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Our File: DVN 8155

PRIVATE AND CONFIDENTIAL

Promedent Administration Inc.
Attn: Ms Theresa Ko
1-2066 Qualicum Drive
Vancouver BC V5P 2M2

November 8, 2001

Dear Sir/Madam

Promedent has asked KPMG LLP to comment on whether The Promedent Plan™ qualifies as a private health services plan ("PHSP") as defined under the Income Tax Act of Canada ("ITA").

Facts and Assumptions

The conclusion contained in this letter is based on the facts, assumptions and representations stated herein. You have represented to us that you have provided us with all facts and circumstances that you know or have reason to know are pertinent to this letter. If any of these facts, assumptions or representations are not entirely complete or accurate, it could have a material effect on our opinion and it is imperative that we be informed immediately in writing as to the incompleteness or inaccuracy that could cause us to change our opinion.

Our views expressed herein take into account the applicable provisions and administrative interpretations of the ITA and other relevant tax and statutes, the regulations there under and applicable tax treaties. Our opinion also takes into account all specific proposals to amend the Act or other relevant statutes and tax treaties publicly announced prior to the date of our advice. Based on the assumption that these amendments will be enacted substantially as proposed. Our opinion does not otherwise take into account or anticipate any changes in law or practice, only judicial, governmental or legislative action or interpretation. Any such changes could have an effect on the validity of our opinion. Unless you specifically request otherwise, we will not update our advice to take any such changes into account.

Our views are of a general nature and are not intended to express an opinion of the firm on specific situations involving The Promedent Plan™. Individuals or other entities intending to enter into an arrangement with Promedent Plan™ should consult their own professional advisors after a thorough examination of the facts of a particular situation.

1. Promedent is in the business of providing administrative services, more specifically, services relating to administering employer's reimbursement of medical and dental expenses to employees.

2. The mechanics of The Promedent Plan™ are as follows:

    - The employer, which may be an incorporated entity or unincorporated business owner, enters into an Administrative Services Agreement (the "Agreement") with Promedent whereby the employer agrees to reimburse eligible medical and/or dental expenses incurred by its eligible employees up to a certain limit decided by the employer. There is a one-time registration fee payable by the employer.

    - Only expenses that qualify as medical expenses under subsection 118.2(2) of the ITA are eligible for reimbursement.

    - The employer would review and approve the claims submitted by employees before the claims are forwarded to Promedent. These processes are undertaken on-line via the Internet where applicable.

    - Promedent would process the approved claims by charging the employer an amount equal to the amount of the claims plus an administrative fee and then reimbursing the employees of the amount under the claims. Secured electronic fund transfer is used where applicable.

The Promedent Plan™ Literature

Our comments are based on the information provided to us by the management of Promedent including the following literature and sources:

- Booklet "The Promedent Plan™ - Benefiting Working Canadians" which includes a copy of the Agreement (Appendix I) and a list of eligible expenses (Appendix II)

- Website www.promedent.ca (the "Website")

Relevant Law

Pursuant to subparagraph 6(1)(a)(i) of the ITA, contributions made by an employer to or under a PHSP, as defined under subsection 248(1) of the ITA, on behalf of an employee are excluded from the employee's income from an office or employment. The contributions are business outlays of the employer for purposes of paragraph 18(1)(a) of the ITA.

Since 1998, owners of unincorporated businesses are also allowed to deduct certain PHSP premiums in the calculation of their business income pursuant to section 20.01 of the ITA.

Discussion and Analysis

In order to qualify as a PHSP, The Promedent Plan™ must be a plan in the nature of insurance. In accordance with Interpretation Bulletin IT339R2 "Meaning of Private Health Services Plan", the Canada Customs and Revenue Agency ("CCRA") has accepted that a "cost-plus" arrangement may qualify as PHSP. The employer must have a contractual obligation to reimburse the employees. CCRA Technical Interpretation #9927395 dated November 26, 1999, confirms that a cost-plus arrangement could be made between the employer and an administrator in the business of offering its services as an administrator of Private Health Services Plan. Based on our review of The Promedent Plan™ literature, we understand that The Promedent Plan™ is a contract between the employer and Promedent whereby the employer promises to reimburse the cost of the employees' medical claims plus an administration fee to Promedent. It is therefore a "cost-plus" plan permitted under CCRA's administration position. The legal obligation of the employer to reimburse the employees' medical claims is evidenced by the first paragraph of the signed Agreement.

Pursuant to Interpretation Bulletin IT339R2, the coverage under a PHSP must be in respect of hospital care or expense or medical care or expense which normally would otherwise have qualified as a medical expense under the provision of subsection 118.2(2) of the ITA. The first paragraph of the Agreement specifies this requirement. We have also reviewed the list of eligible expenses, which is consistent with subsection 118.2(2) of the ITA and Interpretation Bulletin IT519R "Medical Expense and Disability Tax Credits and Attendant Care Expense Deduction".

Pursuant to Interpretation Bulletin IT529 ("Flexible Employee Benefit Programs"), in order for an employee spending account to qualify as a PHSP, the account must be a plan of insurance. As a result, there must be an element of risk that the employee will not eventually be reimbursed for the annual dollar maximums under The Promedent Plan™. The carry-forward of either the unused credits or unused medical expenses up to a maximum of 12 months is permissible. Per paragraph 2 of the Agreement, The Promedent Plan™ does not allow carryforward or carryback of unused entitlements or expenses. We understand that The Promedent Plan™ may incorporate the provision allowing carryforward of unused credits up to one year, and that employees are not otherwise granted unspent annual dollar maximums. The existing provision and the proposed amendment are consistent with CCRA's stated position.

The amount that may be reimbursed to the employees and thus deducted by the employers as business outlay must be reasonable. CCRA has indicated that a PHSP that has no limits may be subject to section 67 of the ITA (Technical Interpretation #9928225 dated November 25, 1999). Under the terms of The Promedent Plan™, the employer decides the claim limit for each employee and ensures that the claims do not exceed the limit. The Website material available to the employer includes the comment that any expenses must be reasonable in order to be deductible. The Promedent Plan™ thus permits reasonable claim limits.

When employees who are also shareholders receive benefit under a health care plan, the general presumption of CCRA is that the benefit is received by virtue of shareholdings. In its Technical Interpretation #9815645 dated July 27, 1998, CCRA has confirmed that where coverage under a PHSP is extended to non-shareholding employees, the benefit received would normally be considered as an employment benefit rather than a shareholder benefit. If all employees were shareholders then the benefit received would normally be considered as an employment benefit rather than a shareholder benefit.

Since 1998, a proprietor is allowed to deduct PHSP premiums pursuant to section 20.01 of the ITA. The maximum permitted under the ITA is $1,500 for an owner manager employee, plus $1,500 for their spouse and $750 per child.

CCRA has stated in various interpretations (i.e. Technical Interpretation #9904155 dated April 28, 1999, Technical Interpretation #2000-0043534 dated October 6, 2000, and Technical Interpretation #2000-0028094 dated June 29, 2000) that a cost-plus plan between a proprietor (who has no employee) and an administrator does not qualify as a PHSP, as the arrangement does not contain the necessary elements of insurance. We have reviewed The Promedent Plan™ literature in this respect. It is our understanding that Promedent will not knowingly enter into any agreement with sole proprietors who do not have any employees. Accordingly, The Promedent Plan™ is within the premises of a PHSP, provided the proprietor has employees and the plan is made available to those employees.

Conclusion

Based on our understanding of facts and information provided to us, and the foregoing analysis and discussions, in our view, The Promedent Plan™ qualifies as a PHSP.

Yours very truly,

KPMG LLP

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Enclosure