



Borrowing Money to Leverage a Flow-Through Investment

Borrowing money to make investments can magnify the investment results of both a positive and a negative investment return. Applied to flow-through limited partnership investments, leverage may provide risk management and performance enhancements. Below are 3 examples of how leverage can impact a flow-through investment comparing a **\$6,000 flow-through investment with a \$6,000 flow-through investment leveraged to \$10,000**. Note: returns "With Leverage" includes repayment of the loan in full (see below).

I. Assumes the flow-through portfolio's NAV at liquidation is 100% of original capital invested:

	<u>No Leverage</u> (\$6,000 Investment)	<u>With Leverage</u> (\$10,000 Investment)
Investor's initial capital invested	\$ (6,000)	\$ (6,000)
Amount of borrowed money invested	0	(4,000)
Investor's flow-through tax deduction savings ⁽¹⁾	2,700	4,500
Investor's loan interest cost ⁽²⁾	0	(640)
Investor's interest tax savings ^{(1) (4)}	0	288
Liquidity value of flow-through investment (100% of initial investment) ⁽³⁾	6,000	10,000
Capital gain tax on liquidity value	<u>(1,350)</u>	<u>(2,250)</u>
Net Cash to Investor	<u>\$ 1,350</u>	<u>\$ 1,898</u>
Return on initial capital invested	22.5%	31.6%

II. Assumes the flow-through portfolio's NAV at liquidation is 125% of original capital invested:

	<u>No Leverage</u> (\$6,000 Investment)	<u>With Leverage</u> (\$10,000 Investment)
Investor's initial capital invested	\$ (6,000)	\$ (6,000)
Amount of borrowed money invested	0	(4,000)
Investor's flow-through tax savings ⁽¹⁾	2,700	4,500
Investor's loan interest cost ⁽²⁾	0	(640)
Investor's interest deduction tax savings ^{(1) (4)}	0	288
Liquidity value of flow-through investment (125% of initial investment) ⁽³⁾	7,500	12,500
Capital gain tax on liquidity value	<u>(1,688)</u>	<u>(2,813)</u>
Net Cash to Investor	<u>\$ 2,512</u>	<u>\$ 3,835</u>
Return on initial capital invested	41.9%	63.9%

III. Assumes the flow-through portfolio's NAV at liquidation is 70% of original capital invested:

	<u>No Leverage</u> (\$6,000 Investment)	<u>With Leverage</u> (\$10,000 Investment)
Investor's initial capital invested	\$ (6,000)	\$ (6,000)
Amount of borrowed money invested	0	(4,000)
Investor's flow-through tax savings ⁽¹⁾	2,700	4,500
Investor's loan interest cost ⁽²⁾	0	(640)
Investor's interest deduction tax savings ^{(1) (4)}	0	288
Liquidity value of flow-through investment (70% of initial investment) ⁽³⁾	4,200	7,000
Capital gain tax on liquidity value	<u>(945)</u>	<u>(1,575)</u>
Net Cash to Investor	<u>\$(45)</u>	<u>\$(427)</u>
Return on initial capital invested	(0.8%)	(7.1%)

(1) Assumes a 45% marginal tax rate

(2) Assumes a 2 year loan at 8% per annum

(3) Adjusted cost base (ACB) is nil

(4) Interest may be tax deductible - please consult your tax specialist for advice