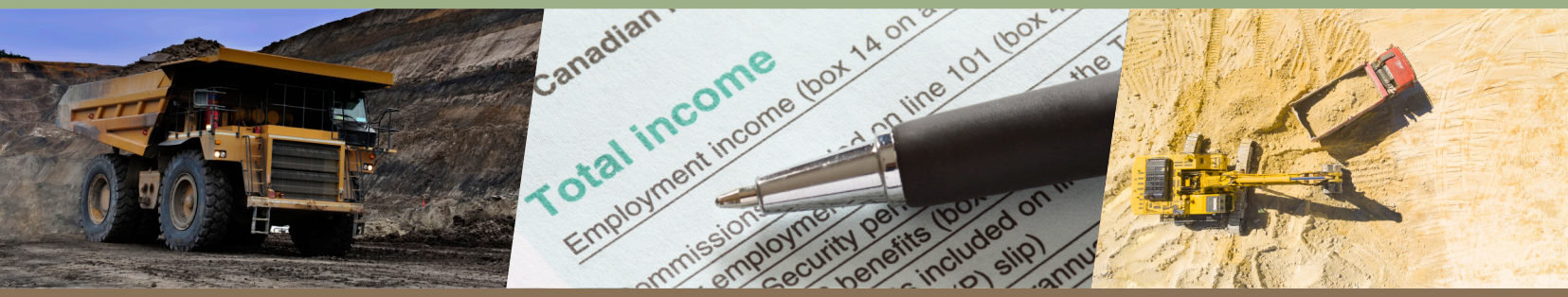
TAX FILING GUIDE



Pavilion
RESOURCE FUND

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INTRODUCTION

Disclaimer

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Purpose of this Guide

This guide was created to assist Pavilion Flow-Through Limited Partnership (LP) investors with the Form T5013 - Statement of Partnership Income, which is needed to complete their T1 tax return. Please note that this guide is designed to assist individual taxpayers. For information regarding tax filing on behalf of corporations or trusts, please refer to a qualified tax professional.

Flow-Through Shares Overview

The Federal Government allows Canadian resource companies to fully deduct certain exploration expenses, known as Canadian Exploration Expenses (CEE). To raise capital for exploration, those companies often issue flow-through shares and pass along the rights to claim the CEE to the purchasers of those shares. The shareholders are then able to deduct the CEE against their own income.

Pavilion Flow-Through LPs Overview

Pavilion Flow-Through LPs are professionally managed, diversified portfolios of flow-through shares. The amounts invested are generally 100% deductible against taxable income in the year the investment is made. In addition, the proceeds from the disposition of the partnership are taxable as capital gains. The Partnership's investment objective is to achieve capital appreciation and significant tax benefits for investors by investing in a diversified portfolio of Flow-Through Shares of resource issuers.

FORM T5013
STATEMENT OF PARTNERSHIP INCOME

Overview

At the end of each tax year, Pavilion investors will receive a T5013 slip from their investment dealer. Investors who own multiple Pavilion Flow-Through LPs will receive a slip for each Pavilion Flow-Through LP they own, and they will need to aggregate the amounts from each T5013 slip in order to complete their T1 tax return. The following sections will outline the important information that is outlined on the T5013 slip.

Sample T5013

Clear Data

Canada Revenue Agency / Agence du revenu du Canada

T5013
Statement of Partnership Income
État des revenus d'une société de personnes

Fiscal period-end / Exercice se terminant le — YYYY-MM-DD / AAAA-MM-JJ

Filer's name and address – Nom et adresse du déclarant

Tax shelter identification number (see **statement** on back *) / Numéro d'inscription de l'abri fiscal (lisez **l'énoncé** au dos *) — TS

002 Partner code / Code de l'associé

003 Country code / Code du pays

004 Recipient type / Genre de bénéficiaire

001 Partnership account number (15 characters) / Numéro de compte de la société de personnes (15 caractères)

010 Total limited partner's business income (loss) / Total du revenu (de la perte) d'entreprise du commanditaire

020 Total business income (loss) / Total du revenu (de la perte) d'entreprise

006 Partner's identification number / Numéro d'identification de l'associé

005 Partner's share (%) of partnership / Part de l'associé (%) dans la société de personnes

030 Total capital gains (losses) / Total des gains (pertes) en capital

040 Capital cost allowance / Déduction pour amortissement

Partner's name and address – Nom et adresse de l'associé

Last name (print) – Nom de famille (en lettres moulées) | First name – Prénom | Initials – Initiales

Box – Case	Code	Amount – Montant	Box – Case	Code	Amount – Montant
104			190		
105			194		
128			197	BC	
133			198	SK	
134			199	MB	
151			200	ON	

Box – Case	Code	Other information – Autres renseignements

T5013 (21) **Protected B** when completed – **Protégé B** une fois rempli

See the privacy notice on your return
Consultez l'avis de confidentialité dans votre déclaration

FORM T5013
STATEMENT OF PARTNERSHIP INCOME

Relevant Boxes

Box 104: Limited Partner's Business Income (Loss)

The amount in this box indicates the business income allocated to the investor, such as operating expenses and management fees. This amount will be net of fees, and should be reported on line 12200 of the investor's tax return.

Box 105/106: At-Risk Amount & Adjusted At-Risk Amount

This indicates the investor's capital at-risk amount, which is then used as a reference when determining the amount of losses, ITCs, and CEE credits that can be claimed in a given year. Typically, an investor cannot claim more losses and/or credits than their at-risk amount.

Box 128: Interest from Canadian Sources

In this box, an investor will find their allocation of interest from Canadian sources, which then needs to be reported on their T1 return on line 12100 and Part II - *Interest and other investment income* of the T1 Worksheet.

For interest expenses incurred as a result of borrowing funds to purchase Pavilion Flow-Through LP units, these may be included in Part III - *Carrying Charges & Interest Expenses* of the T1 Worksheet. A tax advisor can provide guidance on which of these interest expenses are eligible for deduction.

Box 151: Capital Gains (Losses)

This box shows an investor's allocated amount of capital gains (losses) incurred by their Pavilion Flow-Through LP investments. From a tax perspective, the shares that the fund purchases are deemed to have a nil cost base. As a result, the disposition of these shares by the fund will result in taxable capital gains. The amount in this box is to be reported on Schedule 3, line 17400.

Box 190 & Box 191: Canadian Exploration Expense (CEE) Renunciation & Canadian Development Expense (CDE) Renunciation

Indicates the allocated amount of Canadian Exploration Expense (CEE) and Canadian Development Expense (CDE) which can be claimed by the investor as a deduction from their income tax.

Investors can carry forward any unused CEE and CDE amounts to a future year, in which case these amounts become part of their cumulative Canadian Exploration Expense (CCEE) and Cumulative Canadian Development Expense (CCDE) amounts going forward.

Amounts from both Box 190 and 191 also get reported on Form T1229 – *Statement of Resource Expenses and Depletion Allowance,* which is used to calculate an investor's total exploration and development expenses to be entered on line 224 of the income tax return.

Here is how to determine the amount entered-on line 224 of the income tax return:

1. Enter the partnership's identification number into *Identification Number* box in Section 1 of Form T1229.
2. If the investor had any unused CEE or CDE credits from the previous year, report the carryforward amounts of CCEE and CCDE from the previous year in Section II, box 1 of Form T1229.
3. Record the amount from boxes 190 and 191 from T5013 into Section I and Section II of Form T1229.
4. Record the previous year's federal ITC claim and current year's provincial ITC claim into Section II of Form T1229.
5. In Area II, add boxes 1 and 2 and then subtract box 3 to calculate box A.
6. If box A is negative, report this amount on line 13000 of the T1 return (under other income).
7. If box A is positive, calculate the maximum CEE and CDE deduction available and report them in box 4 of Form T1229. To calculate the maximum deduction for CEE, multiply box A by 100%. For CDE, multiply box A by 30%.
8. Report the desired CEE and CDE claim for the current year in box B (the maximum allowable claim is equal to the amount in box 4.
9. Complete the *Accelerated Investment Incentive* section (if applicable). Report the desired claim for the current year in box H (the maximum allowable claim is equal to the amount in box 5).
10. Use box A-B-H to calculate the carryforward CEE and CDE amounts for the following year by subtracting box B and box H from box A. Investors may carry forward this amount indefinitely.
11. Add the amounts from Area II, box B and box H, and record the total in Area III. This total amount will also be reported on line 22400 of the T1 return.

Box 194: Federal Investment Tax Credit (METC)

Represents an investor's per-unit allocation of the 15% federal METC - a non-refundable tax credit on certain mineral exploration expenditures.

Note: The federal METC amount will be reduced by any provincial ITCs received. The final ITC amount can be calculated using Form T1229 – *Statement of Resource Expenses and Depletion Allowance*.

Here is how to determine and apply the Federal METC:

1. Record the amount from box 194 to Area I and Area IV of Form T1229.
2. Enter the amount of available provincial ITCs into Area IV of Form T1229.
3. Use Area IV of Form T1229 to calculate the eligible resource expenditure that qualifies for an ITC and record the amount in Part B, box 67170 of Form T2038.
4. In Part B of Form T2038, multiply the amount in box 67170 by 15% to calculate line B. Then by add all tax credits claimed on lines B and C to calculate line D. Record the amount in line D into column 3 in Part F of Form T2038.
5. If applicable, enter any carryforward balance of federal ITC in column 1 of Part F. This can be found in Form T2038, column 9 from the previous year.
6. Add columns 1, 2 and 3 and subtract column 4 to calculate column 5. Report this amount on Part D, line of Form T2038.
7. Subtract any federal political contribution tax credits and labour-sponsored funds tax credits from Federal tax to calculate Part D, line F of Form T2038.
8. Complete Part D to calculate the Federal ITC amount available. You can claim up to the lesser of line E and line F of Form T2038. Once determined, record the Federal ITC claim in Part F, column 6 of Form T2038.
9. Unless the investor is subject alternative minimum tax (AMT), the Record the amount from Part F, column 6 on line 41200 of the T1 return. If the investor is subject to AMT, enter zero into Form T2038 column 6 and use the *Calculating an allowable claim if alternative minimum tax applies* section of Form T2038, Part D.
10. In form T2038, Part F, subtract columns 6, 7 and 8 from column 5 to calculate column 9. This represents the unused balance that can be carried forward up to 20 years (or carried back up to 3 years).

FORM T5013
STATEMENT OF PARTNERSHIP INCOME

Box 197 (BC), Box 198 (SK), Box 199 (MB) & Box 200 (ON): Provincial Investment Tax Credits

These boxes reflect any provincial ITCs associated with investments held in Pavilion Flow-Through LPs. To claim the provincial ITC, the investor must be a resident where the investee company's *work is performed* (not its province of residence). Provincial ITCs vary by province, and break down as follows:

- **BC - 20%**
- **SK - 10%**
- **MB - 15%**
- **ON - 5%**

Box 197: Claiming the British Columbia Mining Flow-through Share Tax Credit (Available for BC Filers Only)

This indicates the amount of CEE renounced by the issuer that qualifies for the British Columbia Mining Flow-Through Share Tax Credit.

Start by recording the amount from this box 197 on line 1, Part 1 of Form T1231 – *British Columbia Mining Flow-Through Share Tax Credit.* Next, multiply line 1 of Form T1231 by 20% to calculate line 3 and complete Part 2 of Form T1231. If there are any unused credits at the end of the year, complete Part 3 as well. Once complete, report the amount from line 9 of Form T1231 on line 81 of Form BC428 – *British Columbia Tax* and line 51 in Part 4, Section BC428MJ of Form T2203. Finally, report the amount from BC428, line 82 on line 42800 of the T1 return.

Box 198: Claiming the Saskatchewan Mineral Exploration Tax Credit (Available for SK Filers Only)

Represents the renounced CEE that qualify for the Saskatchewan Mineral Exploration Tax Credit. Residents will receive a Saskatchewan Mineral Exploration Tax Credit Certificate (SK-METC slip), which indicates the amount of tax credit available. This amount does not get reported in box 198 of the T5013. The investor must add all tax credits shown on SK-METC slips received and enter the sum on line 75 of Form SK428 – *Saskatchewan Tax and Credits* and line 41 in Part 4, Section SK428MJ of Form T2203. Finally, report the amount from line 80 of Form SK428 on line 42800 in the T1 return.

Box 199: Claiming the Manitoba Mineral Exploration Tax Credit (Available for MB Filers Only)

This indicates the amount of CEE renounced by the issuer that qualifies for the Manitoba Mineral Exploration Tax Credit.

First, record this amount on line 2, Part 1 of Form T1241 – *Manitoba Mineral Exploration Tax Credit*. Next, multiply line 2 of Form 1241 by 30% to calculate line 4 and complete the remainder of Part 1. If there are unused credits at the end of the year, also complete Part 2. Then report the amount from Form T1241, line 8 of on Form MB428 – *Manitoba Tax Credit,* line 78, and line 43 of Part 4, Section MB428MJ of Form T2203. Finally, record the amount from line 79 of Form MB428 on line 42800 of the T1 return.

Box 200: Claiming the Ontario Focused Flow-through Share Tax Credit (Available for ON Filers Only)

This indicates the amount of CEE renounced by the issuer that qualifies for the Ontario Focused Flow-Through Share Tax Credit.

First, this amount is to be recorded on Form T1221, line 1 *Ontario Focused Flow-Through Share Resource Expenses (Individuals).* Then record the amount from the T1221, line 4 in box 63220 of Form ON479 – *Ontario Credits* and multiply this amount by 5%. Finally, complete Form ON479 and record the amount from line 10 on line 47900 of the T1 return.

FREQUENTLY ASKED QUESTIONS

When can I expect to receive my T5013 tax slip?

Once the individual resource companies report to the fund each spring, the information is forwarded to the tax preparers who then produce each client's T-slip. Investors will receive their tax slip(s) at the beginning of April for each fund that they are invested in. The T5013s are not mailed but rather uploaded into each clients online portal on Exempt Edge and an email is sent out to inform the investor that a new document is in their portal.

What is the adjusted cost base of my units?

The adjusted cost base (ACB) is zero, due to the CEE deductions received by investors that are roughly equal to their investment amount. When the ACB is zero, all proceeds resulting from a disposition are considered capital gains. Over the life of the fund, the fund manager will be selling shares within the fund, which will trigger capital gains. The capital gains are then passed on to investors.

Why do investors receive yearly capital gains allocations?

Each flow-through investment held by a FT LP is deemed to have an ACB of zero. During the FT LP's lifetime, whenever it sells an investment and sends cash to investors, capital gains will be realized (as the investment is sold for certain proceeds and has a cost of zero). As a result, investors would be allocated capital gains on their tax slip. Also, there may be instances when some shares are sold but the monies are not sent to investors in that same year. Therefore, the fund would have capital gains to allocate.