FLOW-THROUGH INVESTING

WEALTH PRESERVATION STRATEGIES USING CANADA'S UNIQUE NATURAL RESOURCE INVESTMENT PROGRAM

INDUSTRIAL ALLIANCE
SECURITIES INC.

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I AM CANADIAN

CANADA IS ONE OF THE MOST PREFERRED PLACES TO LIVE

However, our quality of life is costly to maintain. Canadians experience some of the highest tax rates in the world.

In Ontario, the top marginal bracket is 46.41%.

OUR CHALLENGE:

TO BUILD WEALTH WHEN NEARLY HALF OF ONE'S INCOME GOES TO TAXES

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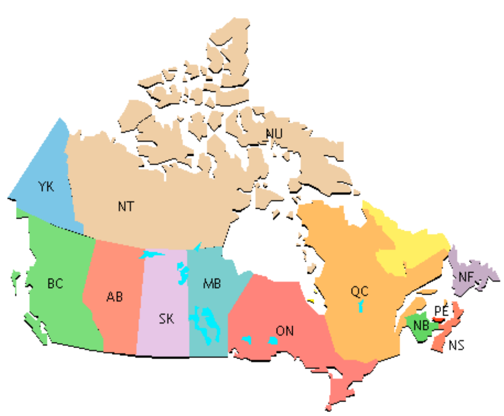
A CANADIAN SOLUTION

FLOW-THROUGH INVESTING IS A UNIQUELY CANADIAN SOLUTION WHICH BENEFITS NATURAL RESOURCE COMPANIES AND INVESTORS

Introduced by the Government of Canada in 1954, flow-through investing is essential for the development of our natural resources and the economy of northern Canada.



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DEVELOPING OUR FUTURE

INVESTING IN OURSELVES

Flow-through shares are issued by Canadian corporations who are developing natural resources in Canada.

Qualifying natural resources include: Gold, silver, oil, natural gas, iron, copper, nickel, zinc, aluminum, potash, lithium, rare earths, diamonds, coal, wind power and more.

The government (Fed & Prov) offers tax breaks to these corporations and the tax credits may "flow-through" to those who invest in shares of these corporations. ($ billions annually)

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TAX BREAK FLOW

SIMPLE 3 STEP PROCESS

The investor purchases flow-through shares of a resource company. The company spends the investment on resource development. All Government tax breaks for the resource company are then passed to the investor.

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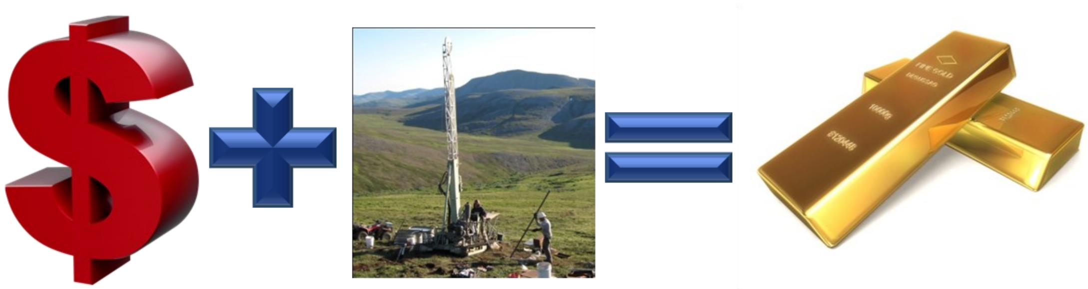
PROFIT FROM SHARES

INVESTORS MAY ALSO PROFIT WHEN THE SHARE PRICE RISES

In addition to receiving the tax break from investing in flow-through shares, there is a potential for capital appreciation.

When resource companies are successful in exploring for and developing natural resources their shares prices often rise. Investors who own those shares benefit from both the tax break and the increase in share value. There is a possibility of significant returns.



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INVESTMENT CHOICES

UTILIZING PROFESSIONAL ADVICE

Choosing which resource companies to invest in is challenging for most investors.

SOLUTION:
LIMITED PARTNERSHIPS

Investing through a limited partnership offers individual investors many advantages. In a flow-through LP, investors pool their $ and receive the benefit of a team of professionals who specialize in natural resource investing. The burden of individual investment selection is removed from the investor and the process is simplified.

In addition, risk is lowered through diversification. Most LPs typically invest in the shares of 30 - 50 different companies.

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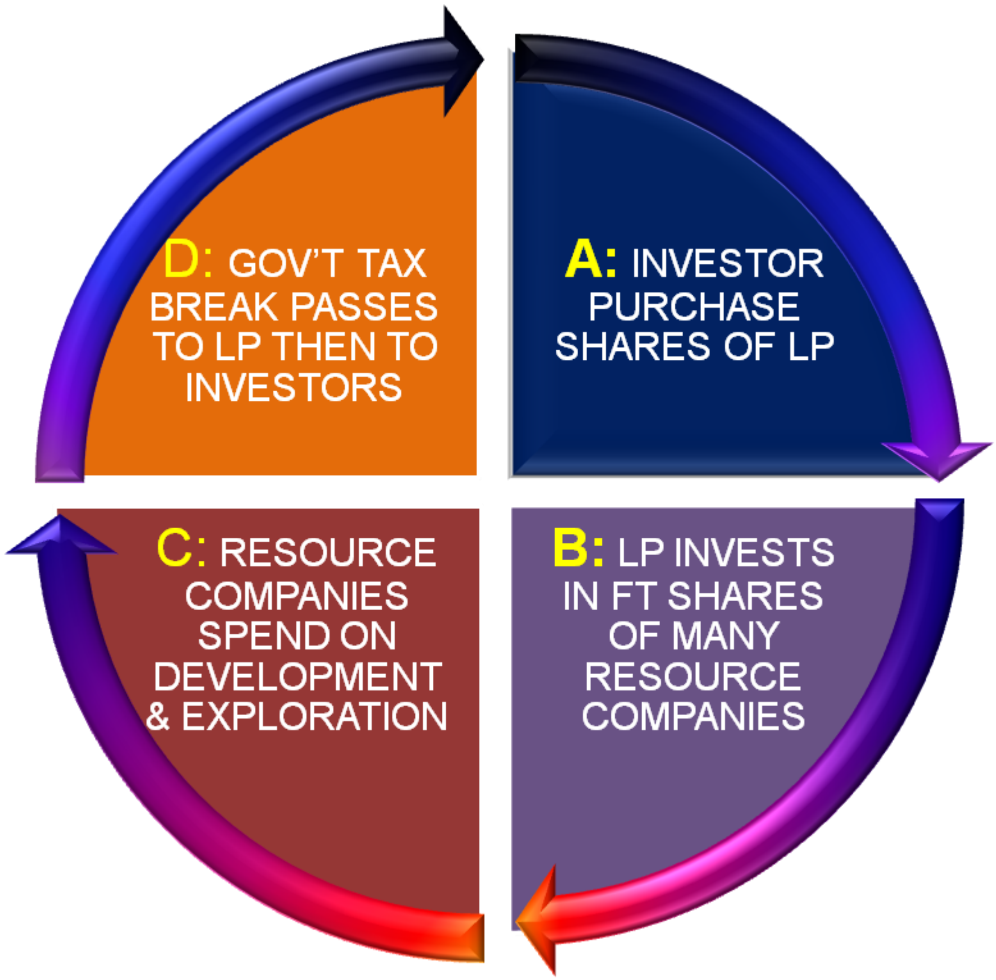
TAX BREAK FLOW FOR LPs

SIMPLE 4 STEP PROCESS



The investor purchases shares of a flow-through limited partnership. The LP invests in flow-through shares of many resource companies. The companies spend the investment on resource development. All Government tax breaks for the resource company are then passed to the investor via the LP.

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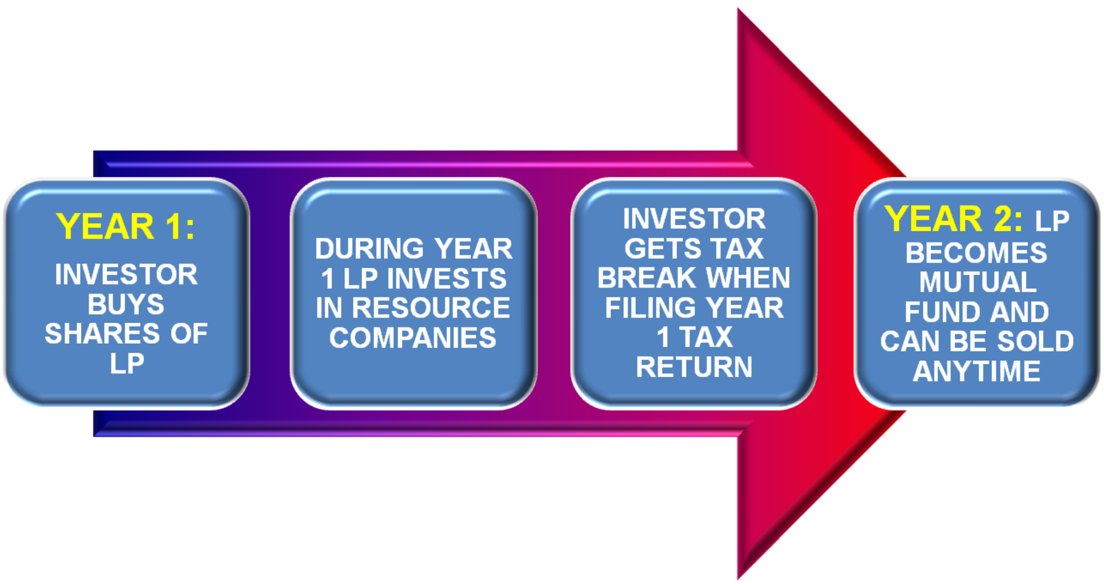
TYPICAL F-T LP LIFE CYCLE

PROMPT TWO YEAR ROLL OVER

Most flow-through limited partnerships become mutual funds at maturity. This is termed "roll over" and typically occurs within 2 years. At that point, they may be sold, in whole or in part, at the discretion of the investor.



When the investor sells the shares, a capital gain is triggered since the adjusted cost base of flow-through investments is always zero. In Canada, capital gains are only half taxable and a capital loss can be utilized to offset the gain.

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F-T SHARES VS LPs

INDIVIDUAL F-T SHARES
VS
F-T LIMITED PARTNERSHIPS

SUMMARY TABLE

QUALITY	SHARES	LPs
TAX DEDUCTION	100%	100%
ADJUSTED COST BASE	$0	$0
DIVERSIFICATION (# HOLDINGS)	1	30 - 50
PROFESSIONAL MANAGEMENT	NO	YES
MANAGEMENT FEE	NO	1% - 3%
MINIMUM HOLD PERIOD	4 MONTHS	2 YEARS
LIQUIDITY UPON ROLLOVER	VARIES	LIQUID

Investing in individual flow-through shares offers the investor the advantages of a short 4 month escrow period until liquidity and no management fee. Limited partnerships reduce risk through diversification and professional management, however, there are management fees charged and typically 2 years until liquidity.

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“SUPER” FLOW-THROUGH

UP TO 121% TAX SAVINGS

In October 2000, the Government of Canada introduced a 15% non-refundable tax credit for investors in certain qualified mineral resource companies. This tax credit is in addition to the 100% deductible Canadian Exploration Expense (CEE) and is deductible from the Federal portion payable of the investor’s taxes. To distinguish flow-through shares carrying this additional tax credit from “regular” flow-through shares they have been termed “super” flow-through shares (SFT).

Some Provinces may offer additional tax credits of up to 30% . Ontario offers 5%

This program has been very successful in helping Canadian junior mineral companies obtain much needed capital for mineral exploration. There are currently several limited partnerships who specialize in “super” flow-through investing and investors may receive total tax reductions of up to 121%.

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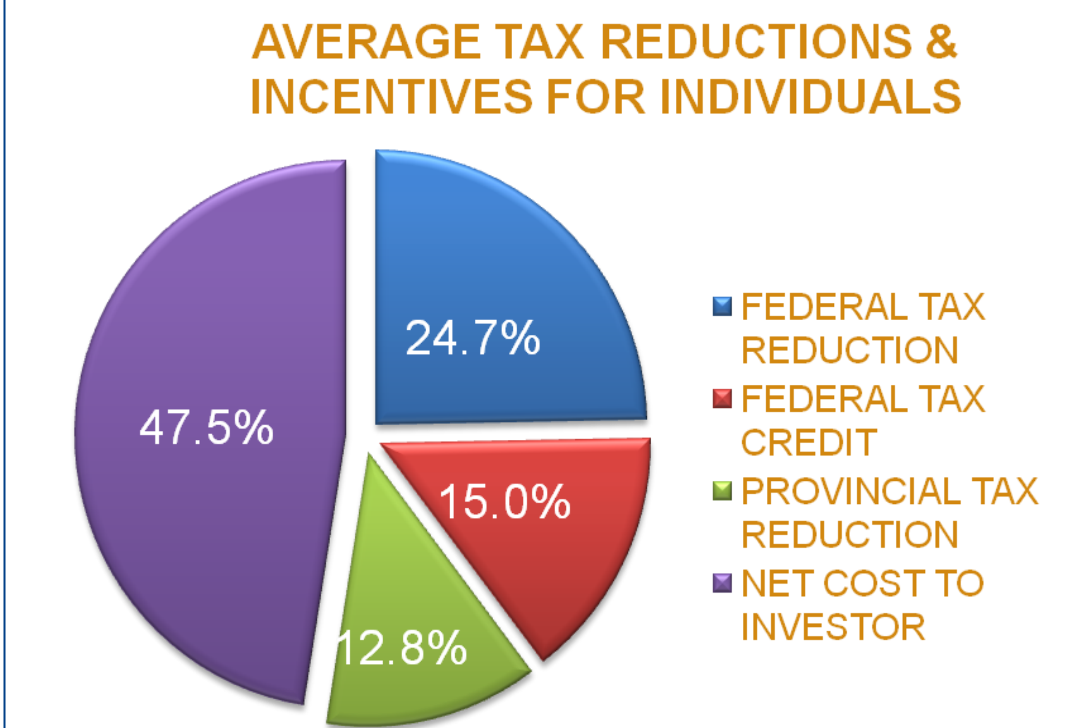
SF-T TAX SAVINGS ANALYSIS

TAX SAVINGS ARE COMPOSED OF A FED TAX CREDIT AS WELL AS FED AND PROV DEDUCTIONS



Investors are provided a T5013 tax slip by the limited partnership or resource company for filing with their Year 1 tax return. The amount of tax savings will differ slightly between Provinces. An Ontario investor in the top marginal bracket will save 56.7%.

SF-T TAX SAVINGS DETAILS

SUPER FLOW-THROUGH TAX SAVING COMPONENTS

TAX SAVINGS COMPONENT 1: CEE

The Government allows Canadian resource companies in oil and gas, mining, base metals and renewable energy to fully deduct specific exploration expenses known as Canadian Exploration Expenses (CEE). Many of these companies will issue flow-through shares to raise capital and renounce the CEE credits to the investors. The renounced CEE is 100% deductible against any source of income.

+

TAX SAVINGS COMPONENT 2: ITCE

The Investment Tax Credit for Exploration is a 15% Federal tax credit applying to preliminary mineral exploration activities. It does not apply to oil & gas, coal, bitumous sands or oil shale. The ITCE is a non-refundable tax credit that can be carried back 3 years or carried forward 10 years. Investors claiming the ITCE will also be allowed to claim the 100% CEE deduction. Additional Provincial tax credits will reduce the amount of expenses eligible for the ITCE and the amount of deductible CEE.

=

121%*

* Ontario tax payer at top marginal bracket

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TAX CALCULATION

BASIC CALCULATION

Tax filing is simplified through the issuance of a T5013 to the investor for the tax year in which the investment was made.

$10,000 INVESTED IN FLOW-THROUGH BY AN INDIVIDUAL IN ONTARIO AT THE TOP MARGINAL BRACKET

FEDERAL TAX RATE 2011	29.00%
PROVINCIAL TAX RATE 2011	17.41%
COMBINED FED & PROV TAX RATES	46.41%
AMOUNT OF INVESTMENT	$10,000
LESS: TAX BENEFIT OF FED DEDUCTION	$2,900
LESS: TAX BENEFIT OF PROV DEDUCTION	$1,741
TOTAL TAX BENEFIT FED & PROV	**$4,641**
NET COST OF INVESTMENT	**$5,359**

TAX SAVINGS YEAR 1 = $4,641

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SF-T TAX CALCULATION

SUPER FLOW-THROUGH CALCULATION

$10,000 INVESTED IN "SUPER" FLOW-THROUGH BY AN INDIVIDUAL IN ONTARIO AT THE TOP MARGINAL BRACKET

FEDERAL TAX RATE 2011	29.00%
PROVINCIAL TAX RATE 2011	17.41%
COMBINED FED & PROV TAX RATES	46.41%
AMOUNT OF INVESTMENT	$10,000
LESS: TAX BENEFIT OF FED DEDUCTION	$2,900
LESS: TAX BENEFIT OF PROV DEDUCTION	$1,741
LESS: 15% FED TAX CREDIT	$1,425
LESS: 5% PROV TAX CREDIT	$500
ADD: TAX ON 15% FED CREDIT	$661
ADD: TAX ON 5% PROV CREDIT	$232
TOTAL NET TAX BENEFIT FED & PROV	**$5,673**
NET COST OF INVESTMENT	**$4,327**

TOTAL TAX SAVINGS = $5,673

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INVESTMENT STRATEGIES

TAILORED SOLUTIONS FOR EVERY INVESTOR

Most investors may reduce taxes by utilizing flow-through. Investors subject to the top marginal tax rate receive the maximum benefit.

+

Investors who experience a large variance in annual income may also benefit from the tax deferral properties of flow-through.

+

Investors experiencing a capital gain may defer and reduce taxes payable. Investors may also take advantage of capital loss carry-forwards.

+

Pensioners may receive the added benefit of utilizing flow-through investing to lower income and thereby avoid “claw back” of OAS benefits.

+

Corporations may reduce taxes and also utilize capital loss carry-forwards to reduce or offset the capital gain upon disposition.

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STRATEGY: HIGH INCOME

BASIC INVESTMENT STRATEGY FOR HIGH INCOME INVESTORS

COMPARISON:

An Ontario investor earns $150,000 annually and invests $20,000 into a flow-through limited partnership in Year 1. After 2 years the value of the investment remains unchanged and it is then sold.

(MARGINAL TAX RATE = 46.41%, EFFECTIVE TAX RATE = 33.16%)

	INVEST IN LP	DO NOTHING
EARNED INCOME	$20,000	$20,000
INVESTMENT IN LP	$20,000	-
INCOME TAX PAYABLE	-	$9,282
YEAR 2 SALE PROCEEDS	$20,000	-
CAPITAL GAINS TAX PAYABLE	$3,316	-
AFTER-TAX PROCEEDS	$16,684	$10,718

WHEN UTILIZING FLOW-THROUGH THE HIGH INCOME INVESTOR KEEPS $5,966 (55%) MORE $

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STRATEGY: ROLLOVER

REINVESTING MATURING SHARES COMPOUNDS INVESTOR RETURN

COMPARISON:

An Ontario investor at the top marginal tax rate invests $10,000 into a flow-through LP in Year 1 and in Year 2. The investment value remains unchanged and every subsequent year maturing shares are sold and reinvested. In the 10th year the investors stops the program.

YR	OUT OF POCKET PURCHASE	REINVESTMENT OF MATURING LP SHARES	DEDUCTION	TAX SAVINGS	CAPITAL GAINS TAX	NET TAX SAVINGS
1	$10,000	-	$10,000	$4,640	-	$4,640
2	$10,000	-	$10,000	$4,640	-	$4,640
3		$10,000	$10,000	$4,640	$2,320	$2,320
4		$10,000	$10,000	$4,640	$2,320	$2,320
5		$10,000	$10,000	$4,640	$2,320	$2,320
6		$10,000	$10,000	$4,640	$2,320	$2,320
7		$10,000	$10,000	$4,640	$2,320	$2,320
8		$10,000	$10,000	$4,640	$2,320	$2,320
9		$10,000	$10,000	$4,640	$2,320	$2,320
10		-	-	-	$2,320	($2,320)
11		-	-	-	$2,320	($2,320)
	$20,000			$41,760		$20,880

$20,000 INVESTMENT RECOVERED AND $20,880 TAX SAVINGS REALIZED

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STRATEGY: CAPITAL GAIN

UTILIZE FLOW-THROUGH AND YOUR RRSP TO ELIMINATE CAPITAL GAINS TAX

COMPARISON:

In 2011, an Ontario investor at the top marginal tax rate sells an investment triggering a $200,000 capital gain and then invests only $100,000 into a flow-through LP. For 2 years following maturity the maximum amount of LP shares are contributed to the investor's RRSP then the remaining units are sold.

(ASSUME SHARE VALUE REMAINS UNCHANGED, RRSP LIMITS ARE ESTIMATES BASED ON 2011 GOC BUDGET)

	INVEST IN LP	DO NOTHING
YEAR 1 CAPITAL GAIN (50% TAXABLE)	$200,000	$200,000
YEAR 1 INVESTMENT IN LP	($100,000)	-
YEAR 1 TAX PAYABLE	-	($46,410)
YEAR 3 RRSP CONTRIBUTION	$23,500	-
YEAR 3 NET TAX SAVINGS	$5,453	-
YEAR 4 RRSP CONTRIBUTION	$24,500	-
YEAR 4 NET TAX SAVINGS	$5,685	-
YEAR 5 REMAINING SHARES SOLD	$52,000	-
TAX PAYABLE YEAR 5	($12,066)	-
TOTAL TAX PAID	**($926)**	**($46,410)**

ELIMINATE CAPITAL GAINS TAX BY CONTRIBUTING F-T

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STRATEGY: CAPITAL LOSS

UTILIZE FLOW-THROUGH AND CAPITAL LOSS CARRY-FORWARDS TO ELIMINATE TAX ON INCOME

Capital losses occur when an investor sells property for an amount below the amount invested. Capital loss carry-forwards arise when capital losses exceed capital gains for a particular year. Capital losses can be used to offset future capital gains or capital gains from the previous three years.

COMPARISON:

An Ontario investor at the top marginal tax rate has capital losses from the past year totalling $20,000. In Year 1 the investor purchases $20,000 of a flow-through LP then sells it for the same value upon maturity in Year 2.

	INVEST IN LP	DO NOTHING
EARNED INCOME	$20,000	$20,000
INVESTMENT IN LP	$20,000	-
INCOME TAX PAYABLE	-	$9,282
YEAR 2 SALE PROCEEDS	$20,000	-
CAPITAL GAINS TRIGGERED	$20,000	-
CAPITAL LOSS CARRY- FORWARD	($20,000)	
CAPITAL GAINS TAX PAYABLE	-	-
AFTER-TAX PROCEEDS	$20,000	$10,718

USE LOSSES TO ELIMINATE TAX

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STRATEGY: REDEEM RRSPs

REDEEMING AN RRSP

COMPARISON:

An investor at the top marginal tax bracket has $200,000 in an RRSP and capital losses of $50,000 from other investments. An appropriate strategy may be to withdraw $50,000 from the RRSP and buy F-T. Taxes resulting from the RRSP redemption will be offset by the tax credited from the F-T purchase and no tax will be payable in the year of withdrawal.

Upon maturity, assuming the shares have held their value, the F-T may be sold, triggering a capital gain of $50,000. The capital loss may be carried forward and utilized to completely offset the capital gain from the flow-through.

	INVEST IN LP	DO NOTHING
RRSP WITHDRAWAL INCOME	$50,000	$50,000
INVESTMENT IN LP	$50,000	-
INCOME TAX PAYABLE	-	$23,200
YEAR 2 SALE PROCEEDS	$50,000	-
CAPITAL GAINS TRIGGERED	$50,000	-
CAPITAL LOSS CARRY- FORWARD	($50,000)	-
CAPITAL GAINS TAX PAYABLE	-	-
AFTER-TAX PROCEEDS	$50,000	$26,800

WITHDRAW FROM AN RRSP WITHOUT PAYING TAX

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STRATEGY: OAS CLAW BACK

UTILIZE FLOW-THROUGH TO AVOID OAS CLAWBACK

Reduction (claw back) of old age security benefits occurs when taxable income reaches $67,668 and OAS benefits cease at $110,038. An investor with taxable income of $110,000 who invests $44,000 into flow-through in 2011 will receive a number of benefits:

- ⇒ CURRENT YEAR TAX REDUCTIONS OF $17,679
- ⇒ FULL RESTORATION OF OAS BENEFITS TOTALING $6,322
- ⇒ TAX LIABILITY OF $8,840 DEFERRED OR PERHAPS AVOIDED
- ⇒ POSSIBLE HST CREDITS
- ⇒ POSSIBLE MEDICAL TAX CREDITS

THE INVESTOR INCREASED AFTER TAX

	INVEST IN LP	DO NOTHING
EARNED INCOME	$110,000	$110,000
INVESTMENT IN LP	$44,000	-
INCOME TAX PAYABLE	$14,062	$31,741
OAS RECEIVED	$6,322	-
REDUCTION IN NET INCOME	$7,740	$31,741
AFTER-TAX PROCEEDS	$102,260	$78,259

INCOME BY $24,001 (30%)

FLOW-THROUGH CAN RECOVER 100% OF OAS CLAW BACKS PLUS ADDITIONAL BENEFITS

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STRATEGY: CORPORATIONS

FLOW-THROUGH PROVIDES NUMEROUS TAX STRATEGIES TO CORPORATIONS

EXAMPLE:
A high income Ontario investor owns a corporation (ABC) with $100k in capital losses

STEP 1: The investor purchases $100k in flow-through personally and saves $46,400 in taxes.

STEP 2: The F-T shares are transferred to ABC at the adjusted cost base of $0 (Tax act 85(1)). No taxes are payable upon the transfer event.

STEP 3: ABC sells the shares triggering capital gains of $100k. The gain is sheltered by the previous loss and 50% of the capital gain plus 50% of the prior loss are included in ABC's capital dividend account. Then $100k can be paid out as a tax-free dividend to the investor.

SUMMARY:
1) Investor saves $46,400 in tax
2) ABC shelters the capital gain
3) Investor receives a tax-free dividend of $100k

CORPORATIONS BENEFIT BY F-T

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BORROWING TO INVEST

FEASIBILITY OF BORROWING TO INVEST IN A FLOW-THROUGH LP

BORROWING ENABLES THE INVESTOR TO USE THE PROCEEDS OF THE TAX SAVINGS THROUGHOUT THE DURATION OF THE F-T INVESTMENT. HOWEVER, THE INTEREST EXPENSE IS NOT TAX DEDUCTIBLE.

(ASSUMPTION: MARGINAL BRACKET 46.41%, $10,000 BORROWED @ 5%, LOAN REPAID ON MATURITY, SHARE VALUE REMAINS UNCHANGED)

YR	PURCHASE	LOAN VALUE	INTEREST EXPENSE	TAX SAVINGS	CAPITAL GAINS TAX	NET SAVINGS
1	$10,000	$10,000	($500)	$4,641	$0	$4,141
2		$10,000	($500)	$0	$0	($500)
3		$0	$0	$0	($2,320)	($2,320)
			($1,000)	$4,461	($2,320)	$1,321

CUMULATIVE TAX SAVINGS OF $1,321 PLUS $4,641 TAXES DEFERRED

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FLOW-THROUGH RISK

TAX SAVINGS LOWER RISK OF NATURAL RESOURCE INVESTING

AN INVESTMENT IN FLOW-THROUGH SHARES IS TO BE CONSIDERED SPECULATIVE AND MUST BE CONSISTENT WITH INVESTOR RISK TOLERANCE AND INVESTMENT OBJECTIVES. RESOURCE COMPANIES ARE OFTEN SMALL, RELATIVELY ILLIQUID, SPECULATIVE IN NATURE, CONTINGENT UPON UNDERLYING COMMODITY PRICES AND MORE VOLATILE THAN THE OVERALL MARKET - WHICH COULD LEAD TO GREATER-THAN-AVERAGE LOSSES. ALTHOUGH THE TAX WRITE-OFFS REDUCE THE INVESTOR'S AT RISK AMOUNT, THE UNPREDICTABILITY OF COMMODITY PRICES AND THE BLIND-POOL NATURE OF F-T LPs, FURTHER SUPPORT THIS HIGH RISK CLASSIFICATION.

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RISK AND RETURN

F-T OFTEN OUTPERFORMS EVEN IN VOLATILE MARKETS

EFFECT OF FLOW-THROUGH PRICE CHANGE ON 2 YEAR RETURN

QUALITY	NO CHANGE	30% DECLINE	30% INCREASE
INITIAL INVESTMENT	$10,000	$10,000	$10,000
TAX SAVINGS	$4,640	$4,640	$4,640
COST (A)	$5,360	$5,360	$5,360
SALE PROCEEDS	$10,000	$7,000	$13,000
CAPITAL GAINS TAX	$2,320	$1,624	$3,016
NET PROCEEDS (B)	$7,680	$5,376	$9,984
2 YR RETURN = (B-A) / A	($7680 - $5360) / $5360 = 43%	($5376 - $5360) / $5360 = 0%	($9984 - $5360) / $5360 = 86%

FLOW-THROUGH INVESTMENTS CAN WITHSTAND A 30% DECLINE AND CAN ALSO GENERATE HIGHER RETURNS WHEN VALUE RISES

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FLOW-THROUGH SUMMARY

FLOW-THROUGH ADVANTAGES

⇒ BENEFITS CANADA'S RESOURCE COs
⇒ REDUCES TAX FOR CANADIAN INVESTORS
⇒ LPs SIMPLIFY INVESTING PROCESS
⇒ LPs LOWER RISK BY DIVERSIFYING

⇒ NUMEROUS STRATEGIES AVAILABLE
⇒ TAILORED SOLUTIONS FOR INVESTORS
⇒ RISK REDUCED THROUGH TAX BREAK
⇒ RETURN AMPLIFIED BY TAX BREAK

DELIVERING THE VALUE PROPOSITION TO SUCCESSFUL INVESTORS

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