Understanding Tax Advantaged Investments

Middlefield Funds

YOUR PARTNER IN INCOME & GROWTH SINCE 1979

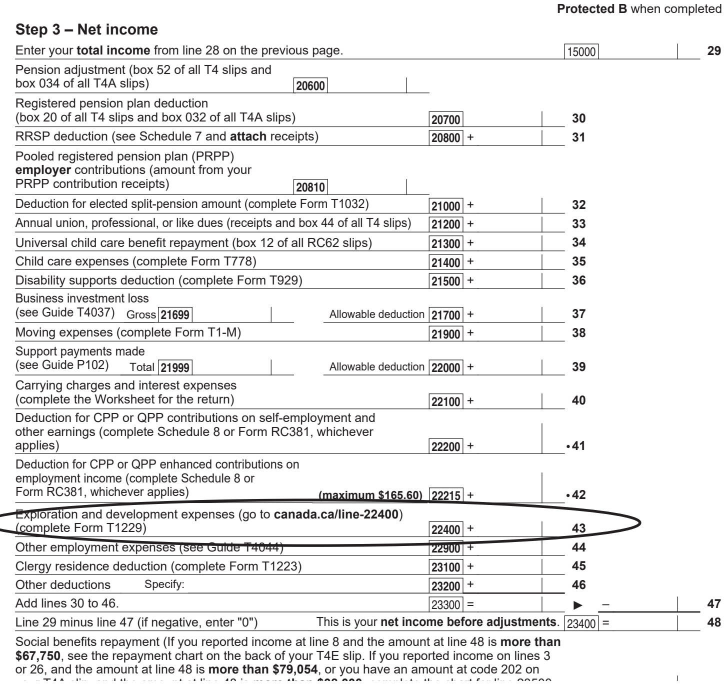
What Are Flow-Through Shares?

Middlefield is a leading innovator in structuring flow-through investment funds since 1983, the longest track record of any flow-through fund provider. Flow-through shares are common shares of Canadian mining and renewable energy companies issued on the basis that the money raised must be spent on exploration and the tax deductions, known as Canadian Exploration Expenses (CEE), from the exploration expenditures must be transferred to the purchasers of the shares. With the exception of the "flow-through" of these tax deductions to the initial investors, common shares issued on a flow-through basis are otherwise identical to the issuer's other common shares.

Legislation enabling resource companies to issue flow-through shares, but only to other companies, was enacted as a tax incentive in 1954 to encourage exploration for Canada's natural resources. Amendments in 1983 allowed flow-through shares to be issued to individuals, and subsequent changes have extended similar treatment to renewable energy companies.

Over time, flow-through shares have become one of the few remaining tax reduction strategies left for investors.

The key benefits of investing in flow-through shares for taxable investors are to reduce, defer and convert taxes:



Protected B when completed

Step 3 – Net income

Enter your **total income** from line 28 on the previous page.	15000		29
Pension adjustment (box 52 of all T4 slips and box 034 of all T4A slips)	20600		
Registered pension plan deduction (box 20 of all T4 slips and box 032 of all T4A slips)	20700		30
RRSP deduction (see Schedule 7 and **attach** receipts)	20800	+	31
Pooled registered pension plan (PRPP) **employer** contributions (amount from your PRPP contribution receipts)	20810		
Deduction for elected split-pension amount (complete Form T1032)	21000	+	32
Annual union, professional, or like dues (receipts and box 44 of all T4 slips)	21200	+	33
Universal child care benefit repayment (box 12 of all RC62 slips)	21300	+	34
Child care expenses (complete Form T778)	21400	+	35
Disability supports deduction (complete Form T929)	21500	+	36
Business investment loss (see Guide T4037) Gross 21699 Allowable deduction	21700	+	37
Moving expenses (complete Form T1-M)	21900	+	38
Support payments made (see Guide P102) Total 21999 Allowable deduction	22000	+	39
Carrying charges and interest expenses (complete the Worksheet for the return)	22100	+	40
Deduction for CPP or QPP contributions on self-employment and other earnings (complete Schedule 8 or Form RC381, whichever applies)	22200	+	• 41
Deduction for CPP or QPP enhanced contributions on employment income (complete Schedule 8 or Form RC381, whichever applies) **(maximum $165.60)**	22215	+	• 42
Exploration and development expenses (go to **canada.ca/line-22400**) (complete Form T1229)	22400	+	43
Other employment expenses (see Guide T4044)	22900	+	44
Clergy residence deduction (complete Form T1223)	23100	+	45
Other deductions Specify:	23200	+	46
Add lines 30 to 46.	23300	= ▶ –	47
Line 29 minus line 47 (if negative, enter "0") This is your **net income before adjustments**.	23400	=	48

Social benefits repayment (If you reported income at line 8 and the amount at line 48 is **more than $67,750**, see the repayment chart on the back of your T4E slip. If you reported income on lines 3 or 26, and the amount at line 48 is **more than $79,054**, or you have an amount at code 202 on

Reduce taxes:

The entire cost of flow-through shares issued is fully deductible in the year purchased, while their disposition proceeds are taxed as capital gains, only half of which are taxable.

Defer taxes:

An investment in flow-through shares is fully deductible in the year of purchase, while taxes are payable in the future, most of which is at the investors' discretion with respect to the timing of selling their investment.

Tax efficiency:

Since flow-through shares effectively "convert" ordinary income to capital gains income, investors may utilize available capital losses to reduce capital gains taxes upon disposition.

Middlefield Resource Partnerships

Investors may participate directly in the flow-through market by purchasing shares, or indirectly through investment in a professionally managed Middlefield limited partnership. Middlefield flow-through limited partnerships are ideal vehicles for investing in flow-through shares. Investors receive the same tax benefits as investing directly in flow-through shares, plus portfolio diversification, professional management and limited liability. Flow-through share issues are usually private placement offerings, and, as a result, may not be available to individual investors.

How do flow-through share partnerships work?

Investors buy units in a Middlefield flow-through limited partnership (the "Fund") and the net proceeds are used to purchase a portfolio of flow-through shares of resource companies. The resource companies must use the share issue proceeds to finance exploration expenditures and transfer/renounce the CEE to the Fund. The Fund then allocates those CEE deductions to investors of the Fund, who in turn can deduct the CEE against their income. Much like owning units in a mutual fund, the investor owns an undivided interest in a diversified Canadian resource stock portfolio and the cost of their investment is tax deductible.

The Funds have a life span of one to two years to allow time to realize and allocate the tax deductions to the investors. The adjusted cost base (ACB) of the units is reduced by flow-through deductions and increased by capital gains from the sale of shares by the Fund. The Fund allocates deductions and capital gains to the investors annually.

Middlefield's flow-through structure has become the industry standard for the last 30 years. Upon termination of the Fund, investors receive Middlefield Mutual Fund (MMF) shares in exchange for their partnership units. This is done on a tax-free rollover basis as it does not trigger capital gains or income. Investors can then redeem the MMF shares immediately, retain them or donate them. When the MMF shares are redeemed, the investor realizes a capital gain in the amount of the disposition proceeds less the ACB. Middlefield is the only Fund provider offering tax-deferred rollovers into a diversified fund mandate.

Basic Tax Strategies

There are a number of tax planning strategies for investors to consider. Investors should seek guidance from their tax advisors to ensure that their strategic objectives are achievable, and to avoid adverse tax consequences including Alternative Minimum Tax.

Flow-through share partnerships are most suitable for high-income earners, recipients of lump sums of taxable income, individuals with available capital losses and taxable donors to charitable organizations.

1. Reduce Taxes

The entire amount invested in a Middlefield flow-through limited partnership (“MRP”) is tax-deductible in the year of purchase. The proceeds from redemption are taxable as capital gains, which means you would pay taxes on half (50% capital gains inclusion rate) of the proceeds.

	Year 1	Year 2+	Year 3	Total
MRP Investment	$ (10,000)	$ –	$ –	$ (10,000)
Net Tax Savings	6,470	(500)	–	5,970
Money At Risk	–	–	–	**4,030**
MMF Redemption	–	–	10,000	10,000
Capital Gains Taxes	–	–	(2,500)	(2,500)
After-Tax Proceeds	–	–	–	$ **7,500**
Cash-on-Cash Return	–	–	–	86%

Assumes: Based on prospectus assumptions for MRF 2022 Resource Limited Partnership; investor’s marginal tax rate is 50%; all taxes are paid or payable in the year of investment or redemption; the redemption value of the MMF shares equals the amount invested in MRP units

2. Defer taxes

Flow-through partnership investments not only reduce but also defer income, which the investor may choose to be recognized in a year in which his/her marginal tax rate will be lower. In this example, the investor benefits both from tax deductions in the year of investment as well as deferral of income to a year in which he/she is taxable at a lower marginal rate.

	Year 1	Year 2+	Year 3	Total
MRP Investment	$ (10,000)	$ –	$ –	$ (10,000)
Net Tax Savings	6,470	(614)	–	5,856
Money At Risk	–	–	–	**4,144**
MMF Redemption	–	–	10,000	10,000
Capital Gains Taxes	–	–	(1,500)	(1,500)
After-Tax Proceeds	–	–	–	$ **8,500**
Cash-on-Cash Return	–	–	–	105%

Assumes: Based on prospectus assumptions for MRF 2022 Resource Limited Partnership; investor’s marginal tax rate is 50% in the year of investment and 30% in the year of redemption; all taxes are paid or payable in the year of investment or redemption; the redemption value of the MMF shares equals the amount invested in MRP units.

3. Use available capital losses

Investors with available capital losses can enhance returns on MRPs by utilizing their losses to shelter the capital gains income generated by the partnerships.

	Year 1	Year 2+	Year 3	Total
MRP Investment	$ (10,000)	$ –	$ –	$ (10,000)
Net Tax Savings	6,470	(500)	–	5,970
Money At Risk	–	–	–	**4,030**
MMF Redemption	–	–	10,000	10,000
Capital Gains Taxes	–	–	–	–
After-Tax Proceeds	–	–	–	$ **10,000**
Cash-on-Cash Return	–	–	–	148%

Assumes: Based on prospectus assumptions for MRF 2022 Resource Limited Partnership; investment is not more than twice the amount of the investor's available taxable capital losses; investor's marginal tax rate is 50%; all taxes are paid or payable in the year of investment or redemption; the redemption value of the MMF shares equals the amount invested in MRP units.

4. Reduce the cost of charitable donations

Taxable individuals may seek to reduce the cost of their charitable donations by investing in MRP units and donating the MMF shares received when the MRP terminates. Individuals receive tax credits based on their marginal tax rates on the fair market value of donated shares. The donation of the MMF shares is considered a deemed disposition and thereby triggers a capital gain liability.

	Year 1	Year 2+	Year 3	Total	Cash Donation
MRP Investment	$ (10,000)	$ –	$ –	$ (10,000)	$ –
Net Tax Savings	6,470	(500)	4,416*	10,386	4,416
MMF Shares Received	–	–	10,000	10,000	–
Donation of MMF Shares or Cash	–	–	(10,000)	(10,000)	(10,000)
Capital Gains Taxes	–	–	(2,500)	(2,500)	–
After-Tax Cost of Donation	–	–	–	$ (2,114)	(5,584)

*Tax refund from donation to registered charities

Assumes: Based on prospectus assumptions for MRF 2022 Resource Limited Partnership; investor qualifies for the 33% federal tax credit rate on the full donation amount; investor's marginal tax rate is 50%; all taxes are paid or payable in the year of investment or donation; investor has already donated at least $200; the value of the MMF shares when donated equals the amount invested in MRP units.

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Middlefield Group

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