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MEMORANDUM

RECIPIENT(S) Sentinel Hill Productions IV Corporation
COPY
SENDER Mark Jadd
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SUBJECT•O/REF. SHAAE (2001) Master Limited Partnership – Tax Implications of Wind-Up Transactions

The purpose of this memorandum is to advise you of the tax implications associated with the wind-up of the operations of SHAAE (2001) Master Limited Partnership (“**MLP**”) and the repayment of the investor unit loans. This analysis is based upon our understanding of the facts set out below. We have not carried out any independent confirmation of these facts.

Background Facts

1. Limited partners (each a “**Limited Partner**”) subscribed for units of MLP (each a “**MLP Unit**”) in 2001. The subscriptions were financed partly in cash and partly by way of unit loans (the “**Unit Loans**”) borrowed by the Limited Partners from Veritas III Trust (“**Veritas III**”). All principal and interest owing under the Unit Loans is due on April 15, 2011.
2. In 2001, MLP invested in Class A limited partnership interests (the “**Class A PLP Units**”) in 73 other limited partnerships (each a “**PLP**”), each of which performed production services in respect of one or more feature films or television programs.
3. Each PLP currently holds a promissory note (collectively, the “**Emeritus Notes**”) of a trust of which Emeritus Capital Corp. is the trustee (the “**Emeritus Trusts**”). The aggregate amount of principal and interest owing to the PLPs under the Emeritus Notes is slightly less than the aggregate amount of principal and interest owing by the Limited Partners under the Unit Loans.
4. Each PLP also continues to hold a right to receive certain residual net profits in connection with the feature film or television program that it produced.
5. Currently, the adjusted cost base of MLP in the Class A PLP Units is nominal and the adjusted cost base of the Limited Partners’ respective interests in MLP is nominal.

Proposed Transactions

1. On or before April 30, 2011, MLP will sell all of its Class A PLP Units in the various PLPs to a newly-incorporated company (“**Participation Corp.**”) for a

promissory note of Participation Corp. (the “**Participation Corp. Note**”) equal to the aggregate amount owing under the Emeritus Notes (which is also slightly less than the aggregate amount owing under the Unit Loans).

2. On the same day, MLP will transfer the Participation Corp. Note to Veritas III on behalf of the Limited Partners. This will constitute a distribution to the Limited Partners and a payment by the Limited Partners to Veritas III on account of the Unit Loans. Upon the transfer of the Participation Corp. Note to Veritas III **and the cash payment by the Limited Partners of \$94.40 per MLP Unit to Veritas III**, (i) all principal and interest owing under the Unit Loans will have been paid in full and (ii) Participation Corp. will be indebted to Veritas III pursuant to the Participation Corp. Note.

3. Each of the PLPs will then distribute their respective Emeritus Notes to Participation Corp. which, in turn, will assign those notes to Veritas III in full repayment of the Participation Corp. Note.

4. Each Limited Partner whose MLP Units are in good standing will be entitled to transfer his or her MLP Units to Participation Corp. in exchange for shares of Participation Corp. It is intended that this exchange occur prior to the end of 2011.

Tax Considerations of Proposed Transactions

The following summary fairly describes the principal Canadian federal income tax considerations applicable to Limited Partners who, for purposes of the *Income Tax Act (Canada)* (the “**ITA**”), are or are deemed to be resident in Canada, and who hold their MLP Units as capital property. This summary is based upon the facts set out above, the current provisions of the ITA, the regulations thereunder (the “**Regulations**”), and counsel’s understanding of the current published administrative practices and policies of the Canada Revenue Agency (the “**CRA**”). This summary also takes into account all specific proposals to amend the ITA and the Regulations (the “**Proposed Amendments**”) publicly and officially announced by the Minister of Finance (Canada) prior to the date hereof, and assumes that all Proposed Amendments will be enacted in their present form. However, no assurance can be given that the Proposed Amendments will be enacted in their present form, or at all. If the Proposed Amendments are not enacted as presently proposed, the tax consequences may not be as described below in all cases. This summary does not take into account or anticipate any other changes in law, whether by legislative, governmental, or judicial action or decision, nor does it take into account provincial, territorial or foreign income tax considerations, which may differ from the Canadian federal income tax considerations discussed below.

This summary is of a general nature only, and is not exhaustive of all possible Canadian federal income tax considerations. This summary is necessarily general and is not intended to be, nor should it be construed to be, legal or tax advice to any Limited

Partner. Limited Partners should consult their own tax advisors for advice as to the income tax consequences to them of these transactions in their particular circumstances.

MLP will realize a capital gain (the “First Capital Gain”) on the sale of the Class A PLP Units to Participation Corp. in an amount equal to the proceeds of disposition (i.e. the Participation Corp. Note) less any reasonable costs of disposition. The First Capital Gain will be allocated by MLP to the Limited Partners.

However, the use of the proceeds from the sale of the Class A PLP Units to repay the Unit Loans will constitute a distribution by MLP to the Limited Partners. Pursuant to subsection 53(2) of the ITA, the amount of the distribution credited to each Limited Partner will reduce such Limited Partner’s adjusted cost base in his or her MLP Units. It is assumed that prior to the distribution, most Limited Partners will have had an adjusted cost base in the MLP Units that is less than the amount of the distribution. Accordingly, the distribution will cause the adjusted cost base of the MLP Units to become negative at such time. Under subsection 40(3.1) of the ITA, where a limited partner has a negative adjusted cost base in his or her limited partnership units at the end of a fiscal year of a partnership, the limited partner will be deemed to realize a capital gain equal to the negative amount. **Accordingly, most Limited Partners will incur a second capital gain (the “Second Capital Gain”) if the Limited Partner remains a limited partner of MLP at the end of MLP’s 2011 fiscal year.** Moreover, any transfer of a MLP Unit after the distribution will trigger the Second Capital Gain. **The amount of the Second Capital Gain will be equal to the amount by which the distribution credited to such partner from MLP exceeds such partner’s adjusted cost base in the MLP Units immediately prior to the distribution.**

Subsection 53(1) of the ITA increases the adjusted cost base of a partnership unit by (i) the amount of any income or capital gains allocated by the partnership to the limited partners in the year and (ii) the amount of any capital gains incurred by the limited partner in respect of such units as a result of the application of subsection 40(3.1) of the ITA. However, such adjustment does not occur until the commencement of the next fiscal year of the partnership. The fiscal year of MLP ends on December 31st of each year. Thus, absent a second-stage transaction occurring prior to December 31, 2011, such adjustment will not occur until January 1, 2012.

In normal circumstances, the second-stage transaction would be a wind-up of MLP prior to the end of 2011. Pursuant to the Proposed Amendment to subsection 99(1) of the ITA, the fiscal year of MLP would be deemed to have ended two moments before the wind-up of MLP. This would mean that the First Capital Gain would be allocated to the Limited Partners two moments before the wind-up of MLP and the Limited Partners would be deemed to have realized the Second Capital Gain at the same time. Then, one moment before the windup of MLP, subsection 53(1) of the ITA would apply to increase the adjusted cost base of the MLP Units by the amount of both capital gains, thereby providing the Limited Partners with a positive adjusted cost base equal to the amount of

the First Capital Gain. Then, upon the dissolution, the Limited Partner will be considered to have disposed of his or her MLP Units for no proceeds of disposition, thereby triggering a capital loss sufficient to offset the First Capital Gain. This would leave the Limited Partner with a net capital gain for the 2011 fiscal year equal to the Second Capital Gain.

In contrast, if MLP is wound-up after 2011 and no other second-stage transaction is undertaken, most Limited Partners (i) will be allocated a pro-rata share of the First Capital Gain incurred by MLP from the sale of the Class A PLP Units and (ii) will be deemed to have incurred the Second Capital Gain under subsection 40(3.1) of the ITA due to the negative adjusted cost base in the MLP Units. No capital loss will be realized in 2011 to offset the First Capital Gain.¹

For this reason, it is recommended that the partnership agreement for MLP be amended to allow for a dissolution of MLP on or before December 31, 2011. It currently provides that MLP may not be terminated prior to December 31, 2011.

However, there is an added complexity with MLP as a result of the tax dispute between MLP and the CRA (the “**Tax Dispute**”). Accordingly, it is not feasible to wind-up MLP if the Tax Dispute is still ongoing. Therefore, unless the Tax Dispute is resolved by the end of 2011, a different second-stage transaction would be required.

In this regard, it is contemplated that, prior to the end of 2011 but after the Unit Loans have been repaid, Limited Partners would transfer their MLP Units to Participation Corp. in exchange for shares of Participation Corp. It is assumed that the fair market value of the Participation Corp. shares will be nominal. In such case, the Proposed Amendment to subsection 96(1.01) of the ITA provides that, for the purposes of the adjusted cost base adjustment under subparagraph 53(1)(e)(i) of the ITA, the fiscal year of MLP would be deemed to have ended two moments before the Limited Partner ceased being a member of MLP. Thus, the adjusted cost base of each MLP Unit would be increased by the amount of the First Capital Gain immediately prior to the transfer to Participation Corp. Assuming that the First Capital Gain is equal to the aggregate amount distributed to the Limited Partners to repay the Unit Loans, the adjusted cost base of the MLP Units at the time of the transfer of the MLP Units to Participation Corp. would be equal to their current adjusted cost base (which is a positive amount). Therefore, on a transfer, a capital loss would be realized in an amount equal to the current adjusted cost base. This would result in a net capital gain equal to the amount of the Second Capital Gain that would've been realized if MLP had been wound up.

¹ Limited Partners may be able to file an election under subsection 40(3.12) of the ITA in respect of their 2012 taxation year to trigger a capital loss in that year. Such capital loss may, in certain circumstances, be carried back to 2011, in accordance with the detailed provisions contained in the ITA.