

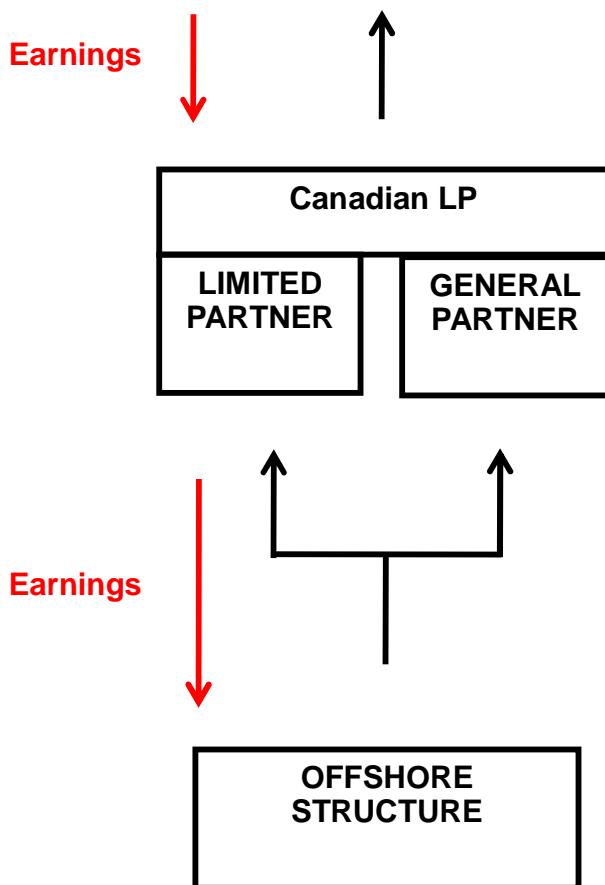


CANADA: ONSHORE BUT OFFSHORE

Highlights of the Canadian onshore structure based Offshore:

- Structure certified by a professional legal opinion
- The development of a Canadian Limited Partnership (LP) is made through the establishment of an offshore company as general partner and a limited partner. Both are composed of the same third party offshore.
- Until the moment in which the LP does not develop business activity in Canada is not obligated to file tax returns and information about the offshore structure. Therefore, the beneficiaries of the offshore will have no fiscal requirement and are not reported in any document of the LP.
- To access to these advantages, the offshore entity must appear as non-resident in Canada. In addition, the Canadian Partnership Limited should yield over 90% of income to the offshore entity not resident in Canada.
- To be recognized as non-resident in Canada, the offshore structure is subject to the residency requirements of the "Common Law". The "Common Law" decreed that an entity is not resident in Canada until it develops businesses in Canada and the address of the activity keeps out of Canadian territory.
- At the same time, as the offshore entity has no residence in Canada, there won't be any tax deduction.

Business activity developed worldwide



Setting up an Offshore company based Onshore

- To develop such a structure is formed a Canadian Limited Partnership (LP).
- This company is formed by a General Partner and a Limited Partner.
- General and Limited Partners are the entities that control the activities and profits from the Canadian structure.
- Our structure allows you to use an offshore company as General and Limited Partner for the Canadian structure, making from this a tax-transparent subject, allowing all proceeds to the Offshore.
- Meanwhile, all business activities will be conducted by the Canadian LP, and therefore, by a legally recognized and credible entity, which is not intended as a tax haven.
- The LP will have no obligation to present any balance or tax return, provided that it does not develop any type of business in Canada

Types of partnership recognized by Canadian Law and the Income Tax Act:

Two forms of partnership are recognized by Canadian commercial law: general partnerships and limited partnerships.

General partnerships allow (in accordance with the partnership agreement) all partners to take part in the management of the partnership's business. Each partner is regarded as an agent of the partnership and of the other partners in respect of the partnership's business activities. As a result each partner is jointly liable for the debts and contractual obligations of the partnership incurred while he/she was a partner.

While there's no requirement to register a partnership or formalize the arrangement, it's advisable that a partnership agreement be created to avoid potential disputes between the partners.



Limited partnerships

Limited partnerships are governed by statutes in law, such as the Ontario Limited Partnership's Act. Limited Partnerships require at least one general partner and one limited partner. The limited partner does not take part in management of the partnership's business, and is therefore granted limited liability status.

A partner is a limited partner if any of the following conditions are met:

1. By operation of any law governing partnership arrangement, the partner's liability of the partnership arrangement is limited;
2. The partner is entitled to receive certain types of tax benefits provided by the at risk rules;
3. One of the reasons for existence of the partner is to limit the liability of any person with respect to the partnership and not to permit any person having an interest in the member to carry on that person's business in the most effective manner; or
4. There is an agreement or other arrangement for the disposition of an interest in the partnership and one of the main reasons for the agreement or arrangement is to avoid the definition of limited partner.

Note that a partner can be both a general and limited partner, but in this situation the partner will lose its limited partner status. This is a moot point if the partner is a holding corporation (i.e. with no assets) because corporations are afforded limited liability status in any case.

Taxation of partnerships in Canada

Each individual partner is taxed on their share of the partnership's income. Non-resident partners are taxable in Canada only if they or the partnership:

- a) Earned employed income in Canada;
- b) Carried on a business in Canada; or
- c) Disposed of a taxable Canadian Property.

It's our understanding that the partnership is not carrying on business in Canada and all partners are non-residents of Canada. We further understand that the partnership did not earn employment income or disposed of taxable Canadian property (e.g. real estate in Canada). Therefore, the partners should not be liable for income tax in Canada.

SIFT Partnerships ("Specified Investment Flow-Through Partnerships")

If a partnership is deemed to be a SIFT Partnership, then the partnership will be taxed at the corporate level if the following conditions are met:

1. the partnership is a Canadian resident partnership;
2. the investments in the partnership are listed or traded on a stock exchange or other public market; and
3. the partnership owns one or more non-portfolio properties.



The purpose of this deeming provision is to level the playing field between Canadian tax exempt non-resident investors in flow through entities (such as income Trusts) and other Canadian investors who must pay income tax.

Partnership with Non-Resident Members

If at any time in the year a partnership (having non-resident partners) commences to carry on business in Canada or realizes a gain on the disposition of taxable Canadian property, then the non-resident partners are liable for tax on their share of any income or gains. The partners may obtain tax relief under a tax treaty. Furthermore, if the partnership carries on business in Canada, then each partner is considered to have carried on that business, whether or not they were active participants in the business of the partnership or general or limited partners.

Note that any foreign corporation or non-resident individual can be a partner in an Ontario limited partnership. When determining a non-resident's partner's taxable income earned in Canada, the following amounts are included:

1. the partners share of any income of the partnership from the businesses carried on in Canada,
2. the partners share of any taxable capital gains (net of capital losses) from the sale of taxable Canadian property (other than "treaty-protected property") and
3. the partner's share of any proceeds from the sale of the partnership's Canadian resource properties.

Withholding Taxes

If a person resident in Canada pays or credits an amount to a partnership (other than a Canadian partnership), then the partnership shall be deemed, in respect of that payment, to be a nonresident person. As a result, withholding tax may apply to a payment of dividends, interest, rents or royalties by a Canadian resident to a partnership with a non-resident member. The non-resident partners may claim relief from withholding taxes under a tax treaty.

Please let us know if you have any questions at all regarding this proposal. We look forward to hearing from you.

info@trust4trust.com