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*The following summary is of a general nature only and is not intended to be, nor should it be construed to be, legal or tax advice to any particular purchaser of units of Sprott 2011 Flow-Through Limited Partnership (the “**Partnership**”). Purchasers acquiring units with a view to obtaining tax advantages should obtain independent tax advice from a tax advisor who is knowledgeable in the area of income tax law and is able to determine optimal use of an investor’s federal and provincial deductions and/or credits, as well as impact, if any, on an investor’s liability for alternative minimum tax.*

***This offering is only made by prospectus. The Partnership’s prospectus dated January 28, 2011 contains important detailed information about the securities being offered. Copies of the prospectus may be obtained from your IIROC registered financial advisor. Investors should read the prospectus before making an investment decision.***

### 1. General FAQ

#### ***a) What are Flow-Through shares?***

The *Income Tax Act* (Canada) (the “Tax Act”) contains provisions that allow investors to access expenses incurred by a company, in an effort to assist in financing of resource exploration projects in Canada. Resource Issuers<sup>1</sup> can renounce certain exploration expenses<sup>2</sup> to investors, who are then able to deduct these expenses against their own income.

#### ***b) What is a Flow-Through Limited Partnership?***

Investors can buy flow-through shares directly from Resource Issuers, but in many cases such companies represent high-risk investments. A flow-through limited partnership is an investment vehicle that offers professional management and, most importantly, diversification. The use of a limited partnership permits income tax deductions to be allocated to, and utilized by, limited partners while at the same time providing for limited liability, subject to certain qualifications.

<sup>1</sup> “**Resource Issuer**” means (i) a corporation that is a “principal-business corporation” as defined in subsection 66(15) of the Tax Act, or (ii) a partnership or other entity that, (a) operates in the oil and gas exploration, development, and/or production, mining exploration, development, and/or production industries, or in certain energy production that may incur CRCE, or (b) invests in equity securities of any such entity. “**CRCE**” means Canadian renewable and conservation expense as defined in subsection 66.1(6) of the Tax Act.

<sup>2</sup> Known as “Canadian exploration expenses” or “CEE” and defined in subsection 66.1(6) of the Tax Act.

*c) What will the Partnership's investment focus be - oil and gas, mining or alternative energy?*

The Partnership's investment strategy will be to invest in Flow-Through Shares and other securities, if any, of lower risk resource issuers whose principal business will be: (i) mining exploration, development, and/or production, and (ii) oil and gas exploration, development, and/or production and certain energy production that may incur CRCE. To accomplish this strategy, a strong preference will be given to companies with existing production, which Sprott believes should mitigate downside risk relative to investing in earlier stage companies.

*d) Who will manage the Flow-Through portfolio?*

The Partnership has retained Sprott Asset Management L.P. ("**Sprott**" or the "**Manager**") to provide investment, management, administrative and other services. Founded in 2000, the Manager is an independent asset management company that is wholly-owned by Sprott Inc. Sprott Inc.'s common shares trade on the Toronto Stock Exchange under the symbol SII. Sprott is dedicated to achieving superior returns for its clients over the long term. As at December 31, 2010, Sprott had \$8.5 billion in assets under management in various mutual funds and hedge funds, including approximately \$8.2 billion dedicated to investments in natural resources. In 2010 alone, Sprott has invested, on behalf of its funds on a private placement basis, in approximately 244 resource issues, investing a total of approximately \$408 million. Sprott specializes in investing in small and mid-cap stocks, and searches for opportunities that have material upside potential. The Manager emphasizes independent thinking and seeks consistently to be a leader in understanding macro trends and their implication for specific industries. The Manager also manages the Sprott 2010 Flow-Through Limited Partnership which has approximately \$57 million in assets.

Allan Jacobs, Senior Portfolio Manager and Director of Small Cap Investments, and Eric Nuttall, Portfolio Manager, are the portfolio managers who will have primary responsibility for the execution of the Partnership's investment strategy. In addition to Mr. Jacobs and Mr. Nuttall, the Manager will also benefit from the insight of Sprott's team of highly accomplished professionals including: Eric Sprott, Senior Portfolio Manager and Chief Investment Officer; Charles Oliver, Senior Portfolio Manager and Rick Rule as a Special Consultant.

*e) What are Sprott's advantages in managing the 2011 Flow-Through LP Partnership?*

Sprott Asset Management LP ("**Sprott**" or the "**Manager**"), as the manager for Sprott 2011 Flow-Through Limited Partnership (the "**Partnership**"), believes that it offers the following advantages in terms of its ability to source and make attractive investments in flow-through shares:

- Ability to leverage Sprott's existing relationships with hundreds of Canadian resource companies;
- Sprott's long history of successfully investing in common shares of Canadian Resource Issuers;
- Significant experience in investing in the small and mid-cap sectors; and
- Breadth of management team with significant experience investing in the natural resource sector.

*f) What are the risks of investing in the Partnership?*

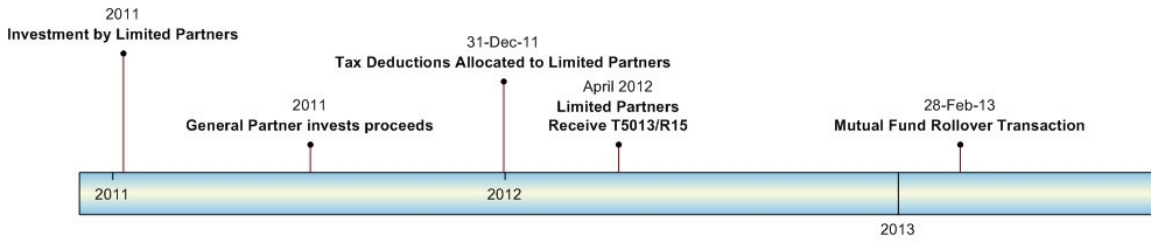
The risks of investment in the Partnership are fully described in the Partnership’s prospectus dated January 28, 2011 (the “**Prospectus**”).

*g) When do the Partnership’s units roll over to the mutual fund?*

The Partnership intends to provide liquidity to its limited partners (the “Limited Partners”) prior to February 28, 2013. The Partnership currently intends to implement an exchange transaction (the “Mutual Fund Rollover Transaction”), pursuant to which Limited Partners will receive redeemable shares (the “Mutual Fund Shares”) of a mutual fund corporation (the “Mutual Fund Corporation”) to be established by Sprott and which is expected to be advised by the Manager. Such Mutual Fund Corporation will be a “reporting issuer” under applicable Canadian securities legislation.

The completion of the Mutual Fund Rollover Transaction will be subject to the receipt of all approvals that may be necessary.

*h) Product structure timeline*



An investment in the Partnership is structured as follows:

1. Investment in the Partnership by Limited Partners (Initial closing: February 10, 2011)
2. General partner invests proceeds in Resource Issuers and obtains CEE tax deductions for investors
3. Tax deduction up to 100% is received by the investor for the year the investment is made. CEE deductions can be carried forward, if desired
4. Tax slips are issued to Limited Partners prior to April 2012
5. Mutual Fund Rollover Transaction (or Liquidity Alternative) prior to February 28, 2013
6. Once the Mutual Fund Shares are distributed to the Limited Partners, there are several options for the investors:
  - Redeem the Mutual Fund Shares and trigger capital gain
  - Donate shares to registered charity in return for tax credit
  - Transfer mutual fund holdings into an RRSP account and receive additional tax benefits
  - Continue to defer capital gains tax that results when flow-through investment is sold by continuing to hold the Mutual Fund Shares

## 2. Tax Planning for Individuals

The following table set forth certain financial aspects, based on the estimates and assumptions in the notes to the tables below, for a Limited Partner who is an individual (other than a trust), who has invested \$1,000, assuming the investor is an Ontario resident in top marginal tax rate of 46.41% (for further details, please refer to illustrative tables in the Prospectus Summary).

### Breakeven Calculations Highest Marginal Tax Rates

Assuming the Maximum Offering (\$125 Million)

	Ontario
Investment	\$1,000
Less: Tax Savings from Deductions	\$522
Tax on capital gains	\$29
Money at Risk	\$507
Breakeven Proceeds of Disposition	\$660

Some planning considerations are:

#### **Investment in flow-through limited partnerships can reduce taxable income.**

- Assuming that 100% of the investment in the Partnership is deductible, an individual in Ontario who is in the top marginal bracket would realize tax savings of \$493 on \$1,000 investment<sup>3</sup>.
- Two years later, when the Partnership has completed a Mutual Fund Rollover Transaction (see 1(g) above), and the individual eventually disposes of the Mutual Fund Shares, he or she will be taxed on the proceeds of disposition at a capital gains rate. So, if the shares are sold or redeemed for \$1,000 five years from the date of original investment, the investor's tax liability would be \$232.
- What the investor has effectively done is convert otherwise fully taxable income in the current year into capital gains taxable at a future date.

#### **In addition to reducing taxable income, investment in flow-through limited partnership can reduce taxable income AND take advantage of capital loss carry forwards.**

- Capital losses generally result when an investor disposes of capital property at an amount below the original investment. Capital losses can be carried forward indefinitely or carried back three years to offset capital gains.
- Following the example above, if an individual had sufficient capital losses incurred in the past, those losses would reduce the tax payable on the redemption or disposition of Mutual Fund Shares.

#### **Charitable giving**

- The investor could also donate the Mutual Fund Shares obtained on the rollover of the Partnership. Such a donation would generate a tax credit of approximately \$464 and no tax would generally be payable on the capital gains triggered by the donation<sup>4</sup>.

<sup>3</sup> See page 8 of the Prospectus for a detailed list of notes and assumptions.

<sup>4</sup> Shares would have to be donated to a registered charity.

### **RRSP contribution**

- As another alternative, the investor could also contribute the Mutual Fund Shares obtained on the rollover of the Partnership to an RRSP. The contribution would trigger a capital gain, of, in our example, \$1,000, but the RRSP contribution would be deductible.

### **High income retired individuals or wealthy seniors**

- Old Age Security begins to be clawed back when taxable income exceeds \$67,668, for 2011. Since, as described above, an investment in flow-through partnerships can reduce taxable income, it could be an attractive investment for seniors whose income exceeds \$67,668.

## **3. Tax Reporting FAQ**

### ***a) What is ACB (Adjusted Cost Base)?***

The adjusted cost base or “ACB” of a share is generally what you paid for it. Flow-through shares are deemed to have an adjusted cost base (ACB) of nil, due to the deduction of CEE by an investor which will approximately equal your original investment amount. A nil adjusted cost base means that when you calculate your capital gains on the shares, you treat your adjusted cost base as zero; however only half of the capital gain is taxable.

### ***b) How and when do I receive my tax deduction?***

Tax deductions will be allocated to Limited Partners effective on December 31, 2011. You will be mailed a T5013A federal tax receipt (“**T5013A**”) from your investment dealer prior to April 2012 which should be filed with your federal tax return for 2011.

### ***c) How much is my tax deduction for the tax year in which I invest?***

The Partnership will endeavor to invest 100% of the gross proceeds raised in its initial public offering in Flow-Through Shares and other securities, if any, of Resource Issuers in accordance with its investment objectives, guidelines and strategy as described in the Prospectus. Therefore, the expected tax deduction for a Limited Partner in the year of purchase is up to approximately 100% of the amount invested. Because of these anticipated tax deductions, investors may be able to reduce their effective net at-risk capital of their original investment. (See “Income Tax Considerations – Taxation of Securityholders” in the Prospectus for a full discussion of deductions for Limited Partners .

### ***d) What about my capital losses from other investments?***

If you sold investments and created a capital loss that you have not yet claimed, it can be carried back three years and forward indefinitely. This allows you to offset other capital gains against these losses, thereby reducing the tax you pay. The capital gains resulting from the sale of your investment, if any, can be offset against any unused capital losses you may have.

***e) When do I claim the deductions on my tax return?***

You generally claim your greatest amount of tax deductions in the taxation year that you buy units of the Partnership. During the year that you invest, the Partnership invests in Flow-Through Shares of Resource Issuers who in turn spend the money on exploration and development activities. Resource Issuers then incur CEE and renounce it to investors who purchased qualifying shares, or rights to acquire such shares, from the Resource Issuer under an agreement which satisfies certain requirements set out in the Tax Act (a “flow-through share agreement”). You can then claim your portion of these costs on your income tax return to reduce your income taxes.

***f) Will there be additional cash distributions during the life of the Limited Partnership?***

It is not anticipated that the Partnership will make any distributions to the Limited Partners, although the Partnership is not precluded from doing so at any time prior to its dissolution. Please see “Distribution Policy” in the Prospectus.

***g) When and how do I report my capital gains?***

*Shares sold in the Partnership:*

You report capital gains for years you are a partner in the limited partnership and it sells flow-through shares. Since the flow-through shares are deemed to have a nil ACB (see above) for income tax purposes, the entire proceeds are taxed as capital gains. Some of the proceeds from the sale of flow-through shares may be re-invested in new flow-through shares, thus reducing or in some cases eliminating the income taxes otherwise payable on the capital gains.

*Shares sold in the Mutual Fund Corporation*

Generally, holders of shares of the Mutual Fund Corporation who acquire such shares as part of the Mutual Fund Rollover Transaction, will have an ACB in such shares equal to that of the holders’ Partnership units disposed of. Should an investor sell their positions in the Mutual Fund Corporation, or use them as a contribution to their RRSP, this would constitute a deemed disposition, where the investor would need to report the capital gains resulting from the transaction.

*Example:*

- Sale of 1,000 units of Mutual Fund Corporation @ \$30.00/unit NAVPS
- Adjusted Cost Base @ time of sale = \$0.00/unit
- Capital Gains =  $(\$30.00 - \$0.00) \times 1,000 \text{ units} = \$30,000$  in capital gains ½ of which (\$15,000) is subject to tax at an investors marginal tax rate.

***h) What other deductions am I entitled to that are not reported on the T5013A?***

There are certain deductions, such as unamortized issuance costs, which you might be able to deduct after the Partnership completes a Mutual Fund Rollover Transaction. These amounts will be calculated and posted on our website in 2013.

***i) What are some of the provincial incentives? Am I eligible to deduct them?***

Some provinces offer additional tax incentives over and above the deductions afforded through the CEE. Though the bulk of the Partnership’s deductions come from CEE, there may be additional deductions and/or credits offered by various provinces which are also deductible by unitholders. In order to deduct these additional credits or deductions, you must be a resident of the province in question.

#### **4. 2011 Tax Information**

T5013A tax forms (Federal) and RL-15 slip (Quebec) will be issued by your investment dealer prior to April 2012, based on the per unit tax information (when this information becomes available after tax deductions are allocated to Limited Partners by December 31, 2011).