"Super" Flow-through Shares

After-Tax Cost of a $1,000 Investment by an Individual Investor by Province in 2004

(based on legislation and administrative positions as of December 31, 2004)

The table courtesy of PricewaterhouseCoopers LLP

			Quebec	B.C.	Manitoba	Sask.	Ontario	Nfld. & Labrador	Nova Scotia	P.E.I.	New Brunswick	NWT	Yukon	Nunavut	Alta.
Combined federal/provincial tax rate – 2004		A	48.22%	43.70%	46.40%	44.00%	46.41%	48.64%	48.25%	47.37%	46.84%	42.55%	42.40%	40.50%	39.00%
Combined federal/provincial tax rate – 2005		B	48.22%	43.70%	46.40%	44.00%	46.41%	48.64%	48.25%	47.37%	46.84%	43.05%	42.40%	40.50%	39.00%
Federal tax rate – 2004		C	24.22%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%	29.00%
Provincial tax rate – 2004		D	24.00%	14.70%	17.40%	15.00%	17.41%	19.64%	19.25%	18.37%	17.84%	13.55%	13.40%	11.50%	10.00%
Federal tax credit		E	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Provincial tax credit		F	-	20%	10%	10%	5%	-	-	-	-	-	-	-	-
Amount of investment		G	$ 1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Less: tax benefit of deduction of flow-through investment – federal		GxC	(242)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)	(290)
Less: tax benefit of deduction of flow-through investment – provincial	(2)	GxD	(360)	(147)	(174)	(150)	(174)	(196)	(193)	(184)	(178)	(136)	(134)	(115)	(100)
subtotal			(602)	(437)	(464)	(440)	(464)	(486)	(483)	(474)	(468)	(426)	(424)	(405)	(390)
Less: 15% non-refundable federal investment tax credit	(1)	H=G(1-F)xE	(150)	(120)	(135)	(135)	(143)	(150)	(150)	(150)	(150)	(150)	(150)	(150)	(150)
Less: provincial tax credit	(3)	I=FxG	-	(200)	(100)	(100)	(50)	-	-	-	-	-	-		-
Add: income tax on inclusion of federal tax credit in 2005	(4)	HxB	36	52	63	59	66	73	72	71	70	65	64	61	59
Add: income tax on inclusion of provincial tax credit		IxA	-	87	46	44	23	-	-	-	-	-	-	-	-
			(716)	(618)	(590)	(572)	(568)	(563)	(561)	(553)	(548)	(511)	(510)	(494)	(481)
Net cost of $1,000 investment in flow-through shares	(5),(6)		$ 284	382	410	428	432	437	439	447	452	489	490	506	519

Notes

(1) The federal government allows a credit of 15% of qualifying expenditures incurred (or deemed incurred under the "look-back" rule) before January 1, 2006.

(2) The province of Quebec deduction is 150%, assuming expenditures are incurred after March 30, 2004.

(3) Provincial tax credits reduce the amount of expenditures qualifying for the federal tax credit.

(4) In the case of Quebec, the formula is "HxC" since the federal investment tax credit is not taxed in Quebec.

(5) Capital gains tax applicable when the shares are sold is ignored – the cost of the shares sold will be nil, therefore capital gains tax applies to 50% of the sales proceeds. However, in Quebec there is an exemption from tax on the original cost of the investment.

(6) Alternative minimum tax is ignored in this analysis.

Assumptions

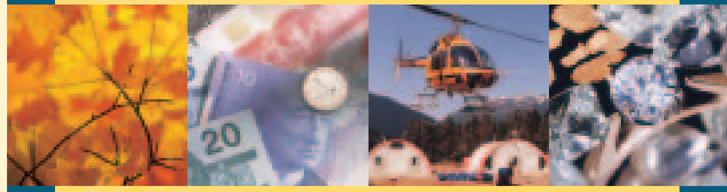
- Taxpayers are subject to income taxes at top marginal rates.
- Canadian exploration expenses are 100% eligible for federal and provincial tax credits.
- Available tax deductions are taken in full.
- Exploration expenditures are made in the applicable province and the taxpayer is a resident of that province for tax purposes.

WHAT'S NEW

FOR INVESTORS – you can now invest in qualifying flow-through shares until December 31, 2005.

FOR ISSUERS – you have until December 31, 2006 to spend money raised in 2005.

WHAT YOU SHOULD KNOW ABOUT "SUPER" FLOW-THROUGH SHARES



- **What they are**
- **What they mean for investors**

The Canadian mineral exploration sector has discovered diamond, gold, platinum, nickel and copper deposits since the enhanced flow-through program was introduced in October, 2000. "There is no guarantee a discovery will become a mine," says PDAC President Peter Dimmell, but "the high valuations of some discoveries combined with the shallow depths of discovery, size and proximity to existing infrastructure indicate that some of the recent flow-through financed discoveries are likely to become producers."

PDAC

December 31, 2004

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 and is deductible 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 137% 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 apply to the provincial portion of income tax relating to eligible expenses in relevant jurisdictions. These include harmonizing incentives by Ontario, Saskatchewan, British Columbia and Manitoba. The effect of these incentives varies depending on the jurisdiction as shown on the accompanying table.

Ontario (5%), Saskatchewan (10%), Manitoba (10%) and British Columbia (20%) offer harmonizing tax credits. The Ontario tax credit is refundable, the other tax credits are non-refundable.

Quebec permits a deduction to investors of 150% (131.25% before March 31, 2004) of the cost 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 **B.C.**, **Manitoba**, **Saskatchewan** and then **Ontario** (see accompanying table).

The provincial deductions and tax credits apply only to eligible expenditures in the applicable province, and only to taxpayers 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 at least 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 ten 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, most taxpayers 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 B.C. would add $320, being $200 (provincial) and $120 (federal) in 2006 for every eligible $1,000 invested in 2005 (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)

In November, 2002 none other than the Metals Economics Group stated that Canada has once again acquired the title as the number one country in the world for mineral exploration spending, wresting the title away from our biggest competitor, Australia, for the first time in eight years. MEG attributes Canada's regaining top spot in part to the flow-through share program.

Features of the 15% federal mining Exploration Investment Tax Credit

- **unused tax credits may be carried back three years or forward ten years**
- applies to eligible expenditures incurred between Oct. 17, 2000 and December 31, 2006
- 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
- 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

Over $1 billion in flow-through financing has been raised to October, 2004. "The discovery rate since October, 2000 has averaged between one and two per month," says Dave Comba, Director , Regulatory Affairs.

For further information contact
David Comba:
Prospectors & Developers
Association of Canada
34 King Street East, 9th Floor
Toronto, Ontario M5C 2X8
Tel 1 416 362 1969 Ext. 233
Fax 1 416 362 0101
Email: dcomba@pdac.ca

Visit our website at www.pdac.ca for further details

PDAC