⁵ After-tax cost of investment is \$4,650. After-tax return calculated as: \$2,675/\$4,650 = 57%



Ninepoint Partners LP is the investment manager to a number of funds (collectively, the "Funds"). Important information about these Funds, including their investment objectives and strategies, purchase options, and applicable management fees, performance fees (if any), and expenses, is contained in their prospectus. Please read the prospectus carefully before investing. There are ongoing fees and expenses associated with owning units of an investment fund. An investment fund must prepare disclosure documents that contain key information about the fund. You can find more detailed information about the fund in these documents. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication does not constitute an offer to sell or solicitation to purchase securities of the Funds.

The Fund is generally exposed to the following risks. See the prospectus of the Fund for a description of these risks: Speculative Investments; Sector Risks; Lack of Operating History of the Partnership; Changes in Net Asset Values; Valuation and Liquidity of Resource Issuers; Global Economic Downturn; Tax Related Risks; Lack of Liquidity of Units; Flow-Through Share Premiums; Reliance on the Manager and/or Sub-Advisor; Conflicts of Interest; Possibility that Limited Partners may Receive Illiquid Securities on Dissolution; Financial Resources of the General Partner; Transferability of the Units; Resale Restrictions on Portfolio Securities; Short Sales; Derivatives; Lack of Suitable Investments; Cybersecurity Risk; Possible Loss of Limited Liability; Loan Facility.

The information contained herein does not constitute an offer or solicitation by anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not a resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction.

The income tax considerations applicable to an investor will vary depending on a number of factors, including whether units of flow-through funds are characterized as capital property, the province or territory in which he or she resides, carries on business, or has a permanent establishment, the amount that would be his or her taxable income but for the interest in the flow-through fund, and the legal characterization of the investor as an individual, corporation, trust, or partnership.

Ninepoint Partners LP assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. The information should not be regarded by recipients as a substitute for the exercise of their own judgment or for the advice of legal and tax advisors.