



SENTINEL HILL VENTURES
CORPORATION

October 22, 2010

Investor Name
Investor Address
City, Prov Postal

Re: SHAAE (2001) Master Limited Partnership Update:
Canada Revenue Agency – Appeal to the Tax Court of Canada
ACTION REQUIRED BY LIMITED PARTNERS

We are writing this letter to the Limited Partners of SHAAE (2001) Master Limited Partnership (the “2001 Partnership”) as our ongoing reporting to you concerning the activities of the Partnership and in particular, the current status of the Determination of the Partnership’s business losses by the Canada Revenue Agency (“CRA”). Our last correspondence to you on this matter was on October 8, 2009. At that time, we summarized for you the process that another partnership managed by us, Sentinel Hill 1999 Master Limited Partnership (the “1999 Partnership”) went through in settling its issues with the CRA and the steps that the 2001 Partnership was taking to resolve the Determination through tax litigation.

Status of the 1999 Partnership

As we advised you in our last letter, the Determination of the 1999 Partnership was settled with the CRA in April 2009. That settlement was based on a denial of a percentage (as noted previously, the exact amount was the subject of a confidentiality agreement) of the deductible expenses of the 1999 Partnership.

As part of the settlement process, we applied for interest relief for a period of 51 months. This would have enhanced the value of the settlement and brought it to a level generally comparable with the settlement reached for the 2000 Partnership, being a denial of approximately 9.4% of the otherwise deductible expenses. We ultimately received interest relief for 45 months and were notified to that effect by the CRA over a year later on May 4, 2010. In August 2010 the CRA then issued a redetermination to the 1999 Partnership implementing the settlement. We expect that final Notices of Reassessment implementing the settlement and applying the interest relief will be issued to the partners by the end of the year.

In our view, and that of counsel, the settlement of the 1999 matter with the CRA, after interest relief, was comparable to the settlement reached for the 2000 Partnership and was satisfactory when compared to the alternative of tax litigation.

Status of Tax Litigation for the 2001 Partnership

CRA threatened to confirm the Determination of the 2001 Partnership's losses in 2005. Although we expected the confirmation (and in fact received it for the 1999 Partnership) no such confirmation was forthcoming. Accordingly, as we previously advised you, we appealed to the Tax Court of Canada on July 7, 2009. This action commenced the tax litigation process and terminated the non-existent discussions with the CRA.

After filing the Notice of Appeal the Department of Justice must file its Reply within 60 days. However, the Department of Justice chose to challenge certain portions of our Notice of Appeal dealing with the advance income tax ruling. This challenge was ultimately resolved by consent, and their Reply was then filed on March 31, 2010. Our counsel reviewed the Reply and advised that it should be challenged as it contained numerous instances of improper pleading. On the advice of counsel we filed a motion to strike significant portions of the Reply. This motion was heard by Chief Justice Rip of the Tax Court on September 22, 2010. We are currently awaiting a decision.

Other Developments - Change of Control of Alliance Atlantis

From the inception of the 2001 Partnership, Alliance Atlantis was a co-promoter and played a valuable role in the offerings of the 2001 Partnership.

In 2007 Alliance Atlantis was acquired by Canwest Global and Goldman Sachs. After the acquisition, notwithstanding numerous approaches by the principals of Sentinel Hill, Alliance Atlantis ceased to provide any financial or other support for the 2001 Partnership. This has created a significant economic burden on the principals of Sentinel Hill who have continued to pay the costs of operating the 2001 Partnership, reporting to the Limited Partners and dealing with the CRA. More recently, Canwest Global has suffered widely publicized financial difficulties and has shown no interest in the affairs of the 2001 Partnership.

Settlement Discussions

The principals of Sentinel Hill have always believed that it would be in the best interest of the 2001 Partnership to attempt to settle the Determination before tax litigation began in earnest. To this end, we contacted the CRA in the summer of 2009 and were told that we should call back in October 2009. We did so, and a meeting was arranged for January 2010 with John Crowley, the Director of Appeals and a number of other senior CRA and Justice Department officials. The principals of Sentinel Hill attended that meeting and discussed the concept of putting forward a numbers based settlement (a denial of a percentage of the losses of the 2001 Partnership) rather than a settlement based on an examination of the various issues raised in the Determination. Our objective was to reach a "percentage of losses" settlement comparable to the settlements reached for the 1999 and 2000 Partnerships.

The CRA invited us to put forward a proposal for the Determination for the 2001 Partnership on a percentage of losses basis. The CRA also requested a proposal for the

1998 Partnership. Shortly after the meeting, in mid February 2010, with the assistance of Thorsteinssons LLP, counsel to the 2001 Partnership, we put forward a settlement proposal that would have resulted in a denial of approximately 10% of the otherwise deductible expenses of each of the 1998 Partnership and 2001 Partnership. This would have been roughly equivalent to the settlement parameters for the 2000 Partnership.

We received a response from the CRA on April 20, 2010. The CRA rejected our proposal and made a counterproposal with respect to the 2001 Partnership for a denial of approximately 19% (\$94.5M) of the otherwise deductible expenses. The CRA surprisingly rejected the proposal for the 1998 Partnership out of hand.

After analysis and discussion with Thorsteinssons, we responded in May 2010 to the CRA with a counter to the CRA's counter proposal. Our revised proposal for the 2001 Partnership would have resulted in a denial of approximately 12.5% of the otherwise deductible expenses (\$62.5M), together with a request for interest relief. CRA advised that it would not respond to the counter/counter proposal unless and until we re-included a further revised proposal for the 1998 Partnership. That proposal would be percentage based, together with an analysis of our position on the issues. We put forward the revised counter/counter proposal, including an offer to resolve the 1998 Partnership reassessments, on June 11, 2010. We, and Thorsteinssons, were reasonably optimistic that we would either receive an acceptance of our counter/counter proposal by the CRA or a further counter proposal, being a denial of deductible expenses somewhere between 12.5% (\$62.5M) and 19% (\$94.5M). During this time, we were verbally in contact with Mr. Crowley, of the Appeals Division of CRA, about the progress of our negotiations and we were reasonably optimistic about our prospects for settlement.

On July 6, 2010, to our disappointment and surprise, we received a one sentence letter from the Department of Justice categorically rejecting our counter/counter proposal for each of the 1998 Partnership and the 2001 Partnership. No explanation or analysis was provided.

Mandate for Litigation or Settlement

The action and inaction by the CRA concerning the Determination of the 2001 Partnership is unfortunate. Our efforts to resolve matters through settlement negotiations have been met with unreasonable, hard line positions that are completely inconsistent with the settlements reached for the 1999 and 2000 Partnerships.

The principals of Sentinel Hill are seeking guidance from all of the Limited Partners in the 2001 Partnership as to the next course of action. To that end, we enclose a form eliciting one of two alternative responses. It is imperative that each Limited Partner return the response in the enclosed, self addressed, postage paid envelope. In that way your voice will be heard in what's ultimately a critical decision for the 2001 Partnership.

For the 2001 Partnership, the CRA chose to reassess by issuing a Determination to the 2001 Partnership. The Determination must be resolved in a manner that binds all partners equally. That is, some partners cannot choose to settle while others press forward with litigation.

Alternative 1 – Litigation

In discussions with Thorsteinssons we have reached the conclusion that we cannot recommend the counter proposal by the CRA as a basis for settlement. We believe that the Determination of the 2001 Partnership is incorrect and unjust by any analysis and that a reasonable settlement with the CRA has not been achievable, using the other Sentinel Hill partnership settlements as a benchmark. Should you come to the same conclusion and believe that the 2001 Partnership should litigate the Determination, the 2001 Partnership will be looking for a capital contribution of \$70.00 per partnership unit (as discussed further below) to defray the considerable 3rd party legal costs expected to be incurred. Each of the principals of Sentinel Hill are substantial Limited Partners in the 2001 Partnership and will make their proportionate contributions to this litigation funding.

In pursuing this option, you should be aware that after the CRA rejected our last settlement offer, we reiterated our settlement proposal at a 12.5% disallowance of losses to the CRA in accordance with newly-proposed Tax Court Rules. These Rules provide that if we proceed to trial, and fare as well or better than the settlement offer, we are entitled to solicitor-client costs (i.e., full indemnity for legal fees and disbursements) from the CRA from the date on which the offer was made through and including the trial. If and to the extent that we recover any legal costs from the CRA, those funds will be returned pro rata to the contributors at the conclusion of the litigation.

We have attached a schedule summarizing the original deductible amounts for a hypothetical subscriber of 10 units along with the forecasted capital gain for the 2011 tax year. These figures are compared with the resulting numbers from the current Determination and the resulting numbers from a theoretical settlement at 19%, as we have discussed.

Alternative 2 – Settlement

It is unclear whether the CRA would be prepared to stand by its former counter proposal to reduce the deductible expenses of the Partnership by 19% of the otherwise deductible expenses. Although this would be a settlement considerably less favorable than those which were reached for 1999 and 2000 Partnerships, the counter proposal represents a reduction of more than 50% from the position taken by the CRA in the Determination. Again, you may wish to review the schedule attached to see the financial effect of such a settlement.

If the direction from the Limited Partners is to re-approach the CRA to settle the Determination, the 2001 Partnership will use its reasonable efforts to settle on the most favorable terms possible (which may be the same, or more or less than the CRA's counter proposal of 19% disallowance). Under this direction, the 2001 Partnership will be looking for a capital contribution of \$20.00 per partnership unit (as discussed further below) to defray the 3rd party costs expected to be incurred. To be clear, we do not favor this course of action.

Mechanics of Voting for Alternative 1 or Alternative 2

If we receive a majority of responses (weighted by units held) in favour of litigation, we will consider that to be a mandate to proceed with the tax litigation. If we receive a majority of responses (weighted by units held) in favour of settlement, we will consider that to be a mandate to settle.

If not all Limited Partners respond in favour of litigation, but we receive a majority of responses to proceed with the litigation, the partners who failed to make an adequate contribution will be notified and given an additional opportunity to contribute. Similarly, if the majority of the Limited Partners favor the settlement option, those who do not enclose a payment will be similarly notified and asked to contribute. Those who have over contributed will be refunded the over contribution amount. Limited Partners who decline to make either contribution will have the shortfall withheld from the anticipated distribution on the upcoming dissolution of the partnership. The shortfall withheld will leave an outstanding amount of indebtedness owed to Veritus Trust which must then be paid from the partner's own funds. If the amount is not paid to Veritus Trust before the end of 10 years following the original advance of funds by Veritus Trust, then the CRA may take the position that the entire amount of the loan will constitute a limited recourse amount which would have the effect of denying all of the deductions taken by the Limited Partner from and after 2001, regardless of the outcome of the litigation or settlement.

The principals of Sentinel Hill have, over the last 10 years, expended thousands of hours of time and millions of dollars resolving the disputes for the 1999 and 2000 Partnerships and in dealing with related matters. The time and money expended has benefited and will significantly benefit the 2001 Partnership. Throughout the process, we have had continuous discussions and reviews with the CRA of the facts and situations of each Partnership and the various positions taken by the CRA. We, and our counsel at Thorsteinssons, are well versed in the issues in dispute and are determined to bring the Determination for the 2001 Partnership to a satisfactory conclusion. Thus, we believe that it is fair and equitable to seek a modest contribution from each of the Limited Partners to fund the resolution of the dispute. Your contribution will be tax deductible and, as mentioned above, may be refundable if the litigation achieves substantial success.

The funds we are seeking will be placed in a trust account with Thorsteinssons and will be used for legal fees and third party costs for litigation or settlement negotiation. The funds will not be used to remunerate the principals of Sentinel Hill. Any funds left over from the litigation or settlement will be returned to the Limited Partners. We have secured a fixed fee legal retainer from Thorsteinssons for representation through to the conclusion of an appeal to the Federal Court of Appeal, if necessary. If the matter settles before the conclusion of litigation, there is a fee "cap". The principals of Sentinel Hill may use the services of other legal advisors or professionals as they deem appropriate and will continue to devote their time and resources to this matter, without remuneration.

To fund the Tax Appeal, we are requesting a contribution of \$70.00 per Limited Partnership unit within 30 days of this letter. Alternatively, to fund a settlement as discussed below, we require a contribution of \$20.00 per Limited Partnership Unit. As

the holder of [] units, your contribution will be \$[] for the litigation option or \$[] for the settlement option. If each partner makes his or her contribution, the aggregate amount collected from the Limited Partners will be sufficient either to fund the tax litigation expenses through an Appeal to the Federal Court of Appeal or to effect a settlement. The funds will be treated as directly-incurred legal fees incurred in disputing a reassessment, and the expenses will be fully tax deductible as they are incurred. At the end of the calendar year, the amounts will be summarized in a letter which will be sent to you for inclusion with your income tax return.

ACTION REQUIRED

It is imperative that we receive your response by December 3, 2010. If you want us to continue the litigation, please check the box beside “Litigation Option” on the enclosed sheet, and sign and return it along with your cheque payable to “Thorsteinssons LLP in trust for SHAAE (2001) MLP” in the amount of \$[]. If you want us to pursue the settlement option, please check the box beside “Settlement Option” on the enclosed sheet, sign and return it along with your cheque payable to “Thorsteinssons LLP in trust for SHAAE (2001) MLP” in the amount of \$[].

Based on the advice of Thorsteinssons, we are optimistic that our prospects for substantial success in the tax litigation are very good. It is unfortunate the matter has not been resolved through administrative appeal to the CRA, or by negotiation.

Contacting Sentinel Hill or the CRA

As always, we continue to stand behind the Limited Partners and dedicate our time and resources to the favorable resolution of this matter.

If you have questions regarding the litigation process, please contact David Davies of Thorsteinssons LLP at 604-602-4252 or by email at sentinel@thor.ca.

Other queries should be directed to:

Bradley Sherman - bsherman@averpartners.com or 416-515-9944 ext: 212

Ken Gordon - kgordon@sentinelhill.com or 416-515-2933 ext: 251

Eau-Vive Rivest - erivest@sentinelhill.com or 604-692-2414

Robert Strother - rcstrother@sentinelhill.com or 604-692-2420

Paul Darc - pdarc@sentinelhill.com or 604-692-2411

We would appreciate queries by email and please allow for a few days to respond given the large number of Limited Partners.

If you are as frustrated as we are with the issuance of the 2001 Partnership Determination and the lack of settlement progress in the last five years with the CRA, you may also contact the CRA. We believe that the decision maker to contact is John Crowley, Director of Appeals. His telephone number is 613-960-2307 and his email address is john.crowley@cra-arc.gc.ca.

The issues are clear:

- The 2001 Partnership is the subject of an Advance Income Tax Ruling, one of a series of dozens of Rulings issued to a number of promoters in respect of Film Production Services transactions through the 1990's, 2000 and 2001.
- The 2001 Partnership conducted itself in accordance with the Advance Tax Ruling, receiving legal opinions to that effect from two major Canadian law firms.
- The Determination is an attack by the CRA on one of the fundamental underpinnings of the tax system, Advance Tax Rulings.
- The CRA has been unreasonable and hard lined in refusing to conclude settlement negotiations with respect to the 2001 Partnership that are comparable with the 1999 and 2000 Partnerships. A settlement would be of benefit to all parties.

Yours truly,

Sentinel Hill Productions IV Corporation
(as General Partner of SHAAE (2001) Master Limited Partnership)

A handwritten signature in black ink, appearing to be "TAR", written over a horizontal line.

Per:

SHAAE (2001) MASTER LIMITED PARTNERSHIP

Comparison of CRA Audit Settlement Scenarios

Based on 10 units

This table has been created to provide you with numerical information to help you decide between the litigation option and the settlement option. The final taxable capital gain on dissolution of the partnership has been included because it is affected by the amount of the deductions claimed by each limited partner. **There is no guarantee that litigation will result in all original deductions being allowed or that a settlement with CRA will result in a 19% denial of deductions.**

	Income tax deductions (2001 & 2002 tax years)	Final taxable capital gain on dissolution (2011 tax year)	Estimated taxes payable (2001 & 2002 tax years)	Estimated taxes payable (2011 tax year)	Estimated interest on taxes (2001 & 2002 tax years)	Total estimated taxes plus interest
	<i>Per 10 units</i>	<i>Per 10 units</i>	<i>45% tax bracket</i>	<i>45% tax bracket</i>	<i>From Apr. 2002 - Sept. 2010</i>	<i>Per 10 units</i>
Original deductions (no denied deductions)	95,707	34,800	-	15,660	-	15,660
Denied deductions per CRA's notice of determination of March 2005	34,435	18,700	15,496	8,415	12,190	36,101
Denied deductions per CRA's settlement offer of April 2010 (19%)	18,066	25,760	8,130	11,592	6,395	26,117

Note: the numbers above are based on the partnership average; actual deductions and final capital gain will vary per limited partner depending on the month the units were purchased in 2001. For example if you purchased your units in June of 2001, your deductions in 2001 would have been greater than average and your resulting final capital gain will also be greater than average; if you purchased your units in December of 2001, your deductions would have been smaller than average and your resulting final capital gain will also be smaller.

OPTIONS

To: The General Partner of SHAAE (2001) Master Limited Partnership

And to: Thorsteinssons LLP

As described in the General Partner's letter of October 22, 2010, I am in favour of (check one):

Litigation Option. I enclose a cheque payable to “Thorsteinssons LLP in trust for SHAAE (2001) MLP” in the amount of \$[] to cover my contribution. These funds will be used to pay legal fees, disbursements and applicable taxes thereon incurred in litigating the outstanding Notices of Determination issued to the Partnership and its production limited partnerships. I understand that if a majority of the responding partners (by units held) decide not to pursue the Litigation Option, you will retain enough of my contribution to fund my share of the Settlement Option (to be used in accordance with the “Settlement Option” directions below) and refund the balance to me.

Settlement Option. I enclose a cheque payable to “Thorsteinssons LLP in trust for SHAAE (2001) MLP” in the amount of \$[] to cover my contribution. These funds will be used to pay legal fees, disbursements and applicable taxes thereon incurred in achieving a settlement with the Canada Revenue Agency in respect of the outstanding Notices of Determination issued to the Partnership and its production limited partnerships. I understand that if a majority of the responding partners (by units held) decide not to pursue the Settlement Option, you will retain my enclosed contribution and I will be responsible for paying an additional \$[] to fund my share of the Litigation Option (all to be used in accordance with the “Litigation Option” directions above).

In either case, the funds will be fully deductible for income tax purposes, and a portion of the funds raised will be used to pay outstanding legal fees, disbursements and applicable taxes thereon incurred to date for the benefit of the Partnership and its production limited partnerships.

Date: _____, 2010.

Signature: _____

Investor Name

Investor Address

City, Prov Postal

Number of units: []

Email address: _____

Return this sheet together with your cheque in the enclosed self addressed, self stamped envelope. Responses received after December 3, 2010, or without an accompanying cheque in the appropriate amount, will not be counted in the totals for voting purposes.