TerraFunds
Tax-Smart Investments

HOW FLOW-THROUGH LPs WORK

Tax Savings & Break-even

Flow-through limited partnerships (LPs) are tax-advantaged funds that provide investors attractive tax savings and additional investment returns through a diversified portfolio of flow-through shares.

Investors recoup the majority of their investment initially in the form of tax savings from Canadian Exploration Expenses (CEE), Mineral Exploration Tax Credits (METC), Critical Mineral Exploration Tax Credits (CMETC) and provincial tax credits & deductions acquired by the LP. These tax savings reduce the investment cost, similar to a repayment of capital.

The balance of the investment may be recouped on redemption. The "break-even value" is the amount required on redemption such that, after paying capital gains tax, the investor recoups the balance of their investment making neither a profit nor a loss (see table below for Terra Flow-Through LP break-even). If the redemption value is higher than the break-even value, the investor makes a profit; if the redemption value is lower than the break-even value, the investor incurs a loss.

	BC	AB	ON	QC
A. Investment	($1,000)	($1,000)	($1,000)	($1,000)
B. Tax Savings - CEE, METC, CMETC, Other	**$675**	**$626**	**$675**	**$725**
C. Break-even value - on redemption	**$444**	**$492**	**$444**	**$375**
D. Capital gains tax on Break-even value	($119)	($118)	($119)	($100)
Profit / Loss (A + B + C + D)	$0	$0	$0	$0

CEE, METC, CMETC & provincial tax credits are provided by a Terra LP. METC is the federal 15% Mineral Exploration Tax Credit; CMETC is the federal 30% Critical Mineral Exploration Tax Credit. Provincial tax credits not included. Figures are for illustrative purposes only and not a forecast of future events. Actual tax deductions & credits may be more or less. Tax rates are subject to change.

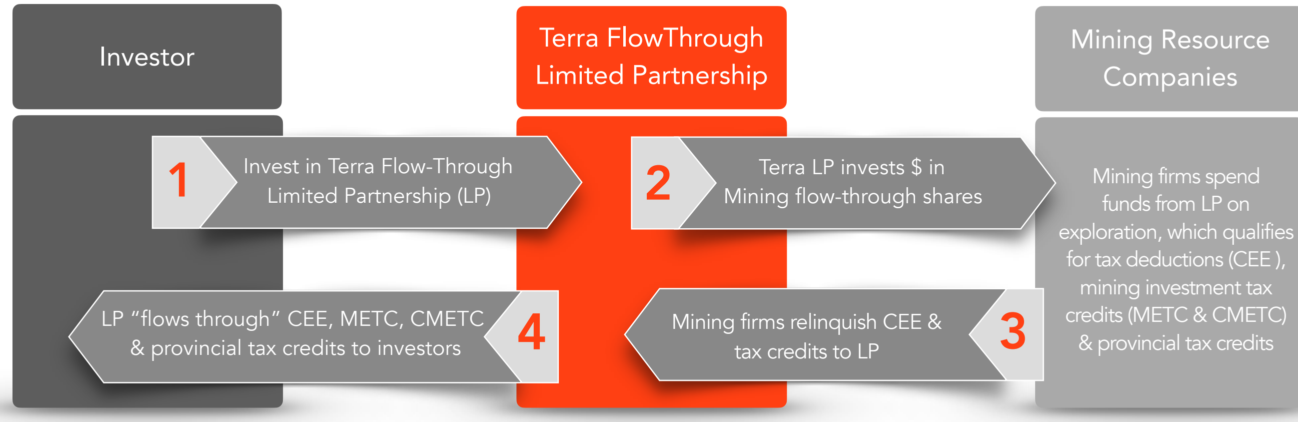
About Flow-Through Shares & Limited Partnerships

Exploration activities are essential to the development of the mining sector and hence Canada's economic growth. Flow-through shares are common shares issued by resource companies to fund resource exploration in Canada and were first introduced to the Canadian tax system in 1954 to assist in the financing of exploration projects in Canada between companies. To further encourage resource exploration, the April 1983 federal budget allowed individuals to deduct exploration expenses against any source of income. In October 2000, the federal government introduced the 15% mineral exploration tax credit (METC) to promote mining exploration, which was recently extended until April 2024. In April 2022, the federal budget introduced a new 30% critical mineral exploration tax credit (CMETC) for specified minerals (i.e., copper, nickel, lithium, cobalt, graphite, zinc, platinum group metals, uranium etc.) that are generally used in (i) the production of batteries and permanent magnets used for zero-emission vehicles, or (ii) the production and processing of advanced materials, clean technology, or semi-conductors. Along with RRSP's and TFSA's, flow-through investments continue to be supported by the federal government because they help achieve a specific policy objective, which is financing the exploration and development of Canada's natural resources and supplying minerals for the transition to clean energy.

The basic principle behind flow-through shares is to provide mining companies a mechanism for raising new funds to finance exploration expenses. In return, the company must forego the tax benefit of exploration expenses it incurs (ie. Canadian Exploration Expense or "CEE") and "renounce" these expenditures to the LP buying its flow-through shares (see diagram on page 2). The CEE is subsequently "flowed through" by the LP to investors who then claim these expenditures as tax deductions against any source of Canadian income. Mining "super" flow-through shares also provide METC or CMETC tax credits, which are deductible from federal income taxes payable. Additional provincial tax credits are provided for qualified mining investments in BC, Saskatchewan, Manitoba and Ontario. Québec investors can also deduct up to 120% of the cost of qualifying Québec exploration expenses. Only individuals (and not corporations) can claim METC, CMETC & provincial tax credits. Tax credits claimed are taxed as income in the following year. For more information on the tax saving benefits for individuals or corporations, see our tax calculator at: https://terrafunds.ca/tax-savings-calculator/.

Flow-Through Limited Partnerships ("LPs") provide an effective method for investing in flow-through shares because they allow investors to "pool" their money and rely on the professional manager retained by the partnership to review and invest in a diversified portfolio of 25 to 35 resource companies. A limited partner's exposure to the liabilities of a limited partnership is also generally limited to their initial investment. LPs also handle all the administrative duties, including the issuance of tax receipts which detail the tax deductions, tax credits and other expenses or losses that can be claimed by individuals or corporations to reduce their taxes.

The diagram below shows how flow-through limited partnerships work.



Hold period, liquidity & capital gains tax

Most flow-through limited partnerships have a life span of two years. Terra Flow-Through LPs have a shorter 1-year life span. At the end of this hold period, a Terra Flow-Through LP automatically exchanges an investor's partnership investment for shares in a Terra mutual fund. This exchange (i.e. rollover) provides liquidity and occurs without triggering any tax. Investors can redeem, donate or hold their shares in a regular or non-taxable RRSP account. Proceeds from the sale of shares may also be reinvested in another Terra LP.

The redemption, transfer or donation of these mutual fund shares will result in a capital gain. Because the partnership provides investors with tax deductions equal to their investment, flow-through shares are deemed to have an "adjusted cost base" (ACB) of zero. For example, should an investor decide to redeem all or a portion of their mutual fund shares they would realize a capital gain at that time equal to the proceeds received on sale less the ACB of the shares. Investors can offset capital gains if they have capital losses.

Who should consider investment in a flow-through limited partnership?

Investing in a flow-through limited partnership over multiple years is an important tax planning strategy for reducing income taxes. Investment in flow-through limited partnerships is most suitable for investors taxed at a high marginal tax rate who can accept the risk of investing in common shares.

Flow-through limited partnerships may be suitable for the following types of investors:

- Individuals resident in Canada interested in reducing their current taxable income
- Corporations and CCPC's interested in reducing their current taxable income
- Individual and CCPC investors looking to utilize unused capital losses
- Charitable donors looking for a better alternative than cash
- Individuals interested in reducing Old Age Security clawbacks
- Recipients of substantial lump sums of taxable income
- Individuals or corporations resident in Canada with sufficiently large past income tax liabilities

Only Canadian residents or Canadian businesses (excluding financial institutions) will receive the tax benefits provided by flow-through share investments. Individuals (and not corporations) can claim METC, CMETC and provincial tax credits. Flow-through shares and flow-though limited partnership investments are not eligible for RRSPs, RRIF, RESPs, and Deferred Profit Sharing Plans. However, the mutual fund shares received on rollover, may be contributed to an RRSP account, which will provide additional tax savings. For more information, please contact your investment advisor or Terra Fund Management Ltd.