SENTINEL HILL

October 8, 2009

Investor First Name, Investor Last Name
Address, Address
City, Postal Code

RE: SHAAE (2001) Master Limited Partnership
Update: Canada Revenue Agency - Appeal to the Tax Court of Canada

We are writing this letter to the limited partners of SHAAE (2001) Master Limited Partnership (the "Partnership") as part of our ongoing reporting to you concerning the activities of the Partnership and in particular, the current status of the reassessment of the Partnership by the Canada Revenue Agency ("CRA").

Our last correspondence to you on this matter was on October 17, 2006. At that time, we told you that the CRA had advised that it intended to confirm the Determination of the losses of the Partnership (denying the deduction of a significant portion of its expenses) and that this confirmation, when it was received, would need to be appealed to the Tax Court of Canada.

We further advised you that we would be contacting you after receipt of the Notice of confirmation of the Determination. Remarkably this Notice has still not been sent by the CRA and we feel it is appropriate that we contact you at this time to advise you of developments regarding other partnerships managed by us, to bring you up to date on recent developments in respect of this matter and to advise you of our proposed future course of action.

Appeal for Sentinel Hill 1999 Master Limited Partnership (the "1999 Partnership") and Settlement

Unlike the threatened confirmation of the Determination for the Partnership, CRA did confirm the Determination of the 1999 Partnership. Sentinel Hill Entertainment Corporation ("SHEC") filed a Notice of Appeal to the Tax Court of Canada. As we will discuss in greater detail below, this matter has now been resolved by settlement, but only after a protracted process of pre trial procedural motions and intensive settlement negotiations. We believe that it is instructive to provide you with a brief history of the process leading up to the settlement as it may be indicative of the process that is likely to unfold for the Partnership.

After filing the Notice of Appeal, and in the hope of resolving the Appeal before litigation commenced, SHEC instructed Thorsteinssons LLP (a nationally recognized

firm of tax specialists) to make another proposal (subsequent to the one discussed in the October 17, 2006 letter) to settle the case by agreeing to a reduction in the deductible amounts in question. This settlement would have resulted in a corresponding reduction in the taxable capital gain payable by the 1999 limited partners for the 2009 tax year. Thorsteinssons and SHEC were optimistic that this offer, which was more generous to the CRA than the settlement which the CRA accepted for Sentinel Hill Alliance Atlantis Equicap Millennium Limited (the "2000 Partnership"), would be agreed to.

The offer was made only after much consideration by the General Partner, deliberation between the General Partner and Thorsteinssons and a sampling of views from some of the limited partners. It in no way reflected our views as to the merit of the CRA's position, nor the integrity of the transactions, which the limited partners entered into in 1999. Some factors considered were the protracted nature of tax appeals, the fact that limited partners were expecting the transaction to be complete by the spring of 2009, and the general fatigue of limited partners with the ongoing CRA matter. The offer was made subject to the approval of each limited partner.

To our disappointment, the CRA rejected our proposal out-of-hand and commenced tax litigation action. Rather than filing its Notice of Reply to the 1999 Partnership's Notice of Appeal so that a court date could be set down, the CRA's first step was to file a motion in Tax Court to deny the 1999 Partnership the ability to refer to the 1998 advance income tax rulings on the basis that the rulings were not relevant. We instructed Thorsteinssons to oppose this motion and we filed an affidavit in support of our position. The motion was heard by Chief Judge Bowman of the Tax Court on December 4, 2007.

Decision on the Motion

The decision of Chief Judge Bowman was delivered on December 19, 2007. The CRA's motion to deny the 1999 Partnership the right to refer to the 1998 advance rulings was dismissed with costs payable by the CRA. The CRA was ordered to file its Reply (i.e., commence the tax litigation in earnest) within 30 days.

The reasons of the Chief Judge were a powerful rejection of the CRA's position and are noteworthy in the following respects:

First**,** on the question of the relevance of the rulings, Bowman C.J. held that the matter was one which should be determined by a trial judge and not summarily dismissed in a chambers motion (in the following quotes, the "respondent" is the CRA and the "appellant" is Sentinel Hill):

"If the respondent wishes to challenge the facts alleged, a section 53 motion is not the place in which to do so. It is at trial where a judge hearing the evidence can determine the correctness, relevancy and weight to be assigned to the evidence adduced in support of the allegations". (Paragraph 6 of the Judgment)

"Whether I agree that the factual components of estoppel exist or whether the advance rulings constitute agreements is not germane to the disposition of these motions. The

appellants should be entitled to advance such arguments at trial on the basis of all the evidence." (Paragraph 11)

Second, as to the binding nature of an advance income tax ruling, quoting from a prior decision of the Chief Judge:

"I leave aside entirely the question of advance rulings which form so important and necessary a part of the administration of the Income Tax Act. These rulings are treated by the Department of National Revenue as binding. So far as I am aware no advance ruling that has been given to a taxpayer and acted upon has ever been repudiated as against the taxpayer to whom it was given. The system would fall apart if he ever did so." (Paragraph 8)

Third, as to the tactics of the CRA in using "procedural skirmishes" to delay the process of tax litigation and thereby raise the costs to taxpayers, including motions to strike tax payers' arguments and pleadings as "scandalous, frivolous or vexatious or an abuse of the process of the Court":

"However much jurisprudence may surround the words 'scandalous, frivolous or vexatious, or abuse of the process of the Court', they are nonetheless strong, emotionally charged and derogatory expressions denoting pleading that is patently and flagrantly without merit. Their application should be reserved for the plainest and most egregiously senseless assertion – as for example in William Shawn Davitt v. The Queen, 2001 DTC 702. Where senior and experienced counsel advances a proposition of fact or law in a pleading that merits serious consideration by a trial judge, it is at least presumptuous and at most insulting and offensive to force counsel to face the argument that the position is so lacking in merit that it does not even deserve to be considered by a trial judge. It is a deplorable tactic for the Crown, as soon as it sees legal argument that it does not like, to move to strike. As I said in Sackman v. The Queen, 2007 TCC 455, it is this sort of skirmishing that is putting tax litigation out of the reach of ordinary people. I do not wish to see this court turned into a forum for procedural maneuvering. I repeat what was said in Satin Finish Hardwood Flooring (Ontario) Limited v. The Queen, 96 DTC 1402 at 1405:

'There was no justification for bringing this motion. It serves no purpose within the context of this litigation. The time that has been spent on this exercise in procedural one-upmanship would have been better spent, following the filing and serving of a reply, in conducting an examination for discovery in which the evidentiary basis of the appellant's challenge to the assessment could readily have been ascertained. The rules of this court, which are designed to facilitate, not impede, the expeditious determination of fiscal disputes, should not be used to carry out unproductive procedural maneuvering.'" (Paragraph 11)

Fourth, as to the notion that the CRA is entitled to repudiate advance rulings:

"The respondent's position is ambivalent. I asked counsel if he was saying that advance rulings were not binding or that the appellants had not conformed to them. His answer was "Both". If the argument is that they do not apply to the appellants or that their terms had not been complied with, this is a factual matter that contradicts the allegations in the

notices of appeal. It cannot be raised on these motions. It must be decided on evidence at trial. If the respondent is now seeking to establish that advance rulings can be repudiated by the Minister after decades of reliance by taxpayers upon them, this proposition, which would startle most practitioners, should be tested in a full trial and not a preliminary motion. This preliminary motion is certainly not the time or place to discuss the complex issues arising out of the Minister's remarkable position. The ruling process, which was created by Revenue Canada and has been enormously beneficial to taxpayers in creating certainty in predicting the tax consequences of commercial transactions, constitutes a fundamental cornerstone of Canadian tax administration. The idea that a motions judge could, on the basis of a one hour argument without evidence, demolish one of the essential underpinnings of our system is, quite frankly, appalling." (Paragraph 12)

"The magnitude of this question transcends the boundaries of a preliminary motion and is indeed of a greater importance in the field of taxation than any I have seen in many years." (Paragraph 13)

We were very frustrated with the treatment by the CRA of the 1999 Partnership and by the inactivity of the CRA regarding the Determination of the Partnership. We have previously communicated to you that we feel that the CRA has been and continues to be unfair in its dealings with Sentinel Hill. We don't appear to be alone in this view. In another recent Tax Court of Canada case (unrelated to Sentinel Hill) the judge was highly critical of the tactics of the federal government lawyer representing the CRA and decried the "win at all costs" approach of the CRA. The Tax Court noted that the government lawyers (and by implication the CRA) are fulfilling a public duty; they should press their case firmly but fairly, and perform their duty with an ingrained sense of the dignity, the seriousness and the justness of judicial proceedings.

We take comfort in the Chief Judge of the Tax Court's characterization of the CRA's tactics as **"at least presumptuous and at most insulting and offensive", "deplorable" and "appalling."**

Settlement of 1999 Matter

In late 2008 we were approached by the CRA, through our counsel, to enter into settlement discussions for the 1999 Partnership. In April, 2009 we reached agreement on a settlement that resulted in a denial of a percentage (the exact amount is the subject of a confidentiality agreement) with CRA of the deductible expenses of the 1999 Partnership (with a corresponding reduction in the taxable capital gain that resulted on the wind-up of that partnership). In our view, settlement terms compared favorably with the settlement that was reached for the 2000 Partnership, being a denial of approximately 9.4% of expenses.

For the reasons stated above regarding the previous settlement proposals, we believe that the settlement was in the best interest of the 1999 Partnership. We continue to believe that the CRA's position was without merit and was contrary to the advance income tax rulings. However, on the advice of counsel, having regard to the inherent uncertainty of

litigation and the likely lengthy process before a resolution could be achieved, we accepted the settlement.

Action recommended for the Partnership – Appeal to Tax Court

The delay in activity by CRA regarding the Determination of the Partnership has been unacceptable. We believe the matter will only be resolved by resorting to an appeal to the Tax Court of Canada. Accordingly we instructed Thorsteinssons to file a Notice of Appeal to the Tax Court. This action terminated the non-existent discussions with the appeals division of CRA and moved the matter forward to be resolved by litigation. Though this is a costly process, we believe it is the only way in which we can satisfactorily resolve the matter and protect the integrity of the Partnership deductions which were the subject of a comprehensive binding and advance income tax ruling from CRA.

The first steps have been taken in the tax litigation process for the Partnership. The CRA made a motion (similar to that which was soundly defeated for the 1999 Partnership) to deny the Partnership the ability to rely on the advance tax ruling in the tax litigation. This motion was brought by the CRA notwithstanding its lack of success on the similar motion for the 1999 Partnership and the rebuke which it received from Chief Judge Bowman.

On the day the motion was to be heard, the CRA agreed to some modest amendments to our pleadings and the motion was withdrawn. On that basis, the tax litigation process for the Partnership can begin in earnest with discoveries and review of documents. We have engaged Thorsteinssons LLP to represent the Partnership with a fee arrangement which will limit the upside exposure to legal costs. To date, all costs in this litigation (and the tax litigation and settlement discussions for the 1998, 1999 and 2000 Partnerships) have been borne by the Sentinel Hill management group. These costs have exceeded $2,750,000.

We will advise you promptly as developments occur with respect to the Appeal. Although we have had no discussions with the CRA to date we are hopeful that the matter can be resolved by settlement before litigation.

If you have any questions or require more information, please contact Rebecca Jerez on behalf of Eau-Vive Rivest, Investor Relations Manager at 604-692-2414 or by email at erivest@sentinelhill.com.

Yours truly,

Sentinel Hill Productions IV Corporation

Per: