



# FLOW-THROUGH LIMITED PARTNERSHIPS: TAX PLANNING

*A guide for investors and investment professionals*

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## INTRODUCTION

Flow-through shares are one of the few remaining tax-assisted investments available to Canadian investors.

For a number of years, government actions have reduced or eliminated the attractiveness of alternatives such as mutual fund limited partnerships, donations of art to charities and film partnerships as tax-planning tools. Along with Registered Retirement Savings Plans, Tax-Free Savings Accounts and certain labour-sponsored investment funds, flow-through investments remain, in part because they help the government achieve a specific policy objective, which is financing the exploration for and development of Canada's natural resources.

Flow-through shares do not exist to circumvent tax rules or take advantage of "loopholes." They were explicitly created by government policy and they are effected through specific provisions within the *Income Tax Act* (Canada).

The primary benefit of flow-through investing is to convert income otherwise fully taxable in the current year into capital gains taxable at some time in the future.

The three tax advantages are:

- 1) Tax savings – Taxes on capital gains are lower than on regular income (e.g. income from employment, business or property) and dividends.
- 2) Tax deferral – It is usually advantageous to pay taxes in the future rather than today.
- 3) Tax-efficiency – A way to benefit from capital loss carry-forwards.

This booklet is designed to provide investors and investment professionals with basic information about flow-through limited partnerships. It provides a brief discussion of how they work and several different examples of how flow-through investments can be used in tax planning. The information contained herein is not intended as tax or legal advice. Investors should

seek independent tax and legal advice specific to their circumstances before making any investment.

## ABOUT FLOW-THROUGH SHARES

Flow-through shares have helped expand Canada's resource sector since their introduction to the Canadian tax system in 1954. At that time, the Canadian government introduced provisions to allow for the transfer of tax deductions between companies, in an effort to assist in financing exploration projects in Canada. Resource companies could transfer certain exploration expenses to investors, who were then able to deduct these expenses against their own resource income.

In the early 1980s, the government was asked to find additional tax incentives to encourage exploration and development in the resource sector. In the April 1983 federal budget, the government allowed certain investors to deduct exploration expenses (and related depletion allowances) against any income. As a result, flow-through investments became more popular and exploration activity increased dramatically.

The government now allows Canadian resource companies, including those in oil and gas, mining, base metals and renewable energy, to fully deduct specific exploration expenses, known as Canadian Exploration Expense (CEE). Many of these companies issue flow-through shares to raise capital, and in turn renounce the CEE to these shareholders. The renounced CEE is generally fully deductible against any source of income.

Flow-through shares are usually issued by junior resource companies. Investing in individual smaller resource companies is speculative. These companies are often small, with minimal liquidity and returns dependent on commodity prices. These companies have the potential to post very strong short-term performance numbers. Investments of this nature also have the potential to be more volatile than the overall market, which could lead to greater-than-average losses.

Adding smaller resource companies to a portfolio can increase returns, and it can also diversify and reduce overall portfolio volatility. Resource stock prices often move independently of the overall market, and smaller companies' stock prices may move independently of larger companies' stock prices.

#### ABOUT FLOW-THROUGH LIMITED PARTNERSHIPS

Investors can invest in flow-through shares indirectly through limited partnerships.

Flow-through limited partnerships are used to bring two important benefits to flow-through investing: professional management and diversification.

The risk of investing in smaller resource companies may be lowered when a team of experienced managers selects a diversified portfolio of companies. A diversified portfolio of flow-through shares can be owned in a limited partnership.

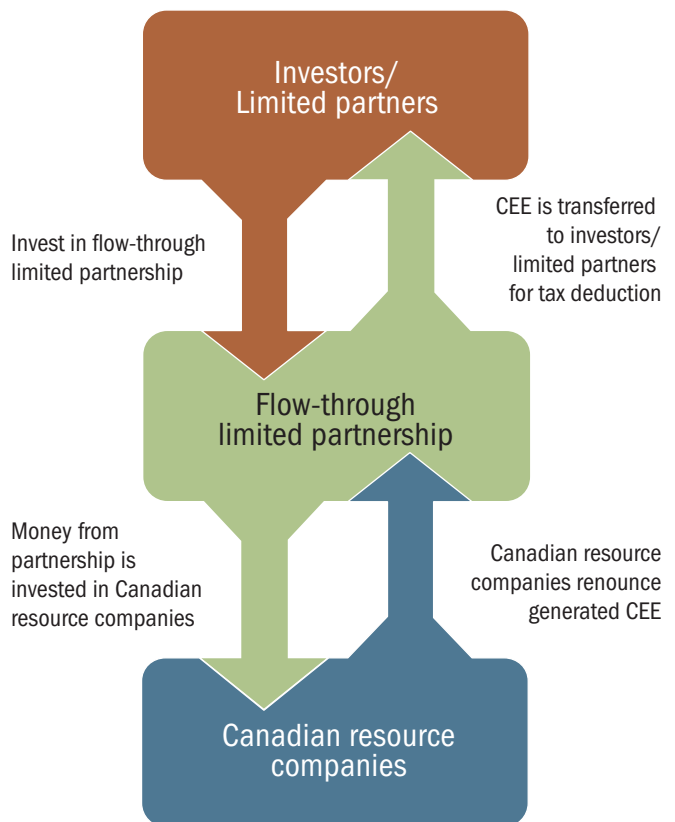
The tax benefit is unchanged. Investors who purchase flow-through shares indirectly through limited partnerships usually find the amounts invested fully or almost fully deductible against other taxable income in the year the investment is made.

The chart (right) offers a basic diagram of how flow-through limited partnerships work. Investors purchase units of a flow-through limited partnership. This partnership is managed by a general partner on behalf of the investors, the limited partners. The partnership's net proceeds are used to purchase the flow-through shares of several resource companies.

The resource companies renounce their CEE to the limited partnership, which allocates the CEE out to its investors. The investors deduct the CEE and the partnership's losses from organization and operating costs. As a result, investors generally receive a substantial portion of their original investment back in the form of tax savings. The limited partners' exposure to the liabilities of a limited partnership is generally limited to their investment.

Most flow-through limited partnerships have a life span of less than two years (just enough time to allocate most of the tax deductions to the investors). Once the tax deductions have been claimed, investors continue to be partners in a diversified portfolio of smaller Canadian resource companies. The upfront tax deductions will usually mean investors have a low adjusted cost base in the flow-through limited partnership.

During the term of a flow-through limited partnership, the partnership will likely realize capital gains from sales of the flow-through investments within its portfolio. The resulting net capital gains are taxable in the hands of the investors and will increase the adjusted cost base of the investors' shares. Realized capital gains incurred during the term of the partnership reduce the ability to defer taxable income. At maturity, it is generally the case that flow-through limited partnership investors exchange their partnership interests for shares in an open-end mutual fund corporation that invests in energy and natural resource companies. This exchange is done without any immediate tax consequences, thereby deferring any tax liability.



Investors may eventually decide to redeem the mutual fund shares. Investors would generally realize a capital gain at that time equal to the proceeds received on redemption less the adjusted cost base of the share.

#### ABOUT MUTUAL FUND CORPORATIONS

Flow-through partnerships will transfer their assets on a tax-free basis to a mutual fund corporation after most of the tax deductions are allocated to investors. By holding mutual fund corporation shares, investors can continue to be invested in a diversified portfolio of small Canadian resource companies or they can switch to another class in the mutual fund corporation with a different investment objective. Sentry Investments currently offers six classes within Sentry Select Corporate Class Ltd., including investment options in equity income, fixed income, money market, resources, and metals and mining. Investors can switch between these six corporate classes tax-free, allowing for asset diversification without triggering taxable capital gains and thus continuing to defer any tax on capital gains. See Appendix 3 for a complete list of Sentry corporate classes. Refer to the latest Sentry Group of Funds' simplified prospectus for further details on investing in Sentry Select Corporate Class Ltd.

#### *Assumptions*

Investing through a flow-through limited partnership is an important tool in tax planning. It can be used to reduce income taxes, utilize capital losses incurred on other portfolio holdings and in other ways. On the pages that follow, we present a number of examples on how flow-through investments may be used in tax planning.

In each example, the following assumptions are made for simplicity:

- 1) The flow-through investment is 100% deductible in the year that it is made. In practice, the actual amount typically ranges from 90% to 100%, with the balance deductible in the following years. The amounts deductible in future years typically relate to organization costs of the Limited Partnership.
- 2) The value of the flow-through investment at maturity is the same as its original purchase price. In practice, the value of the flow-through shares of each company may rise or fall during the period of investment, changing the value of the flow-through limited partnership units.
- 3) The investor is an Ontario resident and is single. Tax rates differ by province. See Appendix 1 for a listing of the top marginal tax rates by province for 2011.
- 4) Tax proposals announced on October 31, 2003 would, if enacted, restrict the deductibility of certain expenses or losses in certain circumstances. The Department of Finance has indicated the proposals are not intended to represent a major change in policy but are to reaffirm many current practices that support the deductibility of interest. Accordingly, the anticipated effect of the proposals are noted where they are expected to be applicable. See Appendix 2 for more details.
- 5) Several provinces allow their residents to claim additional tax credits on flow-through investments made in companies resident in the province when calculating their provincial taxes. These credits arise from companies engaged in the exploration of metal and mineral resources, and the tax credits are in addition to the existing deduction of eligible exploration expenditures from the federal portion of an investor's taxes. The effect of these incentives varies depending on the province in which the investor resides. For simplicity, it is assumed that any provincial credits are nil in the following examples.
- 6) The flow-through limited partnership incurs no capital gains during the investment period. In practice, capital gains are incurred by the flow-through limited partnership upon the sale of flow-through shares in its portfolio.
- 7) The investor may receive additional investment tax credits from other investments, but we have assumed nil in the following examples.

### EXAMPLE 1

#### *Use of flow-through limited partnerships to reduce taxable income*

An investor earns \$200,000 per year. He is considering investing \$50,000 in a flow-through limited partnership each year for the next nine years. This would be done by two initial investments of \$50,000, then re-investing the proceeds from the redemption of the mutual fund shares.

Here is a summary of the effect of this flow-through limited partnership investment on his taxes.

If he earns \$200,000, he will pay approximately \$72,948 in taxes, based on 2011 tax rates.

If he invests \$50,000 in a flow-through limited partnership, his income tax will be reduced to approximately \$49,742, resulting in an immediate savings of approximately \$23,200. When he redeems the investment for \$50,000 after it has been converted into a mutual fund, there will be a taxable capital gain of \$25,000 and tax payable of approximately \$11,600, leaving him ahead by about \$11,600.

The table to the right indicates the tax savings achieved over 11 years on an investment of \$50,000 each year for nine years. In each of the first two years, the investor will realize savings of approximately \$23,200. In years three through nine, he redeems the mutual fund shares and re-invests \$50,000 in a flow-through limited partnership. The tax savings help fund the subsequent investments. In the third year, and all subsequent years, the \$23,200 tax savings is reduced by the amount of tax payable on capital gains arising from the redemption of the mutual fund shares. Finally in years 10 and 11, the remaining mutual fund shares are redeemed and capital gains are realized.

YEAR	F-T PURCHASE	INCOME TAX SAVINGS	CAPITAL GAINS TAX PAYABLE	NET SAVINGS	CUMULATIVE SAVINGS
2011	\$ 50,000	\$ 23,200	\$ -	\$ 23,200	\$ 23,200
2012	50,000	23,200	-	23,200	46,400
2013	50,000	23,200	(11,600)	11,600	58,000
2014	50,000	23,200	(11,600)	11,600	69,600
2015	50,000	23,200	(11,600)	11,600	81,200
2016	50,000	23,200	(11,600)	11,600	92,800
2017	50,000	23,200	(11,600)	11,600	104,400
2018	50,000	23,200	(11,600)	11,600	116,000
2019	50,000	23,200	(11,600)	11,600	127,600
2020	-	-	(11,600)	(11,600)	116,000
2021	-	-	(11,600)	(11,600)	104,400

After 11 years, the investor has achieved cumulative tax savings of \$104,400, or \$11,600 for each year \$50,000 was invested.

### EXAMPLE 2

#### *Use of flow-through limited partnerships to reduce taxable income and take advantage of capital loss carry-forwards*

Capital losses generally occur when an investor sells capital property for an amount below the amount paid for it. When capital losses exceed capital gains in a year, the excess loss may be carried forward to future tax years or carried back to the previous three tax years, to offset capital gains in those years.

The tax savings for an investor with capital losses from investing \$50,000 in a flow-through limited partnership each year for nine years would be the same as in Example 1, but a difference would occur in 2012 when the investor starts redeeming his mutual fund shares. In Example 1, the investor was required to pay \$11,600 of tax on capital gains realized when the mutual fund shares were redeemed. In this example, the investor can use his capital loss carry-forwards or carry-back to offset the capital gains realized on redemption. In the example on the following page, the investor can use capital losses carried forward (or carryback) of up to \$104,000 to offset capital gains arising from investment in flow-through partnership.

YEAR	F-T PURCHASE	INCOME TAX SAVINGS	CAPITAL GAINS TAX PAYABLE	LESS: CAPITAL LOSS CARRY-FORWARD TAX SAVINGS*	NET CAPITAL GAINS TAX PAID	NET SAVINGS	CUMULATIVE SAVINGS
2011	\$ 50,000	\$ 23,200	\$ -	\$ -	\$ -	\$ 23,200	\$ 23,200
2012	50,000	23,200	-	-	-	23,200	46,400
2013	50,000	23,200	(11,600)	11,600	-	23,200	69,600
2014	50,000	23,200	(11,600)	11,600	-	23,200	92,800
2015	50,000	23,200	(11,600)	11,600	-	23,200	116,000
2016	50,000	23,200	(11,600)	11,600	-	23,200	139,200
2017	50,000	23,200	(11,600)	11,600	-	23,200	162,400
2018	50,000	23,200	(11,600)	11,600	-	23,200	185,600
2019	50,000	23,200	(11,600)	11,600	-	23,200	208,800
2020	-	-	(11,600)	11,600	-	-	-
2021	-	-	(11,600)	11,600	-	-	-

The cumulative tax savings after nine years would be approximately \$208,800, or \$23,200 per year.

\*Assuming the investor has \$104,000 of capital losses to offset the capital gains.

### EXAMPLE 3

#### *Use of flow-through limited partnerships to improve the tax-efficiency of charitable donations*

A \$100,000 investment in a flow-through limited partnership will generate a deduction of approximately \$46,400 in the year of investment for an Ontario investor in the top marginal tax bracket. Two years later, after the flow-through limited partnership has been converted into a mutual fund, the investor can donate the mutual fund shares to a registered charity, for the same tax credit of \$46,400 as in the straight cash donation of \$100,000 to a charity.

In the federal government's budget of May 2, 2006, the government increased its support of registered charities. The government eliminated the tax on capital gains incurred on the donation of eligible property to qualified charities, defined as registered charities.

Effective May 3, 2006, there is no tax on capital gains realized on the donation of securities to qualified charities. This change encourages individuals to donate securities that they may have been hesitant to donate in the past, due to the tax consequences previously associated with these gifts.

Note that during the term of the flow-through investment in the limited partnership, capital gains will likely occur

from sales of securities held within the portfolio. The capital gains tax resulting from these gains must be paid by the investor. Such capital gains tax will increase the after-tax cost of the donation. The donation of mutual fund shares could also be postponed until a later year, should an investor's circumstances change.

Based on the previous example, below is an illustrative breakdown of the tax savings an investor would receive if he purchased a flow-through investment and subsequently donated his mutual fund shares.

Purchase of flow-through investment	\$ 100,000
Tax savings	\$ 46,400 (in first year)
Donation of flow-through securities	\$ 100,000 (in third year or later)
Additional tax savings on donation	\$ 46,400
Total tax savings	\$ 92,800
Cost of donation	\$ 7,200

### EXAMPLE 4

#### *Use of flow-through limited partnerships in RRSPs*

Contributing mutual fund shares to an RRSP is another alternative. The contribution would result in a further deferral of taxes payable, but the investor would forgo the upfront deductions available on reinvesting the proceeds of disposition from a sale of the shares in another flow-through limited partnership.

The contribution of the mutual fund shares to an RRSP will trigger a capital gain, which is 50% taxable. The RRSP contribution is also deductible.

Assuming the same amounts as Example 1, the tax on the capital gain will remain \$11,600 and the RRSP contribution of \$50,000 will reduce taxes by approximately \$23,200. The net tax savings will be a further \$11,600.

**EXAMPLE 5**

*Borrowing to acquire flow-through limited partnerships*

An investor is interested in purchasing \$10,000 of a flow-through limited partnership. In this example, the investor borrows \$10,000 to make the purchase. The investor incurs a 5% annual interest cost on the loan, acquires the flow-through limited partnership at the beginning of 2011 and redeems the mutual fund shares at the beginning of 2013 for \$10,000.

YEAR	F-T PURCHASED	INCOME TAX SAVINGS	CAPITAL GAINS TAX PAID	NET SAVINGS
2011	\$ 10,000	\$ 4,640	\$ -	\$ 4,640
2012	-	-	-	-
2013	-	-	2,320	(2,320)

YEAR	LOAN (BEGINNING OF YEAR)	ANNUAL INTEREST	TAX DEDUCTION ON INTEREST	LOAN OUTSTANDING (END OF YEAR)
2011	\$ 10,000	\$ 500	\$ -	\$ 10,000
2012	10,000	500	-	10,000
2013	10,000	-	-	-

In this example, it has been assumed that proposals announced on October 31, 2003 related to the deduction of interest payments have become law. See Appendix 2.

In the example, the investor has been able to repay the loan with proceeds from the redemption of the mutual fund shares. The net after-tax cost of the loan is \$1,000. The after-tax cash savings are \$1,320. If the proposals are not enacted to deny such expenses, interest expense would create a tax reduction of \$232 in both 2011 and

2012, the net after-tax cost of the loan would be \$536, and the after-tax cash savings would be \$1,784.

**EXAMPLE 6**

*Use of flow-through limited partnerships by high-income seniors to reduce income and avoid Old Age Security and other clawbacks*

Old Age Security (OAS) benefits begin to be reduced (or “clawed back”) when net income before adjustment (line 234 of the T1 General Return) reaches \$67,668. If a taxpayer’s income (excluding the OAS benefit) reaches \$109,607, the OAS benefit is fully repaid. Other tax credits (e.g. HST, medical expenses) are also a function of a taxpayer’s taxable income.

As a result, an additional benefit of investing in flow-through limited partnerships for high-income seniors is the potential reduction of the OAS clawback and possible increases to HST and medical expenses tax credits.

An investor with taxable income of \$109,607 before any clawback of the OAS payment, who makes a \$41,939 investment in a flow-through limited partnership, will receive a number of benefits:

- 1) Additional current-year tax reductions of approximately \$14,200
- 2) Full restoration of OAS of approximately \$6,291
- 3) A tax liability of approximately \$9,100 in the year the mutual fund shares are sold, unless the investor has capital loss carry-forwards
- 4) Possible additional HST credits
- 5) Possible additional medical tax credits

As this example shows, flow-through limited partnerships needn’t be restricted to high-income earners. Flow-through investments can also provide a substantial benefit to seniors who reduce their taxable income to maximize their OAS and other benefits.

Seniors should determine the suitability of an investment of this nature in the context of their overall portfolio of investments and their individual financial circumstances before investing.

**EXAMPLE 7**

*Use of flow-through limited partnerships to offset taxation from the collapse of registered plans (RRSP, RRIF, LIF, etc.)*

Withdrawals from registered plans must be reported by plan sponsors for inclusion as income on the individual (T1) tax returns of the owner in the year of withdrawal. The additional taxable income may boost the planholder into a higher tax bracket resulting in as much as 46.41% of the withdrawal amount being paid in tax, as well as the potential reduction or elimination of other benefits such as OAS, government income supplements, HST rebates, property tax credits, child tax benefits, etc.

For example, consider an individual who retires from the workforce with a pension and holds investments in a registered retirement income fund (RRIF) with a value of \$200,000 and \$10,000 of annual withdrawal in excess of the required minimum annual withdrawal.

- Annual net income from all sources after deductions \$65,000
- Additional RRIF withdrawal +\$10,000
- Net income increases to \$75,000

At this point, the investor will now incur tax at a higher marginal tax rate and some clawback of the OAS benefits.

As a guideline for tax-planning purposes, purchasing \$2 of flow-through limited partnerships for every \$1 of taxable income arising from registered plan withdrawals results in the following:

- \$1 taxable income has a liability of \$0.4641 (Ontario’s highest marginal tax rate).
- Purchasing \$2 of flow-through limited partnerships provides a refund of \$0.9282 with a future liability to pay \$0.4641 in capital gains tax when the flow-through limited partnership interest is disposed of, resulting in a net credit of \$0.4641.
- The tax liability arising on the registered plan withdrawal of \$0.4641 can be offset by the net tax deduction of \$0.4641 on the flow-through limited partnership, such that the investor has successfully withdrawn cash from a RRIF, RRSP or corporation and eliminated the net tax cost by acquiring a flow-through limited partnership investment in the same tax year.

In addition, the net income (reported on line 234 of the T1 General Return) has been reduced, potentially allowing the investor to receive benefits, including OAS, government income supplement, child tax benefits, property tax credits, etc., that the investor would have otherwise been denied or have clawed back on account of the increased income.

TAXATION YEAR	ADDITIONAL RRSP/RRIF INCOME	FLOW-THROUGH PURCHASED “ROLLING” TWO INVESTMENTS	TAX LIABILITY ON INCOME	CAPITAL GAINS TAX	NET TAX DEDUCTION FROM FLOW-THROUGH	NET TAX IN PERIOD	CUMULATIVE TAX
2011	\$ 10,000	\$ 20,000(1)	\$ 4,640	\$ -	\$ 9,280	\$ (4,640)	\$ (4,640)
2012	10,000	20,000(2)	4,640	-	9,280	(4,640)	(9,280)
2013	10,000	(1)	4,640	4,640	9,280	-	(9,280)
2014	10,000	(2)	4,640	4,640	9,280	-	(9,280)
2015	-	Sale of (1)	-	4,640	-	4,640	4,640
2016	-	Sale of (2)	-	4,640	-	4,640	-

(1) The investor sells 2011 flow-through limited partnerships for \$20,000 and acquires new flow-through limited partnerships for \$20,000.  
 (2) The investor sells 2012 flow-through limited partnerships for \$20,000 and acquires new flow-through limited partnerships for \$20,000.

Flow-through limited partnerships generally have a two-year lifespan before they convert into a regular mutual fund investment. Upon each conversion, the monies can be withdrawn and reinvested into a new limited partnership. While this incurs capital gains tax, it provides a new deduction that creates a net tax reduction. This strategy is called “rolling over” (in the example on the previous page, the flow-through limited partnership investments are rolled over in years 2013 and 2014).

The investor can initially purchase flow-through limited partnerships in each of two successive years (in this example, in 2011 and 2012). At this point, each subsequent year will have one or the other investments successively “rolling over,” providing continuing tax deductions that will continue to offset future tax liabilities indefinitely. (In the example on the previous page, each of the two investments only rolls once, but can continue to be rolled to obtain the tax benefits.) An investor only ever needs to initially purchase flow-through limited partnerships twice with original money and then can use the same funds to create tax credits and offset the tax liability of subsequent registered plan withdrawals. The flow-through limited partnership investments are sold in 2015 and 2016 when there are no additional RRIF withdrawals.

Should there be changes to the investor’s circumstances (or changes in the applicable tax legislation) eliminating or reducing the need for offsetting tax relief in particular periods, flow-through limited partnership deductions can be carried forward indefinitely until relief is required.

#### EXAMPLE 8

##### *Ownership of flow-through limited partnerships by corporations*

A) Corporations can benefit from owning flow-through limited partnership interests. In particular, if the corporation has capital loss carry-forwards, they can be used to offset the resulting capital gain arising on the redemption or the disposition of the flow-through limited partnership interest.

Below is a step-by-step example of how an investor can use a \$100,000 flow-through limited partnership investment to benefit himself and his wholly owned company, TP Enterprises. The example assumes that the investor has sufficient taxable income to fully use the tax benefits.

STEP 1 The investor invests \$100,000 in a flow-through limited partnership and receives a tax saving of \$46,400 in the first year.

STEP 2 After these initial tax benefits have been realized by the investor, he transfers the flow-through limited partnership or the mutual fund shares into TP Enterprises and elects under subsection 85(1) of the *Income Tax Act* (Canada) to transfer the investment at his adjusted cost base. (Assuming no capital gains distributions, the investment should have an adjusted cost base of approximately zero.) There should be no income tax triggered on the transfer.

STEP 3 After the flow-through limited partnership rolls over into a mutual fund, TP Enterprises redeems the investment. TP Enterprises will realize a \$100,000 capital gain, \$50,000 of which is taxable, although the taxable capital gain is sheltered by the corporation’s capital losses carried forward. One-half of any prior capital losses and the \$50,000 non-taxable portion of the capital gain would be included in TP Enterprises’ Capital Dividend Account. The positive balance, if any, of the Capital Dividend Account could be paid out as a tax-free dividend to the investor as a shareholder of TP Enterprises.

In summary, the original \$100,000 investment will provide:

- 1) A tax saving of \$46,400 to the investor;
- 2) A \$50,000 taxable capital gain to TP Enterprises that can be sheltered by its capital losses; and
- 3) In some particular instances, a tax-free dividend to the investor from the Capital Dividend Account of TP Enterprises.

B) Following the same example above, alternatively TP Enterprises can donate the mutual fund shares to an eligible charity and receive an additional deduction of \$46,400. This will trigger a non-taxable capital gain of \$100,000, which can be included in TP Enterprises' Capital Dividend Account. The positive balance in the Capital Dividend Account could be paid out as a tax-free dividend to the investor as a shareholder of TP Enterprises. This scenario creates potential tax savings up to \$116,780 for the shareholder and corporation with an initial investment of \$100,000 in flow-through limited partnerships.

C) A corporation (including a holding company) can purchase a flow-through limited partnership to reduce taxes within the entity on the same basis as an individual. A corporation is not subject to alternative minimum tax (but may need to consider corporate minimum tax [CMT] in Ontario in certain instances). Not only may the flow-through limited partnership investment allow a corporate holder to reduce its taxes overall, but the conversion of taxable income to capital gains will create Capital Dividend Account additions that can then be distributed to shareholders without attracting tax in the shareholders' hands. Using flow-through limited partnerships in this manner can allow shareholders to receive higher levels of after-tax cash from their corporations in these circumstances. Similar objectives may be achieved for certain trusts (e.g. a family trust). To determine if you should invest through a corporation or as an individual, please contact your investment advisor.

## APPENDIX 1

### *Comparison of marginal tax rates*

Here are the top marginal tax rates in each of Canada's provinces and territories for 2011:

Nova Scotia	50.00%
Quebec	48.22%
Prince Edward Island	47.37%
New Brunswick	41.70%
Ontario	46.41%
Manitoba	46.40%
Newfoundland	42.30%
Saskatchewan	44.00%
British Columbia	43.70%
Northwest Territories	43.05%
Yukon	42.40%
Nunavut	40.50%
Alberta	39.00%

## APPENDIX 2

### *Other tax considerations*

Renounced expenditures deducted by the individual taxpayer may affect the ability of the taxpayer to claim the \$750,000 capital gains exemption in respect of sales of qualified small business shares and certain farm assets, as the taxpayer's cumulative net investment loss requires an inclusion of 50% of the deductions taken by the taxpayer in respect of flow-through share deductions.

Alternative minimum tax may apply in a given taxation year, depending on the value of renounced expenditures deducted by the investor.

The investment by a corporation in a flow-through limited partnership or shares of a mutual fund could change a corporation's status as a "qualified small business corporation."

It is generally tax inefficient to realize capital gains in a corporation as opposed to directly by an individual. Thus, holding mutual fund shares in a corporation is generally not recommended unless it has tax losses to shelter the gains.

Certain CEE relating to mining expenditures also qualifies for a federal 15% investment tax credit and may qualify for a provincial investment tax credit if the investor is an individual. It has been assumed in the examples that none of the renounced CEE is eligible for these additional tax incentives.

It has been assumed that the tax proposals announced on October 31, 2003 have been enacted to deny the deduction for certain expenses in respect of flow-through share investments commencing after 2004. The tax proposals would have the effect of permitting deductions and losses from a business or property only if it was reasonable to expect the taxpayer would realize a cumulative profit from the business or property during the time the taxpayer carried on or held (or could reasonably be expected to carry on or hold) the business or property. Profit for this purpose will not include a capital gain.

### APPENDIX 3

#### *Corporate Class Funds*

Sentry offers mutual funds in two different structures: corporate class mutual funds (the “Corporate Funds”) and mutual fund trusts. The Corporate Funds are classes of shares of Sentry Select Corporate Class Ltd., a mutual fund corporation with common shares and mutual fund shares. Each class of mutual fund shares is a separate Corporate Fund. Sentry is authorized to issue Series A, Series F and Series I shares of each Corporate Fund. The Sentry Corporate Funds that are currently available for purchase are as follows:

- Sentry Canadian Income Class
- Sentry Canadian Resource Class
- Sentry Mining Opportunities Class
- Sentry Money Market Class
- Sentry Precious Metals Growth Class
- Sentry Tactical Bond Capital Yield Class

To learn more, contact your Sentry sales representative or visit [www.sentry.ca](http://www.sentry.ca).

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Commissions, trailing commissions, management fees and expenses all may be associated with these types of investments. Investors should read the prospectus before investing. Flow-through limited partnership and mutual fund investments are not guaranteed, their values change frequently and past performance may not be repeated.

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