

Transcription of notes of Marie Ellen Lopez regarding discussions with Alessandro Kerr and Alexandra Roth.

Maria Ellen Lopez: (auditor)

Good afternoon Mr. Kerr and Ms. Roth, as you know, I am conducting an audit of your company, Mercury Limited. I have a few questions relating to certain transactions recorded in the books and records which I reviewed, and was hoping that you could provide some information or clarification.

Alessandro Kerr:

Sure, I will try to answer your questions, but anything with the accounting side of things – you should be talking to our accountant at Future's Accounting; they should be able to provide you with any other information you need.

Alexandra Roth:

Yes, I remember the accountant handling our file is Cosmo Cooks.

Maria Ellen Lopez (auditor)

Okay, thank you – just a few things.

According to information in the records, the business activity of Mercury Limited is investment holdings. Is that correct?

Alessandro Kerr:

Yes, Mercury Limited holds and owns various assets which include stocks, bonds, securities, and other debt instruments. The revenue earned is income from dividends, interest as well as profits or losses from buying and selling securities traded on stock exchanges from around the world, as well as some foreign exchange trades.

Marie Ellen Lopez: (auditor)

Okay, and during the year, who keeps track of the day-to-day business activity.

Alexandra Roth:

We have an employee who handles the day-to-day bookkeeping. Our bookkeeper prepares the journals and summaries for the accountants at Future's Accounting. Alessandro and I have limited involvement in the accounting side, as we are very busy monitoring changes in the financial markets on a daily basis and the impact on the company's asset values, meeting with wealth management advisors and brokers, as well as ensuring the company has sufficient liquidity to service monthly interest charges on its debts owed to various lending institutions.

Marie Ellen Lopez: (auditor)

So, the majority of the expenses of the company are related to interest charges and debt repayments?

Alexandra Roth:

Yes, interest and debt service charges are significant, but we have other expenses related to overhead such as rent for our offices, property taxes, as well as legal fees and other expenses associated with operating this type of business. We also have salaries which Alessandro and I draw from the company during the year.

Marie Ellen Lopez: (auditor)

Okay, so in 2018 and 2019, I noticed that there were a few payments issued by Mercury Limited to a company called Silver Holdings Incorporated which were claimed as deductions from income. The total amounts issued to this company were \$7,250,000 in 2018 and \$4,000,000 in 2019.

Now, when I was examining the books and records, I didn't see any invoices from Silver Holdings Incorporated, so could you explain what was the nature of these expenses?

Alessandro:

I don't remember specifically receiving any invoices, but as you can see, we did pay out the amounts you mentioned.

Marie Ellen Lopez: (auditor)

Okay, so what does Silver Holdings Incorporated do? –what services did they perform for your company?

Alessandro:

Well, I don't know how one would classify the services, but my understanding is that Silver Holdings was also in the business of holding assets.

Marie Ellen Lopez: (auditor)

Do you mean that these payments were issued to acquire assets like the those held by Mercury Limited?

Alessandro:

Yes, I think that might be a fair way of putting it.

Marie Ellen Lopez: (auditor)

Okay, but I didn't see any corresponding increases in assets in the company's the balance sheet --

Alexandra:

Well, some of the assets held by Mercury Limited were liquidated in 2018 and 2019. The proceeds were then transferred to Silver Holdings Incorporated which were used to buy investments. It was my understanding that any profits or losses that were realized have been properly reported in Mercury's financial statements and tax returns.

Marie Ellen Lopez: (auditor)

Do you mean that Silver Holdings holds and owns those assets, not Mercury Limited?

Alexandra:

Yes, that is my understanding.

Alessandro:

Yes, Silver Holdings owns those assets – that's what I understood too.

Marie Ellen Lopez: (auditor)

Okay, so if the amounts issued to Silver Holdings Incorporated were used to buy assets, help me understand why were those amounts claimed as deductions or expenses against income of Mercury Limited for those years?

Alexandra:

Well, we received some financial advice that the company (Mercury Limited) was entitled to claim the amounts paid to Silver Holdings Incorporated as a tax deduction because new assets were being acquired by another company that was formed. That company was Silver Holdings Incorporated.

Marie Ellen Lopez: (auditor)

Okay help me understand some more. Were the amounts paid to Silver Holdings a loan from Mercury Limited? Were there any terms or conditions attached to transferring the funds to Silver Holdings or what assets were to be acquired by Silver Holdings?

Alessandro:

No, I don't think it was a loan or recall it was a loan, and I don't recall any terms or conditions attached to the funds or what kind of assets Silver Holdings was to acquire. As Alexandra said, we received financial advice that our company could transfer some of its assets to Silver Holdings. We understood Silver Holdings would hold and own the assets in its own name and accounts.

Marie Ellen Lopez: (auditor)

So, if Mercury Limited transferred \$11,250,000 to Silver Holdings and it was not a loan, then who was supposed to report the income earned from the assets and investments acquired from funds provided by your company?

Alexandra:

I would assume that Silver Holdings would have reported the income from the assets it acquired – because we understood it owns the assets. You would have to check with the owners or directors of that company. The financial advice we received before deciding to transfer funds was that Mercury didn't have to report the income because we entered into some type of restricting or arrangement in which our company could potentially save on income taxes.

Marie Ellen Lopez:(auditor)

Okay, can you tell me who are the shareholders of Silver Holdings. Did Mercury Limited own shares in Silver Holdings?

Alexandra:

I really don't know who the shareholders of Silver Holdings are, but I know we are not the shareholders of Silver Holdings. Mercury Limited also does not own any shares in Silver Holdings, and we don't control that company.

Marie Ellen Lopez: (auditor)

Okay, you said you received some financial advice about transferring funds to Silver Holdings and that as a result, there potentially could be some savings in income taxes payable by Mercury? Is that correct?

Alexandra:

Yes, we received financial advice about a tax planning strategy, and we were told that it was totally permissible under the tax rules and laws of Corada. Our company, Mercury Limited, could save income taxes by claiming the amounts as tax deduction, if we structured the transfer of funds to Silver Holdings in a specific way. We understood that many people used this strategy or similar ones like it to do the same thing.

Marie Ellen Lopez: (auditor)

Did your company Mercury Limited receive any consideration in return for the funds it transferred to Silver Holdings?

Alexandra:

Part of the advice we received was that some funds from Silver Holdings could be received in a way that was not taxable or reportable because neither Mercury Limited nor we were the shareholders of that company. We understood that the income from the assets held by Silver Holdings was to be reported in the country where it was incorporated.

That is all I really know – we both relied on that financial advice and were told this was legal and followed the applicable tax laws of Corada. Mercury Limited paid significant set up fees to implement this tax planning strategy and I remember there were some documents which set out everything about the strategy so that it was legal and everything.

Marie Ellen Lopez: (auditor)

Do you know or remember which country Silver Holdings was incorporated?

Alexandra:

I don't recall which country Silver Holdings was incorporated – that was not important to us because, as I've said, we didn't own that company or have any interests in it or control it– so it didn't make any difference to us where the company was located.

Marie Ellen Lopez: (auditor)

Okay, thanks – just to recap, you don't control or own any shares in Silver Holdings, and Mercury Limited didn't receive any consideration for the funds it transferred. But some funds could be received from Silver Holdings because any income from the assets it purchased with the funds from Mercury would be reported by Silver Holdings.?

Alessandro:

Yes, I think that would be correct more or less.

Marie Ellen Lopez: (auditor)

Okay thank you. –If I have some further questions, I will contact you.