

To: Vartana Limited
Attention - Aaron Pereira,
Alec Zimmerman and Jeff
Pentland

Date: March 30, 2005

From: David Stevens

Re: Material relating to application to register a bank for the charity sector (“Charity Bank”) and current status of the application

This memorandum outlines briefly the process relating to the application of Charity Bank for registration as a registered charity under the *Income Tax Act* (Canada).

The registration process

Briefly, the charitable registration process was as follows;

1. We obtained a charitable registration for Vartana Limited so that Vartana Limited could (1) carry out the research necessary to prepare an application to register Charity Bank as a registered charity under the *Income Tax Act* (Canada); (2) prepare the application for the incorporation of Charity Bank as a bank under the *Bank Act* (Canada); and (3) test the economic and commercial viability of Charity Bank. As a registered charity, Vartana Limited was able to receive grant funding from other registered charities.
2. We met with CRA at the outset to propose a registration process commencing with a draft application to register Charity Bank accompanied by a memorandum of law supporting the legal case for registration. CRA agreed to consider the draft application and to proceed through a collaborative process in which they would consider documents submitted, provide feedback and reconsider revised documents until all parties, if possible, were satisfied with the result.
3. The draft application to register Charity Bank, with accompanying memorandum, was submitted to CRA.
4. There were several meetings with representatives from CRA to discuss the draft application and issues arising out of the draft application. The main issues discussed were:
 - (a) whether Charity Bank was required to have exclusively charitable objects set out in its letters patent of incorporation;
 - (b) the extent to which Charity Bank could conduct its banking business with entities which are not qualified donees;

- (c) the extent to which Charity Bank could have wholly-owned subsidiaries and whether such subsidiaries would have to be registered charities;
 - (d) whether Charity Bank could be organized as a share capital corporation, and, in particular, whether organization as a share capital corporation would be in violation of the prohibition against “personal benefits” under the *Income Tax Act* (Canada);
 - (e) the nature of the capitalization of Charity Bank, and, in particular, whether there should be any restrictions of the ownership and transfer of its shares;
 - (f) how to manage the regulatory risks arising out of the day-to-day operations of Charity Bank; and,
 - (g) whether Charity Bank’s directors could receive remuneration as directors.
5. Two additional memorandums of law were submitted to address concerns arising in the discussions.
 6. Various texts were submitted and discussed, including Documents 9, 10, 11 and 12 (the “Supporting Documents”).
 7. At a final meeting, CRA told the representatives of Vartana limited that, provided a few further minor modifications were made to the Supporting Documents, CRA would register Charity Bank. This decision was confirmed by letter from CRA to David Stevens dated March 3, 2005.
 8. The current versions of the Supporting Documents address the final few points raised by CRA at its last meeting and will be submitted to CRA for final approval forthwith.
 9. The whole process has taken approximately 18 months.

Current status of application to register

CRA was asked to confirm their positive decision in writing by a letter to be addressed to Vartana Limited or to its counsel. Initially, CRA was extremely reluctant to assent to this request. Their reluctance was based on their past practice of only making binding decisions in regard to registrations on the basis of actual applications. Charity Bank has not made an actual application yet, of course, because Charity Bank has not yet been incorporated. Charity Bank has not yet been incorporated because the process over the last 18 months was designed to end with a structure that could both be registered as a registered charity and be incorporated as a bank. The two applications have proceeded in tandem. The ‘guarded’ language used in the CRA letter of March 3, 2005 is merely a result of their reluctance to express an unqualified decision on registration in advance of receiving the actual application

As CRA’s letter of March 3, 2005 indicates, there are now no obstacles to the registration of Charity Bank, once the application is submitted. Specifically, in regard to the various conditions mentioned in the CRA letter:

M E M O R A N D U

1. The letters patent of incorporation will contain the objects agreed to by CRA which are set out in Document #9. The objects set out in Document #9 contain a postamble, the principle of which CRA has approved orally, but the text of which CRA has not yet seen. Since this objects clause is the only element of the letters patent that has been of any concern to CRA, the letters patent do not present any difficulty in regard to the registration of Charity Bank.
2. CRA has reviewed the Undertaking, the current version of which is Document # ... above. There has been a minor amendment to the last version of the Undertaking which CRA requested at our last meeting.
3. CRA has reviewed the by-law, the current version of which is Document #10. There have been three minor amendments to the last version of the by-law which CRA requested at our last meeting.

I expect that CRA will approve of all of the current versions of these documents since they all reflect changes which CRA has requested and/or approved. Upon submission and approval of these documents, together with the submission of this actual application, Charity Bank will be registered as a registered charity by CRA.

The registration process is therefore virtually complete, awaiting only the submission of the actual application which will occur, as I understand it, once Vartana Limited has determined that the project of establishing a bank for the charity sector is viable in all relevant respects.