

Canadian Federal Income Tax Consequences

This discussion provides information regarding certain Canadian federal income tax consequences of the Spin-Off generally applicable to Time Warner stockholders who, for purposes of the Income Tax Act (Canada) (the “Canadian Tax Act”) and at all relevant times, (i) are resident or deemed to be resident in Canada, (ii) hold their Time Warner common stock and will hold their TWC common stock as capital property, (iii) deal at arm’s length with Time Warner and TWC, (iv) are not affiliated with Time Warner or TWC, and (v) are not subject to the “functional currency” reporting rules in the Canadian Tax Act (“Canadian Holders”). This discussion does not address tax consequences to a Canadian Holder who holds Time Warner common stock through a deferred income plan or to a Time Warner stockholder that is a “financial institution” for purposes of the “mark-to-market” rules in the Canadian Tax Act.

The Canadian Tax Act provides that a distribution by a U.S. resident corporation of common shares of another U.S. resident corporation to Canadian Holders in a U.S. tax-free distribution may, in certain circumstances, qualify for tax-free treatment under the Canadian Tax Act. The Canada Revenue Agency (“CRA”) has determined that the Spin-Off qualifies for tax-free treatment under the Canadian Tax Act, and the CRA has posted such information on its website. Because the Spin-Off qualifies for tax-free treatment, a Canadian Holder is generally entitled to make an election to have the distribution of TWC common stock not included in the stockholder’s income for Canadian tax purposes. Where a valid election is made, the adjusted cost base of a Canadian Holder’s shares of Time Warner common stock immediately before the Spin-Off is required to be allocated between such shares of Time Warner common stock and the shares of TWC common stock received by the Canadian Holder in the Spin-Off, in accordance with a formula based on the relative fair market values of such Time Warner common stock and TWC common stock immediately after the Spin-Off. Additional guidance regarding adjusted cost base where a valid election is made is set forth below. *In order to receive tax-free treatment, a Canadian Holder must make a valid election pursuant to section 86.1 of the Canadian Tax Act. The election must be made in writing, must be filed with the stockholder’s paper tax return for the taxation year that includes the date of the Spin-Off, and must provide the information required by CRA. Electing Canadian Holders are urged to contact their own tax advisors for advice regarding the consequences of making such an election having regard to their own circumstances, and for detailed advice concerning the procedure to be followed to make such an election.*

If a valid tax election, as described above, is not filed, a Canadian Holder would be required to include in the stockholder’s income for Canadian tax purposes, as a taxable dividend from Time Warner, an amount equal to the fair market value of the shares of TWC common stock received, determined as of the date of the Spin-Off. Canadian Holders would not be entitled to the gross-up and dividend tax credit treatment (for individuals) or the inter-corporate dividend deduction (for corporations) normally applicable to dividends received from taxable Canadian corporations.

Canadian Holders will be considered to have disposed of any fraction of a share of TWC common stock for which they receive cash, and will realize a capital gain (or capital loss) to the extent the cash so received exceeds (or is less than) the aggregate of the adjusted cost base of such fraction of a share and any reasonable costs of disposition. In general, one-half of a capital gain is included in income as a taxable capital gain and one-half of a capital loss is deducted against taxable capital gains to the extent and under the circumstances specified in the Canadian Tax Act.

A Canadian Holder that is a “Canadian-controlled private corporation” for purposes of the Canadian Tax Act is required to pay an additional 6-2/3% refundable tax on its “aggregate investment income,” which includes an amount in respect of dividends, such as the distribution of TWC common stock pursuant to the Spin-Off, and any taxable capital gains from cash received in lieu of TWC common stock.

GENERAL GUIDANCE REGARDING TAX BASIS IN A TAX-FREE SPIN-OFF

The discussion below applies to U.S. Holders. The discussion below, while based on U.S. tax rules, is also generally applicable to Canadian Holders who make a valid election under section 86.1 of the Canadian Tax Act, subject to the qualifications that (i) references below to “tax basis” should be read as references to “adjusted cost base,” (ii) the discussion below does not address the detailed rules in the Canadian Tax Act relevant to the computation of adjusted cost base including the averaging rules, and (iii) each amount relevant to the computation of a Canadian Holder’s Canadian tax results must be computed in Canadian currency based on the rate of exchange quoted by the Bank of Canada at noon on the day on which the amount first arose or such other rate of exchange as is acceptable to CRA.