

B.C. has 3 tax-based programs to encourage mineral exploration: Flow-Through Shares (FTS), B.C. Mining Flow-Through Share (BC-MFTS) Tax Credit and the B.C. Mining Exploration Tax Credit (METC)

Flow-through shares are used to finance Canadian minerals and petroleum exploration and were originally introduced to address the exploration financing inequity which arose between major and junior exploration companies. The majors can deduct exploration expenditures for tax purposes, the juniors normally cannot because they lack taxable income. FTS investors can deduct their investments from otherwise taxable income because the tax deductions have been "flowed-through" from the juniors to the investors.*

What about British Columbia Mining Flow-Through Shares (BC-MFTS)?
the so-called "Super" Flow-Through Shares

In July 2001, the British Columbia government introduced a 20% non-refundable tax-credit for qualifying grassroots exploration expenditures (funded by FTS to investors) made in B.C. This was in addition to, and is harmonized with the 15% Federal Mineral Exploration Tax Credit program relating to flow-through shares and the existing 100% deduction of Canadian Exploration Expense (CEE). The 2004 federal and B.C. budgets extended those tax credit provisions to the end of 2005 and provide that certain expenditures (expenditures incurred in 2006 that are deemed to have been incurred in 2005) made until the end of 2006 are eligible.*

For British Columbia taxpayers at the highest marginal tax rate:

the B.C. and federal tax credits plus the regular 100% CEE deduction are equivalent to a 141% tax deduction - superior to the 133% deduction which fuelled the 1980's flow-through boom.

What is the Mining Exploration Tax Credit (METC)?

The METC is a 20% refundable tax credit applied to qualifying grassroots exploration, not funded by FTS, on base and precious metals, coal and some industrial minerals. The credit is available to B.C. tax residing individuals and companies who incurred these expenditures. The program applies to expenditures made between August 1, 1998 and July 31, 2006.*

**(see details on websites included in contact section)*

What does this mean for B.C. investors?

A B.C. investor, with taxable income of more than \$113,805 and who invests \$1,000 in flow-through shares, would receive tax credits and tax savings totalling \$757 - partially offset the following year by \$139 in taxes payable on the tax credits, for a net benefit of 62% of the investment! * The tax benefits will vary dependent on the investor's marginal tax rate and jurisdiction of taxation. Currently, Quebec offers the largest potential tax savings for flow-through share investors because of its 150% tax deduction for qualifying exploration expenditures incurred in Quebec. B.C. still offers the best tax credit available in Canada.

**(see accompanying table for specifics and assumptions)*

The provincial deductions and tax credits apply only to eligible expenditures in the applicable province, and only to taxpayers subject to provincial taxes in that province.

Tax Deductions vs Tax Credits ?

Under flow-through share tax legislation, eligible exploration expenditures have been 100% deductible from income from any source for over 20 years. These deductions 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.

British Columbia and federal FTS-based tax credits are non-refundable (the investor has to pay taxes in order to use the claim). However, unused credits can be carried back and applied against taxes paid in the previous three years or carried forward for up to ten years.

Tax credits are considered "assistance" for income tax purposes and accordingly they reduce the CEE pool. Both provincial and federal tax credits reduce the pool in the year after the one in which they were claimed.*

**(see accompanying table for specifics and assumptions)*



N.B. *The 20% refundable B.C. Mining Exploration Tax Credit (METC) remains available for exploration not funded by flow-through shares and has been extended to July 31, 2006 to assist eligible exploration by individuals and companies that is not financed with FTS.*

For taxpayers at the highest marginal tax rate :

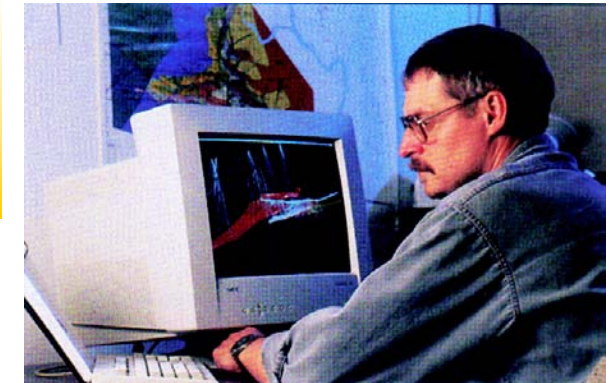
- the B.C. and federal non-refundable tax credits, when added to the regular 100% deduction, are equivalent to a 141% exploration expense deduction for income tax purposes

Features of the 20% B.C. and the 15% federal Exploration Tax Credits

- apply to eligible expenditures incurred between Oct. 17, 2000 (July 30, 2001 in the case of B.C.) and December 31, 2006
- non-refundable
- tax credits are available the year the investment is made but they reduce CEE in the year following the claim
- if the reduction in the CEE pool results in a negative pool balance, the negative balance is included in income
- provincial tax credits received reduce the pool of costs subject to the federal tax credit
- unused tax credits may be carried back three years or forward ten years
- expenditures eligible for tax credits are more restricted than expenses eligible for regular flow-through share renunciations



The current generation of flow-through share financing is becoming popular with over \$900 million in flow-through financing raised across Canada to the end of June, 2004. The Metals Economic Group stated that for the first time in eight years, Canada has regained the title as the number one country in the world for mineral exploration spending and has attributed this to the Canadian federal and provincial flow-through share financing program.



Do tax incentives work ?

YES The following billion-dollar-plus mines were discovered by funds raised by the previous (mid-1980's) flow-through program :

- ESKAY CREEK, B.C. (Stikine/Prime)
- LOUVICOURT, Que (Aur Resources)
- LINDSLEY, Ont (Falconbridge)
- EKATI, NWT (Diamet/BHP)

