



SPROTT TAX-ASSISTED INVESTMENTS
Sprott Flow-Through Limited Partnerships

What are flow-through shares?

The Federal Government allows Canadian resource companies that invest in the oil and gas, mining and renewable energy sectors 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.

Attach your Schedule 1 (federal tax) and Form 428 (provincial or territorial tax) here. Also attach here any other schedules, information slips, forms, receipts, and documents that you need to include with your return.

| Net income | |
|--|-------|
| Enter your total income from line 150. | 150 |
| Pension adjustment (box 52 of all T4 slips and box 034 of all T4A slips) | 206 |
| Registered pension plan deduction (box 20 of all T4 slips and box 032 of all T4A slips) | 207 |
| RRSP deduction (see Schedule 7, and attach receipts) | 208 + |
| Deduction for elected split-pension amount (attach Form T1032) | 210 + |
| Annual union, professional, or like dues (box 44 of all T4 slips, and receipts) | 212 + |
| Universal Child Care Benefit repayment (box 12 of all RC62 slips) | 213 + |
| Child care expenses (attach Form T778) | 214 + |
| Disability supports deduction | 215 + |
| Business investment loss Gross 228 Allowable deduction | 217 + |
| Moving expenses | 219 + |
| Support payments made Total 230 Allowable deduction | 220 + |
| Carrying charges and interest expenses (attach Schedule 4) | 221 + |
| Deduction for RRSP or CPP contributions on self-employment and other earnings (attach Schedule 8) | 222 + |
| Exploration and development expenses (attach Form T1229) | 224 + |
| Other employment expenses | 229 + |
| Clergy residence deduction | 231 + |
| Other deductions Sparsity | 232 + |
| Add lines 207 to 224, 229, 231, and 232 | 233 = |
| Line 150 minus line 233 (if negative, enter "0") | 234 = |
| This is your net income before adjustments . | |
| Social benefits repayment (if you reported income on line 113, 119, or 146, see Line 235 in the guide). Use the federal worksheet to calculate your repayment. | 235 - |
| Line 234 minus line 235 (if negative, enter "0") | 236 = |
| If you have a spouse or common-law partner, see Line 236 in the guide. This is your net income . | |

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 is often 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 is most suitable for investors taxed at the highest marginal tax rates and who can accept the risk of investing in small to mid-size resource companies.

Flow-Through Limited Partnerships

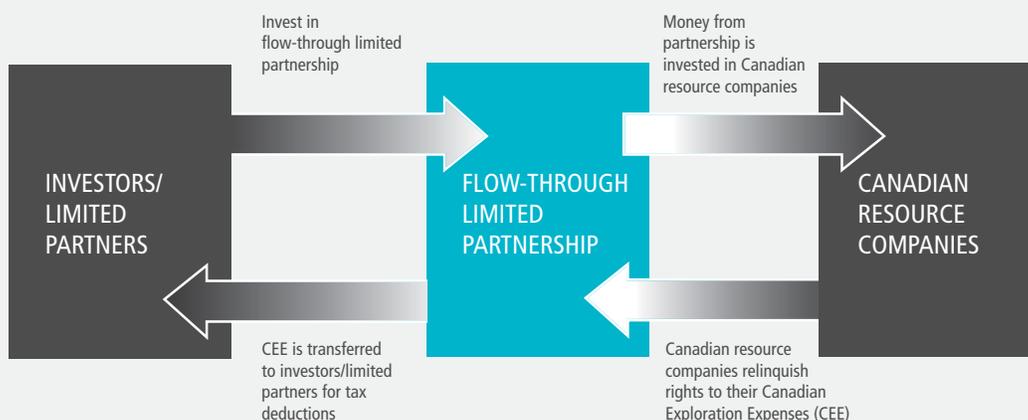
Investors can access the flow-through market by purchasing shares directly or by investing in a flow-through limited partnership. Flow-through limited partnerships are investment vehicles that add three important benefits to the tax advantages of flow-through investing: 1) professional management, 2) 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 Sprott Flow-Through Limited Partnerships

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.

1. Reduce Taxes

The entire amount invested in a Sprott 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 46%.

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 \$4,600. ($\$10,000 \times \text{marginal tax rate of } 46\% = \$4,600 \text{ tax benefit}$).

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. ($\$5,000 \times 46\% = \$2,300 \text{ owed in taxes}$).

In summary, the investor initially received a tax benefit of \$4,600 and then had to pay \$2,300 in taxes upon sale of the shares. The net income advantage on the \$10,000 in this example is \$2,300 ($\$4,600 \text{ benefit minus } \$2,300 \text{ owing}$).

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 Sprott 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 Sprott 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 Sprott Flow-Through L.P. and deducts 100% of the investment against personal income. Upon termination of the Flow-Through, she donates the shares of Sprott Resource Class to a registered charity and receives a donation tax credit of \$4,600. The donation also triggers a capital gains liability for the investor, resulting in an after-tax cost of the donation of approximately \$3,100.

| | YEAR 1 | YEAR 3 |
|--|----------|----------|
| SPROTT FLOW-THROUGH L.P. INVESTMENT | \$10,000 | |
| TAX SAVINGS | \$4,600 | |
| SPROTT RESOURCE CLASS DONATION | | \$10,000 |
| CAPITAL GAINS TAX | | \$2,300 |
| DONATION TAX CREDIT | | \$4,600 |
| COMBINED TAX BENEFITS | | \$6,900 |
| AFTER TAX COST OF DONATION | | \$3,100 |

Royal Bank Plaza, South Tower
200 Bay Street, Suite 2700
Toronto, Ontario M5J 2J1
Toll Free: 1.866.299.9906
Facsimile: 416.943.6497

www.sprott.com
invest@sprott.com



The risks associated with investing in a Fund depend on the securities and assets in which the Fund invests, based upon the Fund's particular objectives. There is no assurance that any Fund will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Fund will be returned to you. The Funds are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Fund's prospectus before investing. Sprott Asset Management LP is the investment manager to the Sprott 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 these documents carefully before investing. Commissions, trailing commissions, management fees, performance fees, other charges and expenses all may be associated with investing in the Funds. This communication does not constitute an offer to sell or a solicitation to purchase securities of the Funds. 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 resident in Canada should contact their financial advisor to determine whether securities of the Fund may be lawfully sold in their jurisdiction. The information provided is general in nature and is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants and/or lawyers for advice on the specific circumstances before taking any action.