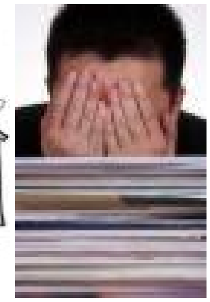
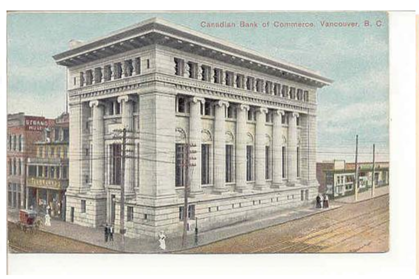
Mexico has a value added tax that is applied to most products and services. It is 15% in most of the country and 10% in border areas.



PERSONAL CONCLUSION

Mexico is modernizing. In the past, the Mexican governments simply printed money to meet its needs, or relied on oil revenues, and tax collection was a secondary source of income. The country today is run more responsibly and it is not possible to simply to order the Bank of Mexico to print an extra billion here and there.

Necessarily, the government must now look to taxes as one of its primary sources of income in order to meet its residents' needs (including the needs of its expatriate community). As it does, the government will become stricter in its enforcement, as well as more efficient. This is not welcome news to those that move to Mexico in order to avoid all income taxes. However, those that are willing to pay their fair share will find that by planning effectively they may even pay fewer taxes than they did back home. This is certainly the case for most Canadian citizens that move to Mexico and is also the case for many US citizens.



A Mexican Company will be subject to the current following taxes during its operation:

CORPORATE TAX

A Corporate Tax assessable at a maximum rate of 35% must be paid annually to the Tax Authorities on the Company's taxable profits. The procedure to calculate such profits is by deducting certain allowed expenses from the total accruable gross income.

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Most of the Company's income is considered accruable for Income Tax purposes at the time any of the following situations occur:

1. Invoices are issued;
2. When the goods are delivered to the buyer, or the services are rendered; and
3. When the total or partial amount of the transaction is collected or is payable, including advance payments.

Basically the allowed deductions are all costs and-or expenses strictly necessary to carry out the Company's businesses.
Except for the first year of operations, all Mexican corporations must file their income taxes through monthly provisional payments. These provisional payments will be credited against the annual Income Tax Return.

TAX ON ASSETS

There is also a Federal Tax on Corporate Assets, established at a 1.8% rate. This tax will be applied on certain current assets and on fixed assets of Mexican companies and foreigner's assets within Mexico to be transformed and returned out of Mexico (e.g. "Maquila"). This tax will be paid on an annual basis through monthly provisional payments.

If in any fiscal year the income tax paid by a company exceeds the tax on assets paid by such company, the taxpayer may request a refund equivalent to the amount of tax on assets paid for that fiscal year and for the previous 10 (ten) fiscal years in which the tax on assets had been paid and the taxpayer had not requested a refund. Likewise, if in any fiscal year the tax on assets paid, exceeds the income tax paid, the taxpayer may credit against the tax on assets the income tax paid.

Additionally, the Tax on Assets is not due during the pre-operational period, the first three years of operation and during the liquidation of the company unless this liquidation lasts for more than two years. There is an option whereby the local manufacturing company can assume the tax liability of the foreigner on the assets to be transformed and as a consequence the liability on the foreigner is avoided. Through this option the local manufacturing company can credit this tax against its own corporate income tax.

VALUE ADDED TAX

A company doing business in Mexico will be obligated to pay Value Added Tax ("VAT") when it carries out any of the following activities:

1. Alienates or leases goods;
2. Renders independent services; or
3. Imports goods and/or services.

This tax shall be calculated by applying the general rate of 15% to the price of the goods or services. If residents in defined Border Areas of Mexico (North America and Central America) perform the foregoing activities, the applicable rate will be 10%.

The VAT is charged to the taxpayer who acquires the goods or receives the services from the Company. Therefore, the VAT must be stated separately in the invoice of the goods or services.
Basically, the Company shall pay to the Tax Authorities the difference between the VAT it has transferred to its clients or paid on the importation of goods and services from the VAT the company had paid to third parties during the course of business.

However, if the Mexican company with an Export Incentive Program authorized by the Ministry of Economy (see below), definitively exports such goods or services from Mexico, and such goods or services are utilized entirely outside of Mexico, the VAT shall be 0%.

SPECIAL TAX ON PRODUCTION AND SERVICES (STPS)

Anyone who carries out the following activities is subject to the STPS:

Alienation within the Mexican Territory or the importation to Mexico of the following goods and the rendering of the following services, among others: (i) certain alcoholic beverages; (ii) tobacco, cigarettes and cigars; (iii) fuel and natural gas; and (iv) sweeteners others than sugar, soft drinks, sodas, etc. (this last one in effect as of September 30, 2002 in accordance with the Presidential Decree published on March 5, 2002).

Taxpayers will be subject to a graduated withholding tax up to 110%, depending on the type of good or service.

LUXURY TAX

As from January 1, 2002, the Mexican Congress established that the end customer/user has to pay a 5% tax on certain (a) sales of goods, (b) services rendering, (c) leasing of mobile goods, and (d) import of goods, specifically considered as luxury goods and services as described by such Law.

Some of the luxury goods are: (a) caviar, salmon, perfumes, (b) cars above $250,000 MexCy., leather clothes (except shoes), computers worth $25,000 MexCy., (c) jewelry and ornaments above $10,000 MexCy., and (d) 25´´ TV, Flat Panel Monitors, PDAs, VideoCams, DVD Players and Audio/Video Systems above $5,000 MexCy. This luxury tax on the products mentioned above (except for the cars) will not be applicable in the State of Baja California or in a strip of territory of 20 kilometers wide along the frontiers. Some of the luxury services are: (a) all type of quotes to clubs that allow the user to practice golf, equestrianism, polo, car races and water sport races, (b) membership quotes for restricted access restaurants, bars or clubs, (c) services on restaurants selling drinks and bars.

Some of the leases taxed are for: (a) Airships (except fumigators), (b) motorbikes with 350 cm2 cylinder capacity, motor water ski and water bikes, (c) $250,000 MexCy. cars, and (d) 25´´ TV, Flat Panel Monitors, PDAs, VideoCams, DVD Players and Audio/Video Systems above $5,000 MexCy. The seller or provider of such luxury goods or services has to withhold this 5% tax to thereafter, deliver it to SHCP on a monthly basis.

This tax has been criticized by many economic sectors. As a result of the inconformity, such economic sectors have challenged the constitutionality of this tax by filing for the "Amparo", a Constitutional Writ, allowing that only those to whom the Supreme Court grant it, will not have to withhold this 5%. At this moment, there is not a clear path on the resolution that the Supreme Court will take.

PAYROLL TAXES

The Company shall be subject to a local state payroll tax which rate will depend on the location of the working facilities. On the other hand, the Federal Government also requires corporations to make social security and other labor related contributions which can amount to up to 35% of the payroll. Such contributions are as follows:

A. SOCIAL SECURITY CONTRIBUTIONS

The Social Security contributions must be withheld, paid by an employer and remitted to the Mexican Institute for Social Security every month. Additionally, employers are required to contribute to their employees Social Security. Both contributions will be based on a percentage of the employees' wages. The following rates are applicable:

(i) Sickness and maternity - approximately 8.75% by the employer and 1% by the employee;
(ii) Invalidity- 2.80% by the employer and 3.125% by the employee; and
(iii) Retirement fund, old age, severance pay- 5.150% by the employer and 1.125% by the employee.

B. HOUSING

In addition to the contributions required by the Social Security Law, the Labor Law establishes that employers must contribute to the National Worker's Housing Institute an amount equal to 5% of the employees' wages.

C. PREMIUM FOR OCCUPATIONAL RISKS

The employer must also pay a premium for each employee which is based on a percentage of the employee's salary and varies according to the risk level of a particular job. Such percentages vary from .54% for administrative type employees to 7.5% for employees engaged in heavy industry.
Payroll fees and taxes are deductible for income tax purposes.

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TAXATION OF FOREIGNERS

Mexico's tax treatment of income earned by foreigners is comparable to that of the U.S. and other industrialized nations.

Mexico has negotiated international tax agreements with a number of its major trading partners, such as Canada and the U.S. These agreements have two basic objectives: (i) to ensure that each Contracting State allows tax credits for income taxes paid to the other Contracting State to avoid double taxation; and (ii) to reduce the taxes that each Contracting State may impose on the nationals of the other (e.g. taxes on income from interest on loans, dividends, and royalties).

Mexico signed and ratified a bilateral income tax treaty with Canada in 1992 Convention between the Government of Canada and the Government of the Mexican U.S. for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed April 18, 1991, and published in Mexico on July 17, 1992 and in Canada on, May 28, 1992 (the "Canada-Mexico Tax Treaty"); and signed a similar treaty with the U.S. later that same year (Convention Between the U.S. Government and the Government of the United Mexican States for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income) signed Sept. 18, 1992 and which entered into effect January 1, 1994 (the "U.S.-Mexico Tax Treaty").

WITHHOLDING THIRD PARTY TAXES

A. FEES FOR INDEPENDENT SERVICES

In case a resident company pays fees for independent services rendered within Mexican Territory by residents in Mexico a 10% tax will be withheld. In case the individual or legal entity resides abroad, but renders services within the Mexican Territory the withholding gross rate shall be of 25%.

In accordance the provisions of the U.S.-Mexico Tax Treaty, it is established that the income of this type can only be taxed by the state of residence of the rendered of the services. Such income can be taxed by the state different from the state of residence if:

(i) the renderer has a permanent establishment in the state different from his state of residence; or
(ii) the staying period of the service renderer in the foreign country different from the country of its residence exceeds 183 calendar days during any continuous twelve month period, since the renderer will automatically acquire residence in that other state by exceeding the mentioned limit.

B. SALARIES

All salary payments for workers residing in Mexico will be subject to a withholding tax of up to 32%, and for workers that reside abroad, the tax shall be calculated applying the rates of the ITL. However, salaries of foreign employees paid in Mexico by foreign employers that do not have a permanent establishment are exempt from the ITL, in Mexico, if the employee's stay in the Mexican Territory does not exceed 183 calendar days, consecutive or not, in a period of twelve months.

Likewise, in accordance with the U.S.-Mexico Tax Treaty, the general rule states that the salaries, wages, and similar remunerations obtained by a person through employment, can only be taxed in the state of residence.

However, such income can be taxed by the state different from the state of residence when:

i. The employment is performed in that other state;
ii. The receiver remains more than 183 days consecutive or not in any 12 month period, since the receiver will automatically acquire residence in that other state by exceeding the mentioned limit;
iii. The remunerations are not paid by the employer that is not a resident in that other state and it does not have a permanent establishment; and
iv. The remunerations are supported by a permanent establishment of that other state.
Individuals must include in their own taxable incomes those ones received in the period by companies, entities and a trust located or resident in low-tax jurisdictions (tax havens), in proportion to their daily average share holding in the period, even when such income has not been distributed. This income is not considered for the purpose of advance tax payments. Authorized deductions may be taken and prior year´s tax losses may be carried forward provided that the foreign entities accounting records are at the disposition of the tax authorities. As with business entities, individuals must file an annual information return reporting investments held in those so low-tax jurisdictions.

C. ROYALTIES

All payments related with royalties or technical assistance are considered originated from a Mexican source of income when the benefit of the goods or services subject to the royalty payment is within Mexico. Technical assistance and royalties different from those mentioned in the next paragraph are subject to a withholding rate of 25%.

Royalties paid for the use or exploitation of patents or certificates of invention or improvement, trademarks and commercial names, as well as advertising are subject to a withholding rate from 3% to 32%. In accordance with the U.S.-Mexico Tax Treaty, the use and temporary enjoyment of industrial drawings and models, patents, trademarks and commercial names are considered royalties. The tax on these royalties shall not exceed 10% of the gross amount thereof if the effective beneficiary is a resident of the U.S. Likewise, such Treaty does not consider the technical assistance or transfer of technology and publicity as royalties. Therefore, they shall not enjoy the benefits of the Treaty, and the tax shall be calculated in accordance with the applicable laws of each state in particular, this is 25% on royalties for technical assistance or transfer of technology and from 3% to 32% on royalties for publicity in the case of Mexico. The ITL provides that the following requirements must be met for the payments under technology transfer or assistance or know-how to be deductible:

i. the supplier party must have proper technical elements for such purpose;
ii. the transfer of technology or know-how or assistance must be effectively performed and not merely made available, except in those cases in which payments are made to residents of Mexico and the agreement provides that the assistance or transfer shall be performed by a third party; and
iii. The services have actually been rendered.

D. INTEREST (FINANCING)

According to the ITL, interest payments derived from loans granted by foreign banks registered before the Mexican Ministry of Finance, interest payments from loans by foreign State=s financial entities, interest payments to foreign entities derived from debt quoted in a stock exchange are all subject to a withholding rate of 10%.

The interest payments from negotiable instruments, bonds, debentures, real state certificates, loan of securities, provided that these ones are placed in a stock exchange, are subject to a withholding rate of 4.9%.

However, if the beneficiaries of such interest payments are residents in a country which has a tax treaty with Mexico, the withholding tax rate shall be 4.9%.
If interest is paid to re-insurance companies, the rate will be 15%. If said interest payments are made to non-registered foreign financial entities and to suppliers or lenders for the acquisition of machinery and equipment for commercial/industrial activities in general, the withholding tax prevailing shall be 21%.
A withholding tax rate from 3% to 32% will be levied on interest payment derived from situation different from those mentioned in the preceding paragraphs.
However, if the beneficiaries of such interest payments are residents in a country that has signed a tax treaty with Mexico, the withholding tax rate shall be 10%.
In accordance with the provisions of the U.S.-Mexico Tax Treaty, the following applies (although in this case the ITL provides better benefits):

i. By general rule, the tax on interests is allowed in the state from which they originate;
ii. It is important to consider the debtor=s residence status;
iii. If the effective beneficiary of the interest payments resides in the U.S. or in Canada, the withholding rate that shall prevail is:

(a) 4.9% on gross interests derived from loans granted by banks, insurance companies and negotiable securities in a well known stock market.
(b) 10% on gross interests derived from loans different from those mentioned in sub-section (a) above, or when the debtor is a bank or the buyer of machinery and/or equipment.
(c) 15% on gross in all other cases.
iv. Of the effective beneficiary of the interest payments performs or has performed entrepreneurial or professional activities by means of a permanent establishment in Mexico from which such interest payments derive, the interest payments mentioned in sub-section (a) and (b) will not apply.

E. DIVIDENDS

Dividends are subject to a special tax treatment. The main objective of the ITL regarding this matter is to avoid tax burdens on dividends that have already been levied with income tax. For this purpose, a "net profit account" has to be determined every time a Company pays dividends or when the year's fiscal profits have been determined. In general terms, profits net from income tax, profit sharing and non-deductible expenses, increase the "net profit account", and the payment of dividends reduces the account.

If the amounts of dividends to be paid exceed the "net profits account", the excess is levied up to 35% rate, dividends paid which do not exceed the "net profits account" are levied at 0%. However, due to a gross up of the income tax in the operation, the beneficiary receives the total amount of dividends and the Company absorbs the tax burden. However, under the U.S.-Mexico Tax Treaty, this rate is 10%. Even though this is arguable, the Ministry of Finance applies the treaty rate.

For profits or money remittances to the parent company abroad, as subject up to 35% rate provided that such profits or remittances do not come from the "net profit account", "reinvested net profit account" or "capital remittances account". If the foreign individual or entity receiving dividends is a resident in a low-tax jurisdiction (tax havens) the withholding rate will be 40%.

The definition of dividends into the ITL also comprises any amount received from the partners of an "Association in Participation" from the managing partner thereof.

In general terms, according to the U.S.-Mexico Tax Treaty, if the effective beneficiary of the dividends is a resident in the US, the withholding tax rate shall not exceed the following:

(a) 5% levied on the gross amount of dividends if the effective beneficiary owns at least 10% of the shares of the capital stock with voting rights.
(b) 10% levied on the gross amount of dividends in all other cases.
The above mentioned will not apply if the beneficiary of the dividends performs or has performed entrepreneurial activities by means of a permanent establishment in Mexico and such dividends derive from the permanent. If this is the case, the tax treatment that would prevail would be based on the Company’s profits from such permanent establishment.

LEASE OF REAL OR PERSONAL PROPERTY

Non-residents= income derived from the lease of real or personal property is taxed at a flat rate of 25% with no deductions, except for the lease of railroad cars, containers, airplanes, and ships for commercial transportation, which is taxed at 5%.

CAPITAL GAINS

Gains from the sale of shares or securities representing property located in Mexico, fixed assets, securities, or shares of Mexican companies are taxed at a flat rate of 20% of the gross proceeds of the sale. However, the nonresident may elect to pay tax at the rate of 25% on the net taxable gain realized, provided that the nonresident has a legal representative in Mexico, who will calculate and pay the corresponding tax to the tax authorities. If the seller is a resident of a low-tax jurisdiction (tax haven), such seller can only apply the 25% rate.

JOINT LIABILITY OF WITHHOLDER

Any company resident in Mexico or a permanent establishment in Mexico, must comply with the withholding and payment of taxes on behalf of third parties. If such taxes are not withheld and paid to the Tax Authorities, aside from imposing surcharges and penalties on the Company, the latter is not authorized to deduct them as expenses for Income Tax purposes.

U.S.-MEXICO INCOME TAX TREATY

The U.S.-Mexico Tax Treaty reduces the taxation of investment income flowing between the two Countries. The Treaty includes provisions designed to prevent double taxation and to reduce each Country's tax rates on various types of income earned by nonresidents.

Note that the Treaty applies only to income taxes and does not cover sales taxes (e.g., the Mexican Value-Added Tax), social security taxes, etc. The following is a summary of the key provisions of the Treaty.

A. RESIDENCE/PERMANENT ESTABLISHMENT

The U.S.-Mexico Tax Treaty provides extensive definitions of the terms "residence" and "permanent establishment" to clarify each Country's rules for the taxation of nonresidents (mentioned above).

B. ROYALTIES

The U.S.-Mexico Tax Treaty has lowered Mexico's withholding tax on royalties to a flat rate of 10%.

C. DIVIDENDS

The Treaty has also lowered the US withholding tax (equivalent to the ITL) on dividends paid by US companies to Mexican residents to 5% or 10% depending on the interest in the company.

D. RELATED PARTIES (TRANSFER PRICING)

In order to avoid tax evasion through transactions between related parties (e.g., a U.S. parent corporation with a Mexican subsidiary), the Treaty authorizes the Contracting States to tax such enterprises on any profits that would have been obtained if the transaction were conducted between non-related parties in an arm's length transaction.

E. ASSET TAX

Although the U.S.-Mexico Tax Treaty does not apply to the Mexican Asset Tax, it assures that U.S. companies will not lose the benefits of the Treaty through application of the Asset Tax. Mexico will apply the Asset Tax to U.S. companies only on income from royalties, real estate, or a permanent establishment in Mexico, in those cases, Mexico will grant a tax credit to compensate for any benefits lost from the Treaty (see U.S.-Mexico Tax Treaty, Protocol No. 3).

F. CHARITABLE ORGANIZATIONS

Mexico and the U.S. have agreed not to tax religious, scientific, literary, educational or other charitable organizations that are residents of the other country if such organizations are exempt from taxation in that other country. In addition, both Countries will allow the deduction of charitable contributions made to qualifying organizations of the other country.

G. DISPUTE RESOLUTION

Under the U.S.-Mexico Tax Treaty, residents of the U.S. and Mexico are be able to challenge violations of the Treaty through each Country's legal system or the Treaty's "Mutual Agreement Procedure," which provides for consultation between the competent authorities of each Country to resolve the dispute. If the competent authorities cannot resolve the dispute, the Treaty provides for binding arbitration upon the consent of both the taxpayer and the government authorities.

H. OTHER PROVISIONS

The Treaty clarifies ambiguities with regard to shipping and air transportation, income from real property, visiting artists and athletes, government employees, students, and income from pensions, annuities, alimony, and child support.
The Treaty also contains a special provision which extends the benefits of the Treaty to entities owned by residents of the NAFTA Parties, even if the particular entity does not satisfy the Tax Treaty's residency requirements.

Finally, the Treaty provides for the exchange of information and cooperation between the tax authorities of Mexico and the U.S. for the purpose of preventing tax evasion. These provisions incorporate and expand upon a prior treaty concluded between the U.S. and Mexico for the exchange of tax information (Convention between the U.S. and the United Mexican States for the Exchange of Information with Respect to Taxes, signed on November 9, 1989, effective January 18, 1990, reprinted in "Highlights and Documents," H&D International Tax, November 15, 1989, at 1635).