



MIDDLEFIELD RESOURCE FUNDS

Understanding Tax Advantaged Investments



Middlefield Group®

profile

Since its inception in 1979, the Middlefield Group, with over \$3.0 billion in assets under management, has established a strong reputation as a creator and manager of unique investment products designed to balance risk and return to meet the demanding requirements of investment advisors and their clients. These financial products include private and public resource funds, venture capital assets, mutual funds, real estate and closed-end, publicly traded income funds.

Many of Middlefield's investment products are designed and managed by our own professionals while some involve strategic partnerships with other "best-in-class" firms that bring unique value to our product offerings. Our investment team comprises portfolio managers, analysts and traders. Guardian Capital LP, one of the pioneers in income trust investing, acts as Co-Advisor on several of our income funds while Groppe, Long & Littell, based in Houston and one of the world's

leading forecasters of oil and natural gas prices, acts as Special Advisor with respect to the strategic outlook for the energy sector.

Looking ahead, Middlefield remains committed to the goal of developing new and unique investment products to assist investment advisors in providing added value for their clients.

Table of contents

What are flow-through shares?	1
Middlefield resource partnerships	2
How do they work?	
What are their benefits?	
Who should invest in them?	
MMF multi-class mutual funds	3
How do they work?	
What are their benefits?	
Who should invest in them?	
Putting MRF partnerships and MMF mutual funds to work	4
1. Reduce taxes	
2. Defer taxes	
3. Use available capital losses	
4. Reduce the cost of charitable donations	
5. Shelter business income	
Appendix 1 – Calculating returns	8
Appendix 2 – Borrowing to invest	8
Appendix 3 – Reducing withholding taxes or installments	9

This brochure is for information purposes only and does not constitute an offer to sell or a solicitation to buy any securities referred to herein.

What are flow-through shares?

Flow-through shares are common shares of Canadian resource companies issued on the basis that the money raised must be spent on exploration and the tax deductions 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 mining and oil and gas 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.

The key benefits of investing in flow-through shares for taxable investors are as follows:

Reduce taxes:

The entire cost of flow-through shares issued to finance exploration is fully deductible (except usually Quebec) 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 issued to finance exploration is fully deductible (except usually Quebec) in the year of purchase, while capital gains taxes are not incurred until their disposition, which may be made by the investor in a year when the investor’s marginal tax rate is lower.

Utilize available capital losses:

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.

Reduce the cost of charitable donations:

The cost of charitable donations can be substantially reduced because the cost of the flow-through shares is deductible, their donation provides tax credits at the investor’s marginal tax rate based on market value, and capital gains on donated shares are not taxable.

Shelter income of controlled corporations:

Privately controlled corporations may invest in flow-through shares to shelter their income, as may shareholders to shelter income paid to them by a corporation.

The tax benefits of flow-through shares are so valuable to investors that they are typically willing to pay a higher price or “premium” for them above the prevailing market price for the issuer’s common shares. On the other hand, for the companies that issue them, the cost of the tax benefits foregone is well justified by the expected return on the capital raised. Flow-through shares have thus become an important source of capital for Canadian resource companies.

Returns on flow-through shares depend primarily on the price at which the shares are sold, after taking into account tax savings from their deductions and capital gains taxes on their disposition. Share prices of resource companies are subject to the usual volatility and inherent risks of resource sector investments including exploration success, commodity price fluctuations, interest rates and capital market conditions.

Middlefield Resource partnerships

How do flow-through share partnerships work?

Investors may participate directly in the flow-through market by purchasing shares, or indirectly through investment in a professionally managed limited partnership. Limited partnerships are legal arrangements between a general partner who takes responsibility for managing the affairs of the partnership, and limited partners whose role is restricted to investing in the partnership. Investors buy units issued by the partnership, which may be publicly or privately offered. All of the income and losses of the partnership are allocated to the partners each year.

What are the benefits of flow-through partnerships?

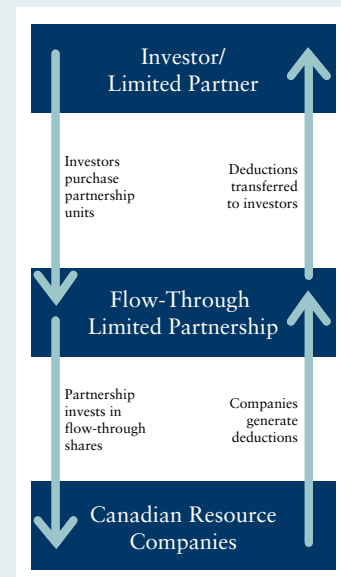
Middlefield resource partnerships are ideal vehicles for investing in flow-through shares. Investors receive all of the related tax benefits, plus portfolio diversification, professional management and limited liability. Flow-through share issues are usually private placement offerings, and, as a result, may not be available to individual investors.

The general partner, who is paid a management fee by the limited partners, sources and manages a portfolio of flow-through shares and administers the limited partnership. Much like owning units in a mutual fund, the limited partners own an undivided interest in a diversified Canadian resource stock portfolio and most, if not all, of the cost of their investment is tax deductible.

Upon termination of the Middlefield resource partnerships, 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, donate them or otherwise dispose of them. Investors have the added flexibility to switch between MMF share classes tax-free, allowing them to select the investment asset mix that suits their longer-term objectives while continuing to defer capital gains taxes.

Who should invest in flow-through partnerships?

Flow-through share partnerships are most suitable for investors taxable at highest marginal rates who can accept the risks of investing in smaller oil and gas, mining and renewable energy companies. They are most appropriate for high-income earners, recipients of lump sums of taxable income, individuals with available capital losses and taxable donors to charitable organizations. Flow-through share partnerships are also potentially suitable for corporations, particularly personal holding companies taxable at high rates. In all cases, investors should consult professional tax advisors for guidance.



Middlefield resource partnerships (MRP's) have a life span of about two years to allow time to realize and allocate the tax deductions to the investors. The adjusted cost base (ACB) of the MRP units is reduced by flow-through deductions and increased by capital gains from the sale of shares by the MRP. The MRP allocates deductions and capital gains to the investors annually. At termination, the MRP units are exchanged on a tax-free basis for shares of Middlefield Mutual Funds (MMF) having a low ACB. When the MMF shares are redeemed, the investor realizes a capital gain in the amount of the disposition proceeds less the ACB.



MIDDLEFIELD MUTUAL FUNDS

Multi-Class Structure

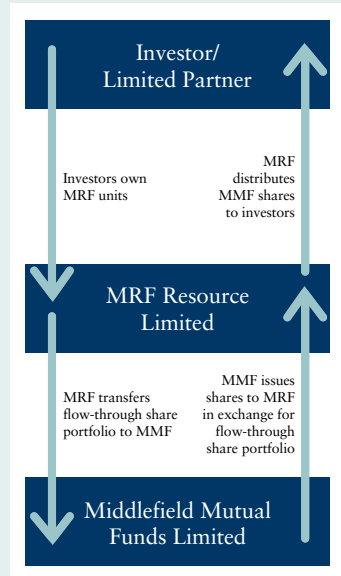
How does Class Structure work?

Middlefield Mutual Funds Limited (MMF) is an open-ended, multishare class, mutual fund corporation. Each share class represents a different fund category, including resource, high income and short-term income funds. The advantage of mutual fund corporations versus trusts is that investors can switch tax-free between fund classes, without triggering capital gains tax liabilities.

Who should invest in our Mutual Funds?

Middlefield Mutual Funds are particularly suitable for flow-through partnership investors because of the tax-free rollover and the deferral benefits to the investor for as long as the shares are retained. Middlefield Mutual Funds are also suitable for investors who want the flexibility to modify their portfolio asset class mix without triggering taxable gains.

What are the benefits of MMF?



The primary benefit of MMF for MRP investors is that it allows the partnership units to be exchanged tax-free for mutual fund shares when the partnership is terminated. Rollover into the mutual fund avoids the need to either liquidate or distribute the MRP stock portfolio directly to investors, which could potentially diminish its market value due to selling pressure. Investors seeking liquidity may redeem their MMF shares at any time.

Secondly, the multi-class structure provides investors with flexibility to select an investment asset mix that suits their longer-term objectives while deferring capital gains taxes. In effect, they can earn investment income on their deferred tax liability to help achieve their investment objectives.



Putting Middlefield Resource Partnerships and Mutual Funds to work for you

Middlefield resource partnerships and mutual funds can be used to achieve many different objectives.

Following are several strategies for investors to consider. In illustrating these strategies we have made simplifying assumptions, including that capital gains are not allocated by the partnership. This assumption, however, warrants a more detailed explanation, as follows:

Investors should be aware that during its life of approximately two years, a flow-through partnership normally

realizes and allocates some capital gains to investors. These gains result primarily from dispositions of flow-through shares due to corporate acquisitions or restructurings of the issuers, but may also be due to portfolio management decisions made by the general partner. This shortens the potential income deferral period and will affect the outcome for investors who are primarily seeking tax deferral. However, there

is generally no effect on tax savings, the most valuable benefit, except when the mutual fund shares are donated.

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.

I. Reduce Taxes

This strategy is most suitable for individuals taxable at highest rates seeking to reduce taxes. The MMF shares received upon termination of the partnership are immediately redeemed. Deduction of the amount invested reduces taxes at ordinary rates, while redemption of the MMF shares generates capital gains taxable at lower rates.

An enhancement of this strategy is to redeem and reinvest every year to mitigate the cyclical nature of the resource sector and generate regular tax savings. Based on the assumptions in the table, the investor would save taxes of \$2,250 per \$10,000 invested.

Reduce Taxes – Cash Flows			
Year	1	3	Total
MRP Investment	\$ (10,000)	\$ –	\$ (10,000)
Net Tax Savings	4,500	–	4,500
MMF Redemption	–	10,000	10,000
Capital Gains Taxes	–	(2,250)	(2,250)
After-Tax Cash Flow	\$ (5,500)	\$ 7,750	\$ 2,250
Cash-on-Cash Return	–	–	41%

Assumes: MRP investment is 100% deductible; investor's marginal tax rate is 45%; 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; the MRP allocates no capital gains.



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 the example illustrated in the table, 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. Based on the assumptions detailed below, the after-tax saving is \$3,000 or 30% per \$10,000 invested.

An enhancement to this strategy, with the longer-term objective of increasing investment income, is to invest regularly each year in a partnership, and as they mature switching into the Income Plus Class of MMF. This Class provides regular monthly dividend distributions at an annual rate of approximately 6%, with modest volatility and growth potential, making it ideal for longer-term objectives.

Defer Taxes to Lower Tax Rate Year to Reduce Taxes

Year	1	3	Total
MRP Investment	\$ (10,000)	\$ -	\$ (10,000)
Net Tax Savings	4,500	-	4,500
MMF Redemption	-	10,000	10,000
Capital Gains Taxes @ 30% tax rate	-	(1,500)	(1,500)
After-Tax Cash Flow	\$ (5,500)	\$ 8,500	\$ 3,000
Cash-on-Cash Return	-	-	55%

Assumes: MRP investment is 100% deductible; investor's marginal tax rate is 45% in the year of investment and 30% in the year of redemption; all taxes are paid or payable in the year the investment or redemption is made; the redemption value of the MMF shares equals the amount invested in MRP units.

In the example on the following page, an equal amount is invested each year for five years in resource partnerships. In the eighth calendar year, when the

fifth MRP terminates, the investor's projected after-tax cash outlay is 41% of market value and generates an annual cash distribution rate of 14.8%.

2. Defer taxes *continued*

Defer Taxes Longer-term by Retaining MMF Shares and Switching to Income Plus Class									
Year	1	2	3	4	5	6	7	8	Total
MRP Investment	\$(10,000)	\$(10,000)	\$(10,000)	\$(10,000)	\$(10,000)	\$ -	\$ -	\$ -	\$(50,000)
Net Tax Savings	4,500	4,500	4,500	4,500	4,500	-	-	-	22,500
Net Capital Invested	(5,500)	(5,500)	(5,500)	(5,500)	(5,500)	-	-	-	(27,500)
Income Plus Class									
Distributions @ 6%	-	-	-	600	1,200	1,800	2,400	3,000	9,000
Taxes on Distributions	-	-	-	(120)	(240)	(360)	(480)	(600)	(1,800)
Net Distribution Received	-	-	-	480	960	1,440	1,920	2,400	7,200
After-Tax Cash Flow	\$ (5,500)	\$ (5,500)	\$ (5,500)	\$ (5,020)	\$ (4,540)	\$ 1,440	\$ 1,920	\$ 2,400	\$(20,300)
Cash-on-Cash Return	-	-	-	-	-	-	-	-	•

Assumes: MRP investment is 100% deductible; investor's marginal tax rate is 45% and dividend tax rate is 20%; 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; no capital gains are allocated to the investor by MRP or Income Plus Class; Income Plus Class distribution rate is 6% per year; distributions are not reinvested; Income Plus Class net asset value per unit does not fluctuate.

3. Use available capital losses

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

Use Available Capital Losses			
Year	1	3	Total
MRP Investment	\$ (10,000)	\$ -	\$ (10,000)
Net Tax Savings	4,500	-	4,500
MMF Redemption	-	10,000	10,000
Capital Gains Taxes	-	-	-
After-Tax Cash Flow	\$ (5,500)	\$ 10,000	\$ 4,500
Cash-on-Cash Return	-	-	82%

Assumes: MRP investment is 100% deductible; investment is not more than twice the amount of the investor's available taxable capital losses; investor's marginal tax rate is 45%; all taxes are paid or payable in the year of the investment or redemption; the redemption value of the MMF shares equals the amount invested in MRP units; the MRP allocates no capital gains.

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. This strategy takes advantage not only of the deductions for the MRP investment, but also the

fact that capital gains on charitable donations of shares are not taxable.

Individuals receive tax credits based on their marginal tax rates on the fair market value of donated shares. In the example following, we assume that the

MRP allocates capital gains of 40% of the investment prior to its termination. This increases the projected after-tax cost to approximately 19% of the amount donated versus 10% if no gains were distributed, both of which compare very favourably to the 55% after-tax cost of a cash donation.

4. Reduce the cost of charitable donations *continued*

Reduce Cost of Charitable Donations – Cash Flows					
Year	1	2	3	Total	Cash Donation
MRP Investment	\$(10,000)	\$ –	\$ –	\$(10,000)	\$ –
Tax Savings	4,500	–	4,500*	9,000	4,500
Taxes on Capital Gains Allocated by MRP (4,000 x 50% x 45%)	–	–	(900)	(900)	–
MMF Shares Received	–	–	10,000	10,000	–
Donation of MMF Shares or Cash	–	–	(10,000)	(10,000)	(10,000)
After-Tax Cash Flow	\$ (5,500)	\$ –	\$ 3,600	\$ (1,900)	\$ (5,500)
Cash-on-Cash Return	–	–	–	–	55%

*Tax refund from donation to registered charities

Assumes: MRP investment is 100% deductible; investor is subject to a marginal tax rate of 45%; 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; the MRP allocates capital gains equal to 40% of the amount invested; and no changes to the new flow-through gifting rules referred to in the Note below.

Note: Rules which require the recognition of capital gains when flow-through shares are gifted do not currently apply to a gift of MMF shares by a (former) limited partner of a flow-through partnership who dealt at arm's length with the partnership; and investors should speak to their tax advisor before making such a gift for advice based on their individual circumstances including whether they have dealt at arm's length with the partnership.

5. Shelter business income

Investors who are controlling shareholders of private Canadian corporations can use flow-through investments to shelter the company's income. If it is taxable at maximum rates as a personal holding company, similar benefits as illustrated for individuals in the "Reduce Taxes", or the enhanced version of "Defer Taxes" strategies are achievable. If the company has unused capital losses available, the shareholder may

consider investing in the MRP personally, then exchanging the MRP units or MMF shares on a Section 85 tax-free rollover basis for shares of the corporation. The disposition proceeds may then be sheltered by the company's available capital losses and (depending on the circumstances) then distributed to the shareholder on a tax-free basis. Timing of income and deductions can also be managed to take advantage of company year-ends that

are usually not coincident with the calendar year. Bonuses or dividends can be distributed to the shareholder prior to the company's year-end (say, January 31) while taxes on that income may be deferred in the hands of the individual until after the calendar year-end. These sophisticated and customized strategies warrant careful tax planning with professional advisors.

Middlefield flow-through partnerships and mutual funds offer a unique method to reduce risk and improve after-tax returns on resource sector equity investments. They provide the significant tax benefits of flow-through shares plus portfolio diversification, professional management and longer-term investment management flexibility. Alone or in combination, they may be utilized in a variety of strategies to achieve the needs and objectives of a wide range of investors.

Appendix 1 –

How returns on flow-through investments are calculated

Returns on investment in flow-through shares or partnerships are calculated and expressed on an after-tax basis because the tax benefits have such a material impact.

The table below illustrates the most frequently employed method of calculating returns on flow-through

share partnership investments, including Middlefield resource partnerships:

Returns are expressed as the after-tax gain or loss on the investor's after-tax cost or "money at risk" and may be calculated on a cumulative or annualized basis.

Since these returns are net of taxes, they are also sometimes referred to as "cash-on-cash" returns.

As the table illustrates, potential after-tax returns are very attractive, especially considering the life span of a partnership is typically only two years. An investor with a 45% marginal tax rate breaks even if only 71% of the amount invested is recovered from disposition proceeds, and earns a 41% total after-tax return on after-tax cost if the full amount invested is recovered. Returns are driven primarily by the performance of the partnership's portfolio, but the flow-through tax benefits will enhance returns and provide downside protection for taxable investors.

After-tax Return on \$1,000 Flow-Through Investment at Various Disposition Prices				
Investment	\$1,000	\$1,000	\$1,000	\$1,000
Tax Savings	450	450	450	450
Money at Risk (After-Tax Cost)	550	550	550	550
Disposition Proceeds	710	900	1,000	1,100
Capital Gains Taxes	160	203	225	248
After-Tax Proceeds	550	697	775	852
After-Tax Gain	0	147	225	302
After-Tax Return (%)	0%	27%	41%	55%
Cash-on-Cash Return				

Appendix 2 –

Borrowing to invest

Borrowing to invest in equity securities is generally not advisable if the borrower is relying on the investment as the source of repayment for the loan. The risk is that the investor may be forced to sell the securities to repay the loan at the worst possible time, when their value is depressed, causing a loss. Liquidity is an additional consideration for investors that borrow to invest in MRPs. The partnership units are not listed on an exchange and are therefore not readily marketable during their life span of approximately two years. They are therefore not a reliable source of repayment during that period regardless of their value. Liquidity is provided when the MRF terminates and redeemable MMF shares are distributed.

Borrowing to invest in flow-through partnerships may be appropriate for knowledgeable investors with the capacity to accept the risk, who are borrowing to bridge receipt of a cash inflow that will be used to repay the loan, such as a tax refund. If the amount borrowed does not exceed the amount of the anticipated tax refund, and the refund is used to repay the loan, borrowing may be a beneficial strategy.

The benefit of borrowing is primarily that the amount of the investment can be increased, or alternatively the cash outlay reduced. The interest cost of the loan is tax deductible (except Quebec) under current rules, provided the lender has full recourse to the investor

for repayment. If recourse is limited only to the partnership units pledged as security, then the interest is not deductible but is added to the adjusted cost base of the units.

Banks generally provide this type of financing based solely on the creditworthiness of the investor, rather than the merits of the investment, because the units are illiquid.

Appendix 3 –

Reducing taxes withheld at source or tax installments

Investors in Middlefield resource partnerships may apply to Canada Revenue Agency to reduce taxes withheld from salary or bonus payments to reflect the deductions that will be generated by their investment. CRA will normally grant approval if the taxpayer properly documents the request and if his or her tax account is in good standing. A copy of the trade confirmation and the MRP prospectus should accompany the request. Upon approval, CRA will send a letter to the investor's employer authorizing the reduced withholding rate.

Application forms and district taxation office addresses are available on the CRA website. Some CRA district offices may also require the taxpayer to provide a letter from the general partner of the MRP outlining the purpose of the partnership and the deductions anticipated. The MRP general partner will provide this type of letter upon request.

MRP investors who pay taxes by installment may be able to reduce the amount of their installments to reflect the deductions anticipated from the partnership investment.

However, before applying for reduced withholding, or adjusting tax installment payments, investors should seek advice from their tax advisors.

For further information, call toll free 1-888-890-1868 or visit our website at www.middlefield.com

This report is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such would be prohibited. The information and any statistical data contained herein have been obtained from sources which we believe to be reliable, but we do not represent that they are accurate or complete, and should be relied upon as such. All opinions expressed and data provided herein are subjected to change without notice. The securities mentioned in this document may not be suitable for all types of investors. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice. As with any transaction having potential tax implications, clients should consult with their own tax advisors.



MIDDLEFIELD RESOURCE FUNDS



MIDDLEFIELD MUTUAL FUNDS

CALGARY, CANADA

Middlefield Limited
812 Memorial Drive N.W.
Calgary, Alberta
Canada T2N 3C8
T 403.269.2100
F 403.269.2911

LONDON, ENGLAND

Middlefield International Limited
288 Bishopsgate
London, England
EC2M 4QP
T 0207.814.6644
F 0207.814.6611

TORONTO, CANADA

Middlefield Capital Corporation
First Canadian Place
58th Floor, P.O. Box 192
Toronto, Ontario
Canada M5X 1A6
T 416.362.0714
F 416.362.7925

SAN FRANCISCO, USA

Middlefield Financial Services Inc.
One Embarcadero Center, Suite 500
San Francisco, California
USA 94111
T 415.835.1308
F 415.835.1350

WEB SITE

www.middlefield.com

E-MAIL

invest@middlefield.com

TOLL FREE

888.890.1868