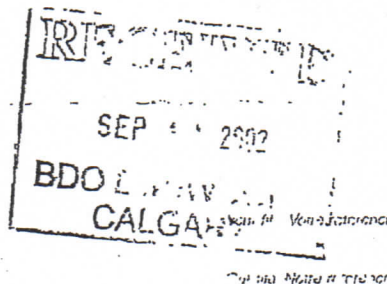




Canada Customs and Revenue Agency / Agence des douanes et du revenu du Canada



BDO Dunwoody LLP
1500, 800 - 6 Ave. SW
Calgary, AB T2P 3G3

R. Grewal
(250) 492-9440

Attention: Mr. Jas Butalia, CA

September 5, 2002

Dear Mr. Butalia:

Re: GLENN H. WALSH - 1998 Tax Return

Thank you for your letter of August 2, 2002. We have reviewed the contents thereof and provide you with the following comments:

1 Bad debts on money lending business

Exhibit 1:

You have not provided sufficient details in your letter as to what connection, if any, the enclosed documents make to the loans at issue; in particular, a fax from your office to Brian MacLean dealing with the liens on a property in Woodstock and a preliminary appraisal report. With respect to the two smaller amounts of US\$60,000 and US\$70,000, we have not received any loan documentation outlining the interest rate, terms of repayment, the maturity date and details of security taken etc. Accordingly, we are not in a position to accept these two amounts as loans.

Given the magnitude of the advances, the nature of transfer (wire transfer instead of bank draft) and the absence of any security obtained, we are still not convinced that the funds in question were in fact transferred to Mr. Braich. As the wire transfers have left no verifiable trail of the recipient of the funds, we are unable to vouch and thus accept the validity of the loans. We need documentary evidence from the transferring bank about the recipient of the funds i.e. name and address of the bank where the funds were transferred to, and the name/s and address/es of the account holder/s receiving the funds.

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Glenn H. Walsh

We also find the contents of both the promissory notes incomplete and/or incorrect. The promissory note dated March 18, 1998 does not contain the amount of interest "as agreed"; the space between the brackets was left blank. The second promissory note dated March 3, 1998 was payable on March 23, 1998 but the stated amount of interest on the principal does not correspond with the interest rate of prime plus 2% for the 20 days.

Exhibit II:

The information relating to Stellar Group of Companies and Plama Oil Refinery is dated May 1998 and is subsequent to the dates of promissory notes. The documents you had enclosed refer to various investments. We are unable to establish any definitive link of the advanced funds to any particular investments mentioned in the documents. The funds were said to have been advanced to Mr. Braich whereas the documents refer to investment opportunities by Braich Capital Corporation. We still do not have complete details on the advances. We do note that Braich Capital Corporation offered an interest rate of 17.25% whereas Mr. Walsh opted for prime plus 2%. There are many indications in the documents provided to us that Mr. Walsh was to participate in the deals or to be a part owner of the projects. You have stressed this point as well on page one of your letter. However, documentary evidence in this regard has not been provided. We request that all such details must be provided so that we could make a well-informed decision on this issue.

Exhibit III:

You have not explained in your letter as to what connection, if any, T&G Retirements Advisors Ltd. had with Mr. Walsh. Accordingly, we are not in a position to accept such documentation as evidence of collection efforts by Mr. Walsh.

Item 5 of your Memorandum dated July 12, 1999 addressed and faxed to McLean Saba Armstrong refers to Mr. Braich providing security on his property in upstate New York. You have not provided us any details and documentation of the mentioned security and what action/s were taken by Mr. Walsh to realize on the security. Under item 10, we note that Mr. Braich was willing to pay the full amount along with the interest charges in the later part of December of 1998. Furthermore, in items 2 and 3 of your Memorandum dated January 25, 1999 that documents your conversation with Mr. Walsh, it is noted that Mr. Braich, in his conversation of January 21, 1999, was willing to return the capital with the appropriate return on the use of funds and Mr. Walsh could walk away from the deal. We also note in the memo that you had recommended to Mr. Walsh to call for the funds to be returned.

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Glenn H. Walsh

Keeping in mind Mr. Braich's willingness to repay the capital along with the interest thereon in the early part of 1999 and that no formal demand was made on the promissory notes until April 26, 1999, it is our view that Mr. Walsh has not established that the debts in question were even doubtful in the 1998 taxation year. In addition, it is also our view that Mr. Walsh's ordinary business did not include the business of lending of money. We consider that the advances at issue (if in fact were made and not returned in any way, directly or indirectly to him or to anyone else with whom he does not deal at an arm's length) were investments made by him to earn interest and to participate in the upside of the deals. They were not loans made in the ordinary course of business of lending of money. The information provided to us in the Addendum - 1 clearly indicates that Mr. Walsh was not in the business of lending of money. His conduct lacked the characteristics of money lending business and his venture lacked frequency and volume of transactions of lending money to arm's length parties. His advances to the various companies in which he had direct or indirect interest (Conex Services Inc. and other companies owned/controlled by it) are considered as his investments and such advances could not be accepted as made in the business of lending money.

In the absence of complete legal correspondence on the collection efforts to date including all the court actions taken, judgments obtained and the securities taken, we are not in a position to accept that the advances to Mr. Braich (if proven to have been made) have in fact become non collectible at this stage. It is reasonable for us to assume that Mr. Walsh, through his various corporations, has extensive experience in dealing with such adverse situations and with the professional advice available to him, he would not let such a large sum of funds disappear without obtaining something comparable in return.

2 Application of GAAR

Representations made by Mr. Nitikman have already been provided to our headquarters and identified to the GAAR committee. Our headquarters has recommended no change to the application of GAAR.

3 Other

We also wish to make it clear that we are still in the process of obtaining further information to verify Mr. Walsh's carrying charges. Depending on the information received, we may revise and/or amend the assessing position/s we have already taken.

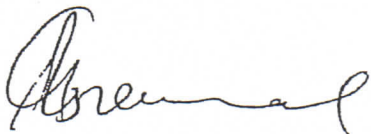
Glenn H. Walsh

We note that the first payment of interest on the US\$694,852,318 arranged loan was payable on December 31, 1998. Mr. Walsh ceased to be resident of Canada on December 29, 1998. As the interest at issue was neither paid nor payable by December 29, 1998, it is our opinion that he is not entitled to the deduction under paragraph 20(1)(c).

We also view the entire loan as circular arrangement, achieved with the creation of certain documents with pre-set direction by the parties involved to direct the funds by one party to the next. The amount for the said loan never left the bank and the bank never relinquished the control of the funds. Upon the maturity of the promissory notes, again with pre-set directions to repay by one party to the other resulted in no movement of funds outside the bank. The parties that were dealing at an arm's length with the bank obtained neither control nor possession of the funds, even for one moment. We are also aware that the entire arrangement was undertaken to create a tax deduction, had no bona fide business purpose and was not profitable from the very beginning. The entire set up could be readily viewed as a sham when considered in light of comments made about Moloney v. The Queen, 92 D.T.C. 6570, cited in the recent Supreme Court of Canada case of Walls v. Canada.

As the 1998 tax return is becoming statute barred soon, we are proceeding to process the file. We wish to thank you for your patience and cooperation during the audit process.

Yours truly,



Raj Grewal, Tax Avoidance Section
Verification and Enforcement
Canada Customs and Revenue Agency

cc: Mr. Glenn H. Walsh