

## **Taxation of Distributions paid by the ACS Media Income Fund** **Overview**

This overview is intended to address the taxation and withholding requirements for the monthly distributions of the ACS Media Income Fund (the “Fund”) to its unitholders. A comprehensive discussion of the tax structure of the Fund is set forth in the Final Prospectus dated April 29, 2003. For purposes of this overview, the tax implications under Canadian and U.S. income tax laws (taxation and withholding) to Canadian and U.S. taxpayers will be discussed. Taxpayers of other countries should obtain the advice of their tax advisors to determine the tax implications of the Fund distributions. The Fund takes no responsibility for the accuracy or completeness of this information. Unitholders should consult with their individual tax advisors for definitive guidance on tax treatment of the Fund’s distributions.

### **Canadian Withholding**

#### **Canadian Taxpayers**

Because the Fund is structured to qualify as a mutual fund trust for Canadian tax purposes, there is no requirement for withholding by brokers or other qualified intermediaries on the distributions paid by the Fund to *Canadian Taxpayers*. Units of the Fund are qualified investments for tax deferred plans such as RRSPs, RRIFs, DPSPs, RESPs and are not foreign property for such plans as well as registered pension plans and trusts.

#### **Non Canadian Taxpayers.**

Canadian Withholding will be applied to all *Non Canadian Taxpayers*. The normal rate of withholding is 25%, but the actual withholding rate will depend on tax treaties between Canada and the Country in which the *Non Canadian Taxpayer* resides. For example, under the current Canadian/U.S. treaty the withholding would be 15%. There is no withholding tax on amounts distributed which represent a return of capital (non-taxable) component in any event.

### **U.S. Withholding**

#### **Non U.S. Taxpayers**

The Fund is structured as a fixed investment trust for U.S. tax purposes. As a result, a Unitholder should be treated as earning directly his share of income earned by the Fund. Currently, most if not all of the income of the Fund is interest and dividend payments from ACS Media Canada Inc. The “interest” portion of the distribution has two components: (i) “Other Income” and (ii) “Return of Capital”. Each of these elements is reflected on the form T3 posted on the company website, [www.acsmedia.net](http://www.acsmedia.net). As to these interest components of the monthly distributions, although considered U.S. source income, U.S. withholding tax should apply to both components of a Non-U.S. taxpayer’s share of such income under the portfolio interest exemption under the Internal Revenue

Code of 1986, as amended, unless the *Non U.S. Taxpayer* meets certain requirements (see note 1 below).

Regarding the dividend component of the Fund's monthly distribution, because ACS Media Canada Inc. is a Canadian corporation that is subject to U.S. branch tax, such dividends would not be U.S. source income and would not be subject to U.S. federal income tax withholding.

#### *U.S. Taxpayers*

Because the Fund is structured as a fixed investment trust for U.S. tax purposes, a U.S. taxpayer should be treated as earning directly dividends and both components of interest from ACS Media Canada Inc, a Canadian corporation. In order for a U.S. taxpayer to avoid U.S. backup withholding the U.S. taxpayer is required to certify to ACS Media Canada or its agent on IRS Form W-9 that such unitholder is a "U.S. person" and provides its name and address and Social Security Number or FEIN as applicable on Form W-9. If a U.S. person fails to do so, a 30% backup withholding could apply to a U.S. taxpayer's share of interest and dividends received from the Fund.

Note 1 Requirements for Non U.S. Taxpayers to avoid U.S. Withholding: (i) the non-U.S. Unitholder is not a "Substantial Holder" as set forth in the Final Prospectus, (ii) the non-U.S. Unitholder is not a "Special Holder" as set forth in the Final Prospectus, (iii) either (A) the non-U.S. unitholder certified to ACS Media Canada or its agent on IRS Form W-8BEN that such unitholder is not a "U.S. person" and provides its name and address, (B) a "qualified intermediary" receives documentation upon which it can rely to treat the non-U.S. unitholder as not a U.S. person and provides ACS Media Canada with an IRS Form W-8IMY, or (C) certain other documentation requirements are met. If a non-U.S. unit holder cannot satisfy these requirements, the portion of any interest paid by the Fund to such Unit holder will be subject to a 30% U.S. withholding tax.

#### ***Substantial Holder***

The withholding tax exemption for portfolio interest will not apply to a unitholder that holds greater than 10% of the voting class of any security ("Substantial Holder") or a Special Holder. Accordingly, all or a portion of the distributions made to a Substantial Holder should be subject to U.S. federal withholding tax. To ensure that the Fund and ACS Media Canada comply with their U.S. federal withholding tax obligations, the Declaration of Trust provides that a unitholder must give notice to the Fund if that holder is or becomes a Substantial Holder. If ACS Media Canada or the Fund fail to comply with applicable U.S. federal withholding tax obligations with respect to a unitholder because the unitholder is a Substantial Holder who fails to provide the required notice (or for any other reason), the Declaration of Trust allows the Fund to reduce subsequent distributions that would otherwise be made to such unitholder until ACS Media Canada or the Fund has recovered the amount required to have been withheld. In addition, each unitholder will, by acquiring a unit, be deemed to agree that it will indemnify ACS Media Canada and the Fund for any amount required to be withheld from distributions and that such unitholder will be entitled to subsequent distributions from the Fund only to the extent that such distributions are, in the opinion of the Fund, in excess of the required withholdings.

***Disclaimer***

This overview is not exhaustive of all possible Canadian or U.S. federal tax considerations applicable to investments in Units. Moreover, the income and their tax consequences of acquiring, holding or disposing of Units will vary depending on the unitholder's particular circumstances, including the province, territory or state in which the unitholder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be legal or tax advice to any prospective purchaser of Units. Investors should consult their own tax advisors for advice with respect to the tax consequences of an investment in units based on their particular circumstances.

Investors should review the Final Prospectus of the Fund dated April 29, 2003 as well as quarterly and annual financial statements of the Fund for a discussion as to the risks and uncertainties associated with the tax structure of the Fund.