2009-2248(IT)G
General Procedure
TAX COURT OF CANADA

BETWEEN:

SENTINEL HILL PRODUCTIONS IV CORPORATION,
in its capacity as designated member of SHAAE (2001) MASTER LIMITED PARTNERSHIP

Appellant

- and -

HER MAJESTY THE QUEEN

Respondent

AMENDED NOTICE OF APPEAL

(initially filed July 7, 2009)

Overview

1. This is an appeal under paragraph 169(1)(b) of the *Income Tax Act* (Canada) (the "Act") from a Notice of Determination issued on March 29, 2005 for the fiscal period of the SHAAE (2001) Master Limited Partnership (the "Partnership") ended December 31, 2001 and from a Notice of Determination issued on March 30, 2005 for the fiscal period of the Partnership ended December 31, 2002.

2. The transactions described in this Notice of Appeal were implemented in furtherance of a policy of the Government of Canada intended to encourage the development of the film industry in Canada (the "Policy").

3. In general terms, arrangements implementing the Policy provided that Canadian investors would invest in a film production services limited partnership and would obtain a deduction for losses incurred by a partnership in the first two years (in this case, 2001 and 2002) and would bring a like amount into the income computation in year ten (in this case, 2011). Thus, the Policy recognized up to a ten-year deferral for tax purposes.

4. The details of the transactions of this case (the "Transactions") and draft documents evidencing and implementing the Transactions were submitted to the Rulings Division of the Canada Revenue Agency (the "CRA"). The Transactions and implementing documents were carefully reviewed by the CRA and an advance income tax ruling was issued on December 13, 2000 (the "Ruling") and applied to the Appellant, the Partnership, the Production Limited Partnerships in which the Partnership intended to invest (the "PLPs"), and the limited partners of the Partnership (the "Investors"), all of whom were described in the implementing documents and the Ruling. A copy of the Ruling is attached as Appendix "A" to this Notice of Appeal.

5. Subsequent to the granting of the Ruling, and after extensive internal debate among employees of the CRA Rulings Division, the CRA Audit Division and the Department of Justice, the CRA decided that for this and other like transactions involving the MLP and associated PLPs it would not honour the Ruling.

FACTS

6. The Appellant is a corporation formed under the laws of the Province of Ontario on October 11, 2000.

7. The Appellant was at all material times the sole general partner of the Partnership and the partner designated for the purposes of subsection 165(1.15) of the Act.

The MLP, PLPs and Investors

8. The Partnership is a limited partnership formed under the laws of the Province of Ontario and is governed by an Amended and Restated MLP Partnership Agreement dated October 27, 2000 (the "Partnership Agreement").

9. The Partnership was formed for the purpose of earning income from:

   (a) investing in Class A units of a number of production limited partnerships;

   (b) providing financing, through investments in Class A units of PLPs, for expenditures incurred by the PLPs in performing or providing Canadian-based production services in respect of a full-length motion picture film, a television movie of the week, or one or more episodes of a television series; and

   (c) investing funds of the Partnership on an interim basis in certificates of deposit and interest-bearing accounts of Canadian chartered banks.

10. The Partnership raised funds by issuing Class A units in the Partnership to the Investors.

11. Pursuant to an offering memorandum dated March 1, 2001 (the "Offering Memorandum") and subscription agreements with the Investors, the Partnership issued Class A units in the Partnership to the Investors at a price of $16,200 per unit. Investors financed $13,700 of the Class A unit subscription price by loan (the "Investor Loans") and paid the balance from their own funds.

12. The Offering Memorandum contained a description of the Ruling.

13. Investors relied upon the Ruling in subscribing for Units in the Partnership.

14. Over 2,000 Investors subscribed for units in the Partnership in 2001. Nearly all the Investors were individuals resident in Canada.

15. The Partnership registered as a tax shelter, number TS64667.

16. The fiscal period of the Partnership and each PLP ended on December 31 each year.

17. The Partnership was structured as a business investment for Investors with an accompanying tax deferral of up to ten years in reliance on the Policy and the Ruling.

18. Pursuant to the Partnership Agreement:

(a) the Appellant as general partner of the Partnership was entitled to 0.01% of the net income and loss, and taxable income and loss, of the Partnership; and

(b) the Investors of the Partnership were entitled to the remaining 99.99% of net income and loss, and taxable income and loss, of the Partnership.

The Ruling

19. In late 2000 representatives of the Appellant, the Partnership and the PLPs submitted an outline of the Transactions together with draft transaction documents to the CRA Rulings Division along with the fee required by the CRA to be paid as consideration for issuing an advance income tax ruling.

20. The Partnership, the PLPs and their respective representatives fully disclosed all material aspects of the Transactions to the CRA Rulings Division as part of the Ruling application.

21. Officials of the Rulings Division of the CRA carefully reviewed the Transactions and the draft transaction documents submitted and issued the Ruling on December 13, 2000.

22. The Ruling contemplated its application to the Appellant, the Partnership, the PLPs and the Investors.

23. The Partnership, the Appellant and the Investors understood that the CRA issued the Ruling in accordance with the longstanding administrative policy of the CRA and its predecessors, as then codified in Information Circular 70-6R3, as modified through the CRA's practices that had developed around film production services transaction rulings (the "CRA's Rulings Policy").

24. During the currency of 2001, when the Investors were determining whether to become members of the Partnership, the CRA and Department of Finance officials continued to give assurance that the Ruling would be honoured and, in particular:

(a) in August 2001 the Appellant and its representatives were invited to meet with representatives of the CRA Rulings Division in anticipation of submitting a new ruling application for upcoming 2002 transactions;

(b) on September 11, 2001 the meeting was held and, upon being presented with flow charts and diagrams containing representative dollar amounts for a representative transaction, the CRA Rulings Division personnel gave further assurances that the Transactions were in accordance with their previous understanding and with the Ruling and the Policy;

(c) on September 18, 2001 the Department of Finance announced proposed changes to the exception to the "matchable expenditure" rules contained in subparagraph 18.1(15)(a)(ii) (the exception on which the Transactions relied to avoid the application of the matchable expenditure rules);

(d) the proposed legislative changes would have resulted in the Transactions no longer being exempt from the matchable expenditure rules;

(e) transitional rules released with the legislative amendments to section 18.1 were intended to allow existing in-progress Transactions to complete by December 31, 2001;

(f) the initially-announced transitional rules were ineffective and did not have the intended effect; and

(g) thus, in response to representations from representatives of the Partnership and the PLPs and others, the Department of Finance twice amended such rules to permit the in-progress Transactions to close as intended.

25. The Appellant, the Partnership, the PLPs and the Investors all relied on the Policy, the Ruling and the CRA's Rulings Policy in entering into the subject transactions. Furthermore, Investors who subscribed for Units on or after September 11, 2001 also relied upon the CRA's and Department of Finance's continued assurances that the Ruling would be honoured.

26. The Minister knew that the parties would rely upon the Policy, the Ruling, the CRA's Rulings Policy and the Department of Finance's continued assurances in entering into the Transactions.

27. After extensive internal debate among employees of the CRA Rulings Division, the CRA Audit Division and the Department of Justice, the CRA decided that it would not honour the Ruling, notwithstanding the reliance placed thereon by the Appellant, the Partnership, the PLPs and the Investors of the Partnership.

The Production Services Transactions

28. The Partnership, the PLPs and the Appellant relied upon the Policy, the Ruling and the CRA's Rulings Policy in structuring and implementing the Transactions.

29. The Partnership invested, on average, $16,105.78 of the $16,200 subscription proceeds it received for each of its units in Class A units of 73 separate PLPs as listed in Appendix "B" attached hereto.

30. Each PLP was formed for the purpose of performing or providing production services in respect of a full-length motion picture film, a television movie of the week, or one or more episodes of a television series (a "Production").

31. Each PLP entered into a contract with a studio that owned the copyright in a Production (the "Studio") entitled "PLP Production Services Agreement" to provide production services in connection with that Production.

32. Under each PLP Production Services Agreement, the Studio engaged the PLP to provide all production services in connection with the Production (other than those qualifying as "Canadian labour expenditures") in return for fees payable by the Studio to the PLP.

33. It was contemplated that the PLPs would issue Class B Units and that as consideration therefor the subscriber would issue a promissory note bearing interest with principal deferral for ten years; that such interest would be distributed annually by the PLPs to the Partnership; and that the Partnership would make like annual distributions to the Investors (see Ruling, paragraphs 27, 28(e) and 30).

34. The transactions entered into by the Partnership, the PLPs and the Investors complied in all material respects with the transactions contemplated by the Ruling and reviewed by the CRA Rulings Division in issuing the Ruling.

Income Tax Returns and Determinations

35. For the fiscal years 2001 and 2002, the PLPs incurred and reported aggregate business losses in the following amounts:

(a) 2001: $334,177,546; and

(b) 2002: $73,592,705.

36. The PLP losses so determined were then allocated (as to 99.99%) to the Partnership. In addition, the PLPs distributed assets to the Partnership, and the Partnership made a like distribution to the Investors, to enable them to pay interest on the Investor Loans.

(a) 2001 Taxation Year

37. The Partnership filed a partnership information return for its 2001 taxation year by March 31, 2002.

38. The Partnership reported a business loss for its 2001 taxation year of $335,503,432.

39. The Partnership's 2001 reported business loss of $335,503,432 was comprised of the following elements:

(a) the Partnership's share (99.99%) of the PLPs' business losses, totalling $334,144,128;

(b) management fees incurred by the Partnership in the amount of $522,337;

(c) the Partnership's deduction for financing costs under paragraph 20(1)(e) of the Act in the amount of $839,644; and

(d) interest income of $2,676.

40. The Partnership also reported its share of the interest income earned by the PLPs in 2001 of $3,526,305.

41. In its 2001 return, the Partnership designated the Appellant as the partner entitled to file a notice of objection to any Notice of Determination issued to the Partnership for the purposes of subsection 165(1.15) of the Act.

42. On March 29, 2005 the Minister, peremptorily and without meaningful review, issued Notices of Determination to the 73 PLPs in which the Partnership held Class A units, pursuant to subsection 152(1.4) of the Act, reducing their aggregate business losses from $334,177,546 to $198,062,051 (the "2001 PLP Determinations").

43. On March 29, 2005 the Minister, peremptorily and without meaningful review, issued a Notice of Determination in respect of the Partnership's 2001 fiscal period (the "2001 Determination"), pursuant to subsection 152(1.4) of the Act:

(a) determining the Partnership's business losses at $199,404,223, not $335,503,432 as reported by the Partnership; and

(b) determining the Partnership's interest income as a separate source of income at $3,528,976 (being the sum of $3,526,305 from the PLPs and $2,676 earned directly, subject to rounding).

44. The Appellant filed a notice of objection to the 2001 Determination on June 27, 2005 pursuant to section 165 of the Act (the "2001 Notice of Objection").

45. Ninety days have elapsed after service of the 2001 Notice of Objection and the Minister has not notified the Partnership that the Minister has vacated or confirmed the assessment or reassessed the Partnership.

46. The 2001 PLP Determinations and the 2001 Determination were issued notwithstanding that the Transactions accorded with the Ruling, and the practice, policies, correspondence and discussions described in paragraphs 19 to 26 hereof, on which the Appellant and the Investors relied.

47. The 2001 PLP Determinations and the 2001 Determination resulted in the disallowance of over 60% of the Partnership's reported tax losses in 2001, thus denying the Appellant and Investors a substantial part of the anticipated tax benefits of subscribing for Units in the Partnership, to their detriment.

(a) 2002 Taxation Year

48. The Partnership filed a partnership information return for its 2002 taxation year by March 31, 2003.

49. The Partnership reported a business loss for its 2002 taxation year of $74,424,989.

50. The Partnership's 2002 business loss of $74,424,989 was comprised of the following elements:

(a) the Partnership's share (99.99%) of the PLPs' business losses, totalling $73,585,346;

(b) management fees incurred by the Partnership in the amount of $36;

(c) the Partnership's deduction for financing costs under paragraph 20(1)(e) of the Act in the amount of $839,644; and

(d) interest income in the amount of $6,345.

51. The Partnership also reported its share of the interest income earned by the PLPs in 2002 of $13,991,783.

52. In its 2002 return, the Partnership designated the Appellant as the partner entitled to file a notice of objection to any Notice of Determination issued to the Partnership for the purposes of subsection 165(1.15) of the Act.

53. On March 30, 2005 the Minister, peremptorily and without meaningful review, issued Notices of Determination to the 73 PLPs in which the Partnership held Class A units, pursuant to subsection 152(1.4) of the Act, reducing their aggregate business losses from $73,592,705 to $29,803,949 (the "2002 PLP Determinations").

54. On March 30, 2005 the Minister, peremptorily and without meaningful review, issued a Notice of Determination in respect of the Partnership's 2002 fiscal period (the "2002 Determination"), pursuant to subsection 152(1.4) of the Act:

(a) determining the Partnership's business losses at $30,640,652, not $74,424,989 as reported by the Partnership; and

(b) determining the Partnership's interest income as a separate source of income at $13,991,820.

55. The Appellant filed a notice of objection to the 2002 Determination on June 27, 2005 pursuant to section 165 of the Act (the "2002 Notice of Objection").

56. More than ninety days have elapsed after service of the 2002 Notice of Objection and the Minister has not notified the Partnership that the Minister has vacated or confirmed the assessment or reassessed the Partnership.

57. The 2002 PLP Determinations and the 2002 Determination were issued notwithstanding that the Transactions accorded with the Ruling, and the practice, policies, correspondence and discussions described in paragraphs 19 to 26 hereof, on which the Appellant and the Investors relied.

58. The 2002 PLP Determinations and the 2002 Determination resulted in the disallowance of nearly 60% of the tax losses initially allocated to Investors in 2002, thus denying them a substantial part of the anticipated tax benefits of subscribing for Units in the Partnership, to their detriment.

ISSUES TO BE DECIDED

59. The issues to be decided in this appeal in respect of the 2001 and 2002 Determinations are:

(a) whether:

i. the Minister or other government representatives made representations of fact by issuing the Ruling in accordance with the CRA's Rulings Policy;

ii. the Minister intended that such representations would be relied upon by the Appellant and Investors;

iii. the Appellant and Investors relied upon such representations of fact; and

iv. the Appellant and Investors were detrimentally affected through such reliance,

such that the Minister is now estopped from denying such factual representations and from making assumptions or taking other such actions as are inconsistent with those representations; and

(b) whether the aggregate amount of losses of the PLPs reported in determining the loss of the Partnership was correct in amount. The PLPs are all the subject of separate determinations which are presently under objection or appeal.

STATUTORY PROVISIONS ON WHICH THE APPELLANT RELIES

60. The Appellant relies on Part I of the Act and the Regulations thereto including, *inter alia*, sections 3, 9, 12, 18, 18.1, 20, 67, 96, 143.2, 152, and 248 of the Act.

REASONS ON WHICH THE APPELLANT RELIES

61. The Appellant and the Investors (both individually and collectively through the MLP and the PLPs) reasonably relied on factual representations made by the CRA Rulings Division in issuing the Ruling in conformity with the CRA's Rulings Policy when structuring and entering into the Transactions, and the Minister intended and knew that such parties would rely on the Ruling in furtherance of the Minister's goal of implementing the Policy. The Determinations, by denying a substantial part of the tax losses incurred by the PLPs and the Partnership and allocated to the Appellant and the Investors, detrimentally affected such parties. Accordingly, the Minister is estopped from making any factual claims or assumptions in support of the 2001 Determination and the 2002 Determination in contravention of such factual representations.

62. The quantum of business losses reported by the Partnership for its 2001 and 2002 fiscal periods was in any event correct in fact and in law, and in particular the Partnership's share of the losses as calculated and reported by the PLPs in 2001 and 2002 was correct and should be reinstated.

RELIEF SOUGHT

63. The Appellant asks this Honourable Court to order that:

(a) this appeal be allowed;

(b) the 2001 Determination and the 2002 Determination be vacated; and

(c) that the costs of this appeal be awarded to the Appellant on such terms as may be determined by this Honourable Court.

DATED at Vancouver, British Columbia this 1 day of March, 2010.

Warren J.A. Mitchell, Q.C.
David R. Davies
Counsel for the Appellant

TO: Her Majesty in Right of Canada
Attention: Deputy Attorney General of Canada
Solicitor for the Respondent
Per: c/o John Shipley
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Tax Law Services Section
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This Amended Notice of Appeal is filed on behalf of the Appellant by Warren J.A. Mitchell, Q.C., and David R. Davies, whose address for service, telephone number and facsimile number are:

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2000-005477
Allan Nelson

Attention: Mitchell Sherman

December 13, 2000

Dear Sirs:

Re: Sentinel Hill Production Services Transaction
Advance Income Tax Ruling

This is in reply to your letter dated November 3, 2000, as supplemented by your letters dated November 10 and 16, 2000, and our numerous telephone conversations (Sherman/Nelson) wherein you requested advance income tax rulings on behalf of the proposed Sentinel Hill production services transactions as described herein. We also acknowledge receipt of drafts of the various documents referred to in this letter.

In this letter the following definitions are used:

"ACo" means Sentinel Hill Ventures Corporation;

"ACo Principals" means Robert Strother, Paul Darc, Bradley Sherman and Kenneth Gordon;

"ACo Shareholders" means 589918 British Columbia Limited, Sentinel Hill Sales Corporation, 1396444 Ontario Limited, and Pacific Cascadia Capital Corporation;

"ACo Shareholders Owners" means the respective owners of each of the ACo Shareholders (i.e., directly or indirectly, by or for the benefit of the ACo Principals and/or members of their families);

"Act" means the *Income Tax Act*, RSC 1985, c.1 (Fifth Supp.), as amended;

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"Basic Fee" means, in the maximum, 80.02% of the Total NCLE incurred (for purposes of the Act) by the PLP in the year, as more fully described below in paragraph 13;

"BCo" means Sentinel Hill Productions IV Corporation, a subsidiary of ACo, the directors and officers of which are the ACo Principals;

"Class A Units" means Class A units of limited partnership interest in the PLP;

"Class B Subscription Promissory Note" means the promissory note issued to evidence the unpaid subscription price for the Class B Units, as described below in paragraph 27;

"Class B Units" means Class B units of limited partnership interest in the PLP;

"CLE" means Canadian labour expenditure as defined in subsection 125.5(1) of the Act;

"CLE Agreement" means the production services agreement to be entered into between Studio, Creditco and PLP, in respect of the Film, as described below in paragraph 11;

"Creditco" means the corporation which Studio will incorporate or engage, as described below in paragraph 9;

"Film" means a motion picture entitled "My Little Eye";

"Initial Limited Partner" means Sentinel Hill Productions I.L.P. Corporation;

"Investment Loan" means a full recourse loan, due on or before January 15, 2011, from the Lender to an Investor, as described below in paragraph 19;

"Investor" means a Canadian resident investor who acquires any MLP Units;

"Lender" means Veritas III Trust;

"MLP" means SHAAE (2001) Master Limited Partnership;

"MLP Units" means units of limited partnership interest in MLP;

"Parentco" means Atman Holdings Ltd;

"PLP" means Sentinel Hill No. 200 Limited Partnership;

"PLP Services Agreement" means the production services agreement to be entered into between Studio and the PLP, as described below in paragraph 12;

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"Production Limited Partnerships" means the limited partnerships, including PLP, in which MLP will acquire class A units, each of which will be formed to provide production services similar to those provided by PLP;

"Production Loans" means advances made to the PLP to fund the Total NCLE, as described below in paragraph 16;

"PromoLP" means Sentinel Hill Alliance Atlantis Equicap Limited Partnership as described below in paragraph 4;

"Regulations" means the regulations to the Act;

"ServiceCo" means the corporation which Parentco owns or will incorporate, in connection with the purchase of Class B Units, as described below in paragraph 27. ServiceCo will be incorporated under the laws of the Cayman Islands. All of the shares in the capital of ServiceCo will be owned by Parentco;

"Studio" means Working Title Films Ltd., an affiliate of Universal City Studios, Inc; and

"Total NCLE" means the aggregate of each of the Production Services Expenses (including the Canadian Labour Service Fee reimbursement described in paragraph 12 below) and the Compliance Expenses to be incurred by the PLP in respect of the Film (as described in paragraph 12 below) pursuant to the PLP Services Agreement. Such expenditures are "matchable expenditures" as that term is defined in subsection 18.1(1) of the Act.

Our understanding of the relevant facts, proposed transactions and purpose of the proposed transactions is as follows:

RELEVANT FACTS

1. Studio is a United States corporation headquartered in Los Angeles, California. Its business is the production and distribution of theatrical motion pictures.

2. Parentco is a Cayman Islands corporation, the shares of which are owned by a Cayman Island trust, the beneficiaries of which are persons not resident in Canada. None of the trustees of the trust, the beneficiaries of the trust or the directors or officers of Parentco is related to any of ACo, the ACo Principals, the ACo Shareholders or the ACo Shareholders Owners, nor are any of the ACo Shareholders Owners (or non-arm's length persons) beneficially interested in the trust for the purposes of paragraph 251(1)(b) of the Act.

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3. A joint venture has been formed by the ACo Principals to offer integrated financial services and investment products to Canadian investors. These products will include the production services transaction which is the subject of this letter, and possibly a technology fund. The joint venture is being undertaken and operated by ACo, which was incorporated under the *Canada Business Corporations Act* on January 14, 2000. ACo's principal office and tax services office are in Vancouver, British Columbia and its business identification number is 878004928. The shares of ACo are owned equally by each of the ACo Shareholders. The shares of the ACo Shareholders are owned by the ACo Shareholders Owners. Each of the ACo Shareholders Owners is a Canadian resident.

4. ACo owns a 70% limited partnership interest in PromoLP, an Ontario limited partnership in which the remaining 30% limited partnership interest is owned by Alliance Atlantis Equicap Corporation (a subsidiary of Alliance Atlantis Communications Inc.). PromoLP is the promoter of the offering of MLP Units, although day-to-day operation of the business of the MLP and the Production Limited Partnerships is undertaken primarily by the ACo Principals (directly or indirectly through BCo).

5. BCo was incorporated under the *Business Corporations Act* (Ontario) on October 11, 2000. Its principal office and its tax services office are in Vancouver, British Columbia. It has applied for its business identification number. BCo is a wholly owned subsidiary of ACo.

6. PLP is a limited partnership formed in Ontario pursuant to the *Limited Partnerships Act* (Ontario) on June 8, 2000. Its business identification number is 898867619 and its tax shelter number is TS063750. Its general partner is BCo and its initial limited partner is Initial Limited Partner, a wholly owned subsidiary of ACo, incorporated pursuant to the *Business Corporations Act* (Ontario) on January 14, 2000. The fiscal period of the PLP ends on December 31.

7. MLP is a limited partnership formed in Ontario pursuant to the *Limited Partnerships Act* (Ontario) on October 27, 2000. Its purpose is to subscribe for Class A units of limited partnership interest in a number of Production Limited Partnerships, one of which will be the PLP. BCo is the general partner of the MLP, and its initial limited partner is Initial Limited Partner. The fiscal period of the MLP ends on December 31.

8. To the best of your knowledge and that of the taxpayers involved, none of the issues involved in this ruling

   (i) is in an earlier return of the taxpayer(s) or a related person,

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(ii) is being considered by a tax services office or taxation centre in connection with a previously filed tax return of the taxpayer(s) or a related person,

(iii) is under objection by the taxpayer(s) or a related person,

(iv) is before the courts or, if a judgment has been issued, the time limit for appeal to a higher court has not expired, and

(v) is the subject of a ruling previously issued by Revenue Canada or the Canada Customs and Revenue Agency.

PROPOSED TRANSACTIONS

9. Studio will incorporate Creditco, under the laws of Canada or a province, as a wholly owned subsidiary, or alternatively, will engage an arm's length Canadian corporation to serve as Creditco. Creditco's activities will be primarily the provision of production services which qualify as CLE for the purposes of the film or video production services tax credit under section 125.5 of the Act and any equivalent provincial tax credit programs, but will also include the loaning of funds to, and co-ordinating production services with the PLP, as described below in paragraphs 14 and 16.

10. Production of the Film will commence on February 5, 2001. The principal photography of the Film will be undertaken primarily in Canada. Studio will utilize the services of PLP and Creditco to provide the production services for the Film.

11. Pursuant to the CLE Agreement, Studio and the PLP will engage Creditco to perform certain production services in respect of the Film, the expenses for which will qualify as CLE. The amount of the CLE is estimated to be $0.75 million U.S. Creditco will obtain from Studio a limited use license to the copyright in the script for the Film to enable Creditco to perform its production services in respect of the Film. The CLE Agreement will provide that Studio will be the legal and beneficial owner of the copyright in the Film during production and thereafter. For greater certainty, at no time will Creditco own any interest in the copyright in the Film. The services to be performed by Creditco will include the payment of salaries and wages to Canadian residents in respect of the performance of CLE production services in Canada, and production accounting and audit (these latter services will be incidental in relation to performance of the former services). As consideration for the performance of production services by Creditco, Studio will pay a fee (the "Canadian Labour Service Fee") to Creditco, which is yet to be negotiated, but which will exceed the CLE incurred by Creditco less the aggregate of the federal and provincial tax credits received

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by Creditco and co-ordination fees, interest and fees (if any) on the production loan from Creditco to the PLP (as described below in paragraph 16). As described in paragraph 12 below, PLP will reimburse Studio for the Canadian Labour Service Fee.

12. Pursuant to the PLP Services Agreement, Studio will engage the PLP to provide, and to pay for, the production services (excluding expenses for meals and entertainment and certain expense overages) in respect of the Film (the "Production Services Expenses"). PLP will obtain from Studio a limited use license to the copyright in the script for the Film to enable PLP to provide the Production Services, however the PLP Services Agreement will provide that Studio will be the legal and beneficial owner of the copyright in the Film during production and thereafter. As noted above in paragraph 11, the PLP and Studio will enter into the CLE Agreement with Creditco to incur the CLE. Under the PLP Services Agreement, the PLP will agree to reimburse Studio in respect of the Canadian Labour Service Fee paid by Studio to Creditco. Further, under the same PLP Services Agreement, the PLP will be responsible for and may subcontract with Studio or an affiliate of Studio, which, on behalf of the PLP, will engage United States cast and crew, in order to ensure compliance with all applicable film industry guild and union requirements (i.e., The Screen Actors Guild, The Directors Guild of America, The Writers Guild of America East Inc. and The Writers Guild of America West Inc., etc., typically require the party which directly engages the foreign talent to be a signatory to the applicable collective agreements administered by such guilds and unions). The PLP will be responsible to reimburse the subcontractor in respect of these production services in respect of the Film (the "Compliance Expenses"). The Production Services Expenses and the Compliance Expenses will include budgeted items, the Canadian Labour Service Fee, actual overhead costs (which overhead will not exceed 15% of total production budget), and may include a fixed, determinable, non-refundable payment by the PLP to Studio in respect of deferred and contingent compensation (e.g., participation payments/residuals) that Studio may become liable to pay actors, producers and directors. The Total NCLE (being the sum of the Production Services Expenses and the Compliance Expenses) is estimated to be $2.75 million U.S.

13. The consideration payable by Studio to the PLP for the services to be rendered by the PLP, as described above in paragraph 12, will be comprised of a Basic Fee equal, in the maximum, to 80.02% of the Total NCLE (approximately $2.20055 million U.S.) and a net profits participation equal to approximately 8% of the net receipts from the Film multiplied by a fraction which reflects the proportionate expenses incurred by PLP as compared to the total production expenses of the Film. The Basic Fee will have a fixed component equal to approximately 64.01% of the Total NCLE (approximately $1.760275 million U.S.) and a gross receipts component, equal in the maximum, to approximately 16.01% of Total NCLE (approximately $0.440275 million U.S.). The gross receipts component will be payable if, as and when, the Film earns gross revenues. The net profits participation will not be limited to a maximum.

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The PLP's entitlement to the Basic Fee and the net profits is dependent upon satisfactory performance of the production services by the PLP, and there is no guarantee or assurance that the fee will be paid if the services are not provided. All amounts earned on account of the Basic Fee and net profits will be reported for income tax purposes on an accrual basis in accordance with established case law principles or rules of law, and well-accepted business principles. In addition to the Total NCLE, the PLP will also pay to Studio an amount, to be determined, to insure PLP against risks of production. In this respect, Studio will either self-insure (and provide an indemnity to PLP), or will arrange for the provision of third-party industry standard production risk insurance coverage, with the PLP as a named insured. In either case, PLP will generally be insured for (i) death and disability of principal performers, (ii) loss or destruction of the master tape, original negative or sound track, or sets, props or equipment, (iii) errors and omissions in the production, (iv) third party liability, (v) significant production delays, and (vi) infringement of copyright, libel and slander, defamation of character, invasion of privacy and rights of publicity.

14. The PLP's production services, together with those pursuant to the CLE Agreement described in paragraph 11 above, will be performed by the PLP and Creditco pursuant to a production services co-ordination agreement. There will also be a common production (Canadian and/or U.S. dollar) bank account(s) for PLP and Creditco.

15. Studio will lend to Creditco an amount equal to 100% of the CLE component of the production budget for the Film (approximately $750,000 U.S.), plus an additional amount in respect of the Total NCLE not to exceed the CLE component (this additional amount is referred to hereafter as the "Creditco NCLE Loan"). All such advances will be made as and when required during production, and will be deposited directly into the common production bank account(s) of Creditco and the PLP. The loans from Studio to Creditco will be full recourse and will be due and payable on or before December 15, 2002. Depending on negotiations, these loans may or may not be interest bearing. If they are interest bearing, the rate will reflect a market rate of interest. The loans will be repaid in part by way of set-off against the Canadian Labour Service Fee (as described above in paragraph 11), and the balance will be repaid at such time(s) as the tax credits are received by Creditco from the relevant government agencies and repayments of the PLP NCLE Loan are made by the PLP (as described below in paragraph 16).

16. Creditco will lend an amount to the PLP (the "PLP NCLE Loan") equal to the amount of the Creditco NCLE Loan to fund a portion of the Total NCLE. The balance of the funds required by the PLP to incur the Total NCLE will be loaned by Studio to the PLP. All such loans are collectively referred to herein as the Production Loans.

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They will be full recourse to the PLP, will be made as and when required during production, and will be deposited directly to the common production bank account(s) of Creditco and the PLP. Depending on negotiations, the Production Loans may or may not be interest bearing, and financing charges (commitment fees, loan arranging fees, administration fees, etc.) may be paid to Creditco and/or Studio. If the Production Loans are interest bearing, the rate will reflect a market rate of interest. The Production Loans will be repaid in part on the closing of the subscription for Class A Units (as described below in paragraph 21) and the balance will be repaid using the Basic Fee received by the PLP.

17. During the course of the production of the Film, the contractual arrangements agreed to by the parties may be reflected in a written interim agreement. Notwithstanding this, the formal documents evidencing more particularly the transactions will be executed at the closing of subscription for Class A Units (which closing will occur after production has commenced). As described above, funds required by Creditco and the PLP during production will be deposited directly into the common production bank account(s) of Creditco and the PLP, and separate accounts may be maintained for Canadian and United States dollar expenses. Each of the borrowing parties will be liable to repay, and will account for, its own indebtedness in respect of the advances.

18. MLP Units will be offered to Canadian resident Investors (who must represent and warrant to MLP that they are resident of Canada, and may be required to provide an I.R.S. certificate W-8BEN to this effect) pursuant to prospectus exemptions available in the provinces of Canada where the MLP Units are offered for sale. The sale will occur pursuant to an Offering Memorandum (which may contain excerpts of this ruling). In any event, the offering documents and any Executive Summary will contain the following wording:

THE RULING OBTAINED FROM THE CANADA CUSTOMS AND REVENUE AGENCY CONTAINS CAVEATS. THE RULING MAY BE VIEWED ON REQUEST SUBJECT TO THE SIGNING OF A CONFIDENTIALITY AGREEMENT.

19. It is anticipated that Investors will subscribe for the MLP Units at various times throughout the 2001 calendar year. The subscription price for each MLP Unit will be approximately $15,450. Each Investor may choose to finance up to approximately $14,000 of their subscription price for each MLP Unit acquired with a full recourse Investment Loan from the Lender. Each of the Investment Loans will be due on or before January 15, 2011, and will bear interest at a rate at least equal to the prescribed rate (for purposes of section 143.2 of the Act) prevailing at the time the Investment Loan is made. Interest on the outstanding Investment Loans for any particular year will

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be due and payable on or before February 28 of the next calendar year. The balance of the subscription price for the MLP Units will be provided from each Investor's own sources, and each Investor must represent and warrant that none of such proceeds will be obtained from any limited recourse financing. A small portion of the subscription price owing by the Investors may be satisfied or secured by the delivery of post-dated cheques, which will be due on or before February 15, 2002. At the time of closing of subscription for MLP Units, each Investor will also pay financing charges (e.g., interest, commitment fees, loan arranging fees and similar charges) in respect of their Investment Loan.

20. The Lender is a private Canadian resident lender and will obtain its financing from a Schedule I Canadian chartered bank (currently intended to be the Royal Bank of Canada). None of the trustees or beneficiaries of the Lender are related to any of ACo, the ACo Principals, the ACo Shareholders or the ACo Shareholders Owners, nor are any of the ACo Shareholders Owners (or non-arm's length persons) beneficially interested in the Lender for the purposes of paragraph 251(1)(b) of the Act.

21. Subscription proceeds from Investors will be used by the MLP to acquire Class A units in numerous Production Limited Partnerships, including the PLP, at various times during the year. Each of the acquisitions, including those in the PLP, will occur before any ascertainable revenues, in respect of which the Basic Fee or net profits participations (or any similar fees) owing to that production limited partnership, may be computed. The aggregate number of MLP Units issued in respect of each film (and acquisition of Class A units of a Production Limited Partnership) is dependent upon the amount of production services expenses which is estimated to be incurred by the particular Production Limited Partnership (with each MLP Unit relating to an approximate amount of budgeted production services expenses).

22. Immediately following the initial subscription for MLP Units by Investors, the Initial Limited Partner's interest in the MLP will be redeemed for the amount of the original investment, being the nominal sum of ten dollars.

23. The majority (i.e., greater than 95% and in total approximately $2.05 million) of the total subscription proceeds received by the MLP, in respect of its proposed investment in the PLP, will be used by the MLP to subscribe for Class A Units at a subscription price of $1,000 each. The balance of the subscription proceeds received will be used to pay fees, costs, and expenses related to the offering.

24. Immediately following issuance of the Class A Units to the MLP, the Initial Limited Partner's limited partnership interest in the PLP will be redeemed for proceeds equal to the amount of the original investment, being the nominal sum of ten dollars.

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25. At the closing of the subscription for Class A Units, Studio will pay a portion (estimated to be approximately $0.44 million) of the fixed component of the Basic Fee to the PLP. This amount is fully refundable to Studio to the extent that any portion is not earned by the PLP, in accordance with the PLP Services Agreement (if this amount is not earned by the PLP by December 31, 2001, it will result in the application of section 143.2 of the Act to reduce the PLP's expenditures in the year 2001, to the extent that the unearned amount can reasonably be considered to relate to such expenditures incurred by the PLP). It is intended that the entire fixed component of the Basic Fee will be earned by the PLP on or before December 31, 2001, in accordance with the PLP Services Agreement. The balance of the Basic Fee (approximately $1.76055 million), including the entire gross receipts component of approximately $0.440275 million, will be paid only after it has been earned. In this regard, payment will be made on the first reporting date (expected to be December 15, 2002) which will be chosen keeping in mind the anticipated completion and release of the Film (and other films to be produced by the Production Limited Partnerships). The fee earned, to the extent it has not been paid, will be an amount receivable by the PLP from Studio. The PLP will require that Studio's obligation to pay the balance of the Basic Fee if, as and when, earned is assumed or guaranteed by a Canadian resident, with appropriate security provided therefor. Such security will not guarantee that the PLP will be entitled to the full amount of the Basic Fee (irrespective of the Film's performance); rather, this arrangement will ensure that payment is secured in favour of the PLP if, and to the extent that, the Basic Fee is earned.

26. The PLP will use the proceeds of subscription for the Class A Units (estimated to be $2.05 million), and a part of the Basic Fee received by it from Studio at closing (approximately $0.44 million - see paragraph 25, above), to repay approximately $2.20 million of the Production Loans to Creditco and/or Studio and to pay certain management fees and expenses owing by the PLP. The remaining balance of the Production Loans will be repaid in the year 2002, on or before their due date of December 15, 2002 (when this amount is repaid, it is anticipated that the balance of the fixed component of the Basic Fee will have already been earned by the PLP). In the event that the Basic Fees are not earned or are insufficient to repay the balance of the Production Loans, PLP will use all or a portion of the proceeds from the sale of Class B Units (see paragraph 27 below) to repay the indebtedness.

27. At the closing of the MLP's subscription for Class A Units, a taxable Canadian resident affiliate of ServiceCo (likely a trust) will subscribe for the Class B Units at a subscription price of $1,000 each. The total subscription proceeds from the sale of Class B Units will be approximately $1.05 million. The aggregate number of Class B Units to be issued will be a negotiated number and will be dependent upon the amount of Total NCLE which is estimated to be incurred by the PLP and the number

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of Class A Units to be issued (with each Class B Unit relating to an approximate amount of budgeted Total NCLE). The number of Class B Units will never exceed the number of Class A Units. Furthermore, it is intended that the total number of Class B Units to be issued will approximate ½ of the number Class A Units to be issued. The number of Class B Units will be reduced proportionately (and proceeds refunded, if applicable) if the actual Total NCLE is less than the anticipated Total NCLE at the time of closing of the subscription for Class A Units (this reduction, only in the number of Class B Units, is intended to avoid having to refund subscription funds to Investors in Class A Units, which refund could bring their subscription price below the applicable securities law minimums). ServiceCo and its affiliate, which will purchase the Class B Units, will finance the subscription amount from their own resources, which may be in the form of a participating loan arrangement with Studio or the purchase by Studio of a profit participation from ServiceCo. The subscriber will be able to choose to pay immediately the full amount of the subscription amount in cash, or to defer its obligation to pay the subscription amount up to the tenth year following the closing of subscriptions for Class B Units. If the payment is deferred, the unpaid subscription price will be evidenced by a Class B Subscription Promissory Note, will bear interest (at a rate at least equal to the prescribed rate (for purposes of section 143.2 of the Act) at the time the obligation is created) and the subscriber will place an amount in an interest bearing deposit with the Lender or an affiliate, which amount will be assigned to the PLP as security for its obligation to pay to the PLP the subscription proceeds for the Class B Units. The investment in the Class B Units may be paid in cash at any time, thereby entitling the holder of the Class B Units to a share of income or losses of the PLP, as outlined below. The terms of the PLP partnership agreement will provide that the subscriber will not become a partner in the PLP until the full amount of the subscription amount for the Class B Units is paid in cash. The proceeds from the sale of Class B Units will be used by PLP in the following order of priority: (1) to repay any outstanding balance in the Production Loans; (2) to pay all other outstanding liabilities of the PLP (such as cost of the offering, commercial liabilities, etc.); and (3) to be paid out as distributable cash to the limited partners of the PLP in accordance with the terms of PLP's partnership agreement described below in paragraph 28.

28. Under the partnership agreement for the PLP:

a) the Class A Units, in the aggregate, will represent a 99.99% interest and entitlement to the income and losses of the PLP, unless and until the Class B Units have been subscribed for and paid in full in cash. The general partner of the PLP will own a 0.01% interest;

.../cont'd

b) once the subscription price for Class B Units has been paid in full in cash, subject to the exception described below in paragraph (c), 99.99% of the income and losses of the PLP will be allocated ratably between the holders of the Class A Units and the Class B Units, based upon the number of units owned;

c) if the Class B Units are not subscribed for in cash by the end of a particular fiscal period of the PLP and, in the result, losses are allocated solely to the holder of the Class A Units (i.e., the MLP), income of the PLP for subsequent fiscal periods will be allocated solely to the holder of the Class A Units in an aggregate amount equal to the losses previously allocated to the holder of the Class A Units;

d) any distributable cash on hand, as determined by the general partner of the PLP, will be distributed by the PLP to the holders of Class A Units and Class B Units in accordance with e) below. For greater certainty, no cash will be distributed by the PLP until its operating expenses have been paid and until its liabilities, including the Production Loan(s) to Creditco and/or Studio, have been repaid in full or provision has been made for such payment;

e) if the subscriber for the Class B Units chooses to defer its payment for the Class B Units (as described above in paragraph 27), the holders of the Class A Units will be entitled to receive all interest received by PLP in respect of the Class B Subscription Promissory Note and a priority distribution of distributable cash on hand, to a maximum amount equal to their investment in respect of the Class A Units. If the subscriber for the Class B Units chooses not to defer its payment, and therefore there are no Class B Subscription Promissory Notes, the holders of the Class A Units will be entitled to receive a priority distribution of distributable cash on hand, to a maximum amount equal to their investment in respect of the Class A Units, plus certain carrying costs (these carrying costs will reflect a fair market value imputed return on contributed capital to compensate the Class A Unitholders if they have paid for their Units before the Class B Units are fully paid.)

The holders of Class B Units will be entitled to distributable cash on hand which is distributed after the priority distribution to holders of the Class A Units, to a maximum of a Class B Unitholder's investment in respect of the Class B Units. Thereafter, any such cash distributions will be made ratably based upon the number of units owned; and

f) each Class A Unit and Class B Unit will be entitled to one vote. Other than the revenue sharing and distribution entitlements described in this paragraph, owners of the Class A Units will have the same rights and obligations as the owners of the Class B Units.

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29. Under the partnership agreement for the MLP:

    a) the limited partners of the MLP will be entitled to 99.99% of the income and losses allocated to the MLP by the PLP; and

    b) the general partner of the MLP will be entitled to 0.01% of the income and losses allocated to the MLP by the PLP.

30. The MLP will distribute to its partners all revenues it receives from the PLP. In the event that cash distributions from the MLP are insufficient to enable Investors to repay their Investment Loans, the Investors will be personally responsible for the shortfall on the basis that the Investment Loans represent unconditional, full-recourse obligations of Investors. The relevant agreements will contain no set-off, or other mechanisms, that will protect the Investors from an insolvency at either the PLP or the MLP level. For greater certainty, there are no assurances that the amount of any cash distributions from the PLP to the MLP, or from the MLP to the Investors, will be sufficient to fund interest payments, and to fully repay, the Investment Loans.

31. The MLP and the PLP will be tax shelters within the meaning assigned by subsection 237.1(1) of the Act. The general partner of the MLP and the general partner of the PLP will apply for tax shelter identification numbers for the MLP (both federally and in Quebec) and the PLP, respectively, and upon receipt of the number will file annual tax shelter information returns, pursuant to and in accordance with subsections 237.1(2) and (7) of the Act.

32. The transaction documents will provide that neither Creditco nor the PLP will be in an agency relationship with ServiceCo or Studio in respect of the transactions described herein.

PURPOSE OF THE PROPOSED TRANSACTIONS

33. The purpose of the proposed transactions is as follows:

    a) to afford private Canadian investors the opportunity to invest in the motion picture and television industry, through the provision of production services in Canada, thereby providing investors with the opportunity to participate financially in the receipts generated from the worldwide exploitation of films and television projects; and

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b) in tandem with the federal and provincial tax credit system for film and television production services, to encourage and facilitate the production of film in Canada by non-resident producers, thereby creating employment in Canada and utilizing and enhancing the expertise of Canadian production personnel.

RULINGS

34. Provided that the statement of facts, the proposed transactions and the purposes thereof, all as described above, are accurate and constitute complete disclosure of all of the representations, relevant facts, proposed transactions and the purposes thereof, and provided further that all of the proposed transactions are carried out as described above, and that the offering documents and executive summary contain a reference, such as described above in paragraph 18 of this letter, in respect of the existence of caveats in the rulings given, and provided that the PLP and the MLP are partnerships at law and that all the relevant facts and proposed transactions described are or will be legally effective, we confirm the following:

A. The Total NCLE incurred by the PLP after the date of this letter and forming part of the production services rendered by it pursuant to the PLP Services Agreement will, subject to the application of subsections 143.2(6) and (10) of the Act and also subject to the provisions of section 18.1 of the Act, be deductible in the computation of the PLP's income or loss for the relevant fiscal period in which the expenses are incurred, pursuant to section 9 of the Act, to the extent that:

(i) such reporting is not inconsistent with established case law principles or rules of law, and well-accepted business practices;

(ii) the outlays and expenses are reasonable in amount and are not on account of capital; and

(iii) the outlays and expenses are made or incurred for the purpose of gaining or producing income from a business with a reasonable expectation of profit.

B. Any amount of unpaid principal which the PLP owes on account of the Production Loans (the "Unpaid Loans") will be a limited-recourse amount of the PLP, with the result that:

(i) the provisions of subsection 143.2(6) of the Act will apply to reduce the PLP's expenditures (including the amount of the Total NCLE) to the extent that the amount of the Unpaid Loans can reasonably be considered to relate to such expenditures incurred by the PLP;

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(ii) at the time that all or a portion of the Unpaid Loans are repaid by the PLP. the provisions of subsection 143.2(10) of the Act will apply to deem such expenditures to have been made or incurred at the time of, and to the extent of, the repayment; and

(iii) the Unpaid Loans will not, in and of itself, result in the application of subsection 143.2(6) of the Act to reduce the cost of the Class A Units acquired by the MLP or the cost of the MLP Units acquired by the Investors.

C. Pursuant to subsection 18.1(15) of the Act, section 18.1 of the Act will not apply to restrict the deductibility of the Total NCLE incurred by the PLP in a fiscal period pursuant to the PLP Services Agreement, only if before the end of the fiscal period in which such Total NCLE is incurred (or deemed to be incurred in accordance with subsection 143.2(10) of the Act, as described in ruling B), amounts included in computing the PLP's income for that period (other than any portion of such an amount that is the subject of a reserve claimed by the PLP for the year under the Act) in respect of the PLP Services Agreement exceed 80% of such Total NCLE.

D. Losses for a particular fiscal period of the PLP which are allocated a holder of Class A Units or Class B Units by the PLP, in accordance with the terms of the partnership agreement referred to above in paragraph 28, will, subject to the application of subsections 143.2(6) and (10) of the Act (referred to above in ruling B, ruling J, and opinion 4), be deductible, pursuant and in accordance with section 3 of the Act, in computing the income or loss of such holder in the taxation year of such holder in which the PLP's particular fiscal period ends (or coincides with), to the extent of the holder's at-risk amount (as defined in subsection 96(2.2) of the Act) in respect of the PLP at the end of that taxation year.

E. Losses for a particular fiscal period of the MLP which are allocated by the MLP to an Investor, in accordance with the terms of the partnership agreement referred to above in paragraph 29, will, subject to the application of subsections 143.2(6) and (10) of the Act (referred to below in ruling J and opinion 4), be deductible, pursuant and in accordance with section 3 of the Act, in computing the income or loss of such Investor in the taxation year of such Investor in which the MLP's particular fiscal period ends (or coincides with), to the extent of that Investor's at-risk amount (as defined in subsection 96(2.2) of the Act) in respect of the MLP at the end of that taxation year.

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F. Subject to the application of paragraphs (b), (b.1) and (c) of subsection 96(2.2) of the Act, the at-risk amount, within the meaning of subsection 96(2.2) of the Act, of the MLP in respect of the PLP at the end of the 2001 fiscal year of the PLP, will be equal to the amount of the MLP's investment in the Class A Units, as described above in paragraph 21, to the extent that the MLP, or a person with which the MLP does not deal at arm's length, does not receive or obtain any amount or benefit referred to in paragraph 96(2.2)(d) of the Act, other than an amount or benefit excluded by one of subparagraphs (i), (iii), (vi) or (vii) of that paragraph.

G. Subject to the application of paragraphs (b), (b.1) and (c) of subsection 96(2.2) of the Act, the at-risk amount, within the meaning of subsection 96(2.2) of the Act, of an Investor in respect of the MLP at the end of the 2001 fiscal period of the MLP, will be equal to the amount of the Investor's investment in MLP Units, as described above in paragraph 19, to the extent that the Investor, or a person with whom the Investor does not deal at arm's length, does not receive or obtain any amount or benefit referred to in paragraph 96(2.2)(d) of the Act, other than an amount or benefit excluded by one of the subparagraphs (i), (iii), (vi) or (vii) of that paragraph.

H. In connection with the rulings provided in paragraphs F and G above, except as set out below in opinions 2 to 4, the PLP's entitlement to the Basic Fee or the net profit participation, all as described above in paragraph 13 will not, in and of themselves, result in the application of paragraphs 96(2.2)(c) or (d) of the Act to reduce the at-risk amount of an Investor in respect of the MLP, or the at-risk amount of the MLP in respect of the PLP.

I. Subject to the application of subsections 18(9) and (9.2) to (9.8) of the Act, interest paid in a taxation year or payable in respect of a taxation year by an Investor (depending upon the method regularly followed by an Investor in computing income) in connection with their Investment Loan will be deductible in computing income in that taxation year in accordance with paragraph 20(1)(c) of the Act, to the extent that the amount thereof is reasonable and paid pursuant to a legal obligation to pay interest on borrowed money used for the purpose of earning income from a business or property with a reasonable expectation of profit.

J. Provided interest in respect of their particular Investment Loan (as described above in paragraph 19) is paid by an Investor no later than 60 days after the end of each of the Investor's taxation years in which the Investment Loan is outstanding,

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and provided "*bona fide*" repayment arrangements are made in accordance with the provisions of paragraph 143.2(7)(a) of the Act, the Investment Loan will not constitute a limited recourse amount or an at-risk adjustment, within the meaning of those terms in section 143.2 of the Act. Accordingly, the existence of an Investment Loan, where the above provisos are also met, will not in and of itself, result in the application of subsection 143.2(6) of the Act to reduce the cost of the MLP Units, the cost of the Class A Units or any expenses of the MLP or the PLP. However, if an Investor funds any portion of their investment in the MLP Units with limited-recourse financing, the provisions of subsection 143.2(6) of the Act will apply.

K. The following entitlements will not, in and of themselves, constitute an at-risk adjustment for the purposes of subsection 143.2(2) of the Act:

(i) the PLP's entitlement to the Basic Fee (equal to, in the maximum, 80.02% of the Total NCLE) or the net profit participation, all as described above in paragraph 13; and

(ii) the distribution of capital of the PLP to holders of the Class A Units and the Class B Units as described above in paragraph 28.

COMMENTS

These rulings are given subject to the general limitations and qualifications set forth in Information Circular 70-6R3 issued by Revenue Canada December 30, 1996, and are binding provided the proposed transactions are entered into on or before May 31, 2001. These rulings are based on the draft documents provided to us and are based on the Act in its present form and do not take into account the effect of any proposed amendments. Except as expressly stated, our rulings do not imply acceptance, approval or confirmation of any income tax implications of the facts or proposed transactions. In particular, nothing in this letter should be interpreted as confirming, either expressly or implicitly:

a) the reasonableness or fair market value of any expenditures referred to in this letter;

b) the proper established case law principles or rules of law, or well-accepted business principles applicable in the determination of the timing of the deduction of the cost of any of the production expenses incurred by the PLP;

c) the existence of a reasonable expectation of profit for any of Creditco, the PLP, the MLP or the Investors;

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d) whether the PLP, Creditco, ServiceCo or ServiceCo's affiliates will be acting as legal agents for Studio in respect of the making of the Film;

e) the applicability or non-applicability of subsection 245(2) of the Act;

f) the GST implications of any of the proposed transactions;

g) the applicability of paragraph 96(2.2)(d) of the Act (except as expressly set out in ruling H, above and opinions 2 and 3, below); and

h) any other tax consequences of the proposed transactions or of related transactions or events that are not described herein.

As stated in paragraph 7 of Information Circular 70-6R3, rulings are not provided for transactions that are not seriously contemplated and are hypothetical in nature. Therefore, notwithstanding that the MLP will be subscribing for Class A Units of limited partnership interest in a number of production limited partnerships which will each produce a film or other production (refer to paragraphs 7, 21 and 25, above), we are not ruling on the MLP's investment in any limited partnerships other than their investment in the PLP, nor are we ruling in respect of any film or other production except for the Film, all as described herein.

OPINIONS

1. Creditco will be an "eligible production corporation" for purposes of subsection 125.5(1) of the Act, provided all of the following conditions are met:

   (i) draft section 9300 of the Regulations is enacted as proposed and the Film is an "accredited production" under that section;

   (ii) Studio is not an eligible production corporation in respect of the Film, for the purposes of subsection 125.5(1) of the Act;

   (iii) Creditco will carry on its activities in Canada and they will be carried on through a permanent establishment in Canada (as defined by regulation);

   (iv) Creditco's activities are limited to providing the CLE production services, the co-ordination services, and to making the PLP NCLE Loan to the PLP, all as described above in paragraphs 11, 14 and 16;

   (v) the amount of the PLP NCLE Loan from Creditco to the PLP, as described above in paragraph 16, does not exceed the amount of CLE actually incurred by Creditco; and

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(vi) Creditco is not a corporation described in any of paragraphs (c) to (e) at the definition of eligible production corporation in subsection 125.5(1) of the Act.

2. If any amount of gross revenue related to the Film is ascertainable, whether contingent or otherwise, at the time that MLP Units are acquired by an Investor, or at the time the MLP acquires a unit in the PLP, it is our opinion that this would affect the at-risk amount of the Investor and the MLP, to the extent that the amount or benefit in respect of such ascertainable revenue was granted for any of the purposes stipulated in paragraph 96(2.2)(d) of the Act.

3. The fact that holders of Class A Units will have rights to a priority distribution of distributable cash on hand (as described above in paragraph 28(e)), may result in the application of paragraph 96(2.2)(d) of the Act, so as to reduce the at-risk amount of the Investor and the MLP by an amount not to exceed the total subscription amount for the Class B Units.

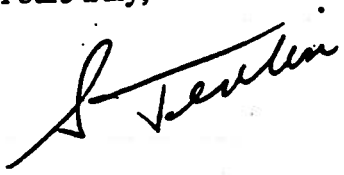
4. If an Investor pays any portion of the cost of acquiring the MLP Units with a post-dated cheque (as described above in paragraph 19), depending on the facts, either

   - paragraph 96(2.2)(c) of the Act will apply to reduce the Investor's at-risk amount until the post-dated cheque is cashed, or alternatively,

   - subsection 143.2(7) of the Act will apply to deem the amount of the post-dated cheque to be a limited-recourse amount and subsection 143.2(6) of the Act will apply, thereto. To the extent this amount is repaid by the Investor, the provisions of subsection 143.2(10) of the Act will apply.

As indicated in paragraph 22 of Information Circular 70-6R3, an expression of opinion is not an advance income tax ruling and, accordingly, is not binding on the Canada Customs and Revenue Agency.

Yours truly,



for Director
Resources, Partnerships and Trusts Division
Income Tax Rulings Directorate
Policy and Legislation Branch

Appendix "B"

List of Production Limited Partnerships

1.	Sentinel Hill	No. 28	Limited Partnership
2.	Sentinel Hill	No. 32	Limited Partnership
3.	Sentinel Hill	No. 34	Limited Partnership
4.	Sentinel Hill	No. 36	Limited Partnership
5.	Sentinel Hill	No. 40	Limited Partnership
6.	Sentinel Hill	No. 51	Limited Partnership
7.	Sentinel Hill	No. 52	Limited Partnership
8.	Sentinel Hill	No. 58	Limited Partnership
9.	Sentinel Hill	No. 69	Limited Partnership
10.	Sentinel Hill	No. 78	Limited Partnership
11.	Sentinel Hill	No. 83	Limited Partnership
12.	Sentinel Hill	No. 84	Limited Partnership
13.	Sentinel Hill	No. 85	Limited Partnership
14.	Sentinel Hill	No. 86	Limited Partnership
15.	Sentinel Hill	No. 87	Limited Partnership
16.	Sentinel Hill	No. 88	Limited Partnership
17.	Sentinel Hill	No. 89	Limited Partnership
18.	Sentinel Hill	No. 98	Limited Partnership
19.	Sentinel Hill	No. 106	Limited Partnership
20.	Sentinel Hill	No. 108	Limited Partnership
21.	Sentinel Hill	No. 115	Limited Partnership
22.	Sentinel Hill	No. 122	Limited Partnership
23.	Sentinel Hill	No. 137	Limited Partnership
24.	Sentinel Hill	No. 144	Limited Partnership
25.	Sentinel Hill	No. 153	Limited Partnership
26.	Sentinel Hill	No. 156	Limited Partnership
27.	Sentinel Hill	No. 168	Limited Partnership
28.	Sentinel Hill	No. 175	Limited Partnership
29.	Sentinel Hill	No. 193	Limited Partnership
30.	Sentinel Hill	No. 194	Limited Partnership
31.	Sentinel Hill	No. 195	Limited Partnership
32.	Sentinel Hill	No. 198	Limited Partnership
33.	Sentinel Hill	No. 199	Limited Partnership
34.	Sentinel Hill	No. 200	Limited Partnership
35.	Sentinel Hill	No. 202	Limited Partnership
36.	Sentinel Hill	No. 205	Limited Partnership
37.	Sentinel Hill	No. 207	Limited Partnership
38.	Sentinel Hill	No. 208	Limited Partnership
39.	Sentinel Hill	No. 209	Limited Partnership
40.	Sentinel Hill	No. 210	Limited Partnership
41.	Sentinel Hill	No. 211	Limited Partnership
42.	Sentinel Hill	No. 212	Limited Partnership

43. Sentinel Hill No. 213 Limited Partnership
44. Sentinel Hill No. 215 Limited Partnership
45. Sentinel Hill No. 218 Limited Partnership
46. Sentinel Hill No. 219 Limited Partnership
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67. Sentinel Hill No. 248 Limited Partnership
68. Sentinel Hill No. 249 Limited Partnership
69. Sentinel Hill No. 255 Limited Partnership
70. Sentinel Hill No. 258 Limited Partnership
71. Sentinel Hill No. 260 Limited Partnership
72. Catfight Productions 2 Limited Partnership
73. Ocularis Productions Limited Partnership