

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

GROSVENOR PARK MEDIA FUND L.P.

Plaintiff

- and -

**ARC PRODUCTIONS LTD., ARC HOLDINGS INC., ARC INVESTMENTS LTD.,
ARC/DARK CRYSTAL PRODUCTIONS INC., KICK PRODUCTIONS LTD., IN THE
JUNGLE PRODUCTIONS INC., TF I PRODUCTIONS INC., BL II PRODUCTIONS
INC., ARCADIA PRODUCTIONS LTD., EGGS LTD., PRINCESS PRODUCTIONS
INC., UNDERZOO PRODUCTIONS INC., HOLE IN THE BELLY PRODUCTIONS
LTD., SIR SIMON PRODUCTION LTD., SAMURAI PRODUCTIONS LTD., THOMAS
MURRAY, KALLAN KAGAN and PETER KOZIK**

Defendants

**FIRST REPORT OF DELOITTE RESTRUCTURING INC.,
INTERIM RECEIVER OF ARC PRODUCTIONS LTD., ET AL.
(August 8, 2016)**

1. This report is filed by Deloitte Restructuring Inc. (the “Interim Receiver”) in its capacity as interim receiver of the assets, properties and undertakings of Arc Productions Ltd. and the other corporate Defendants (collectively, “Arc” or the “Company”) and the other Property as defined in the Fresh As Amended Interim Receivership Order granted by the Honourable Mr. Justice Penny on Tuesday, August 2, 2016 (the “Interim Receivership Order”).
2. In preparing this First Report, the Interim Receiver has been provided with, and has relied upon unaudited, draft and/or internal financial information, the Company’s books and records, discussions with former management of the Company, and information from

third-party sources (collectively, the “**Information**”). Except as described in this First Report:

- (a) the Interim Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Interim Receiver has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“**CAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Interim Receiver expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and
- (b) the Interim Receiver has prepared this First Report in its capacity as a Court-appointed officer to support the Court’s approval of the relief being sought. Parties using the First Report, other than for the purposes outlined herein, are cautioned that it may not be appropriate for their purposes.

B. Purpose of the Report

3. The Interim Receiver files this report to report on the following issues:

- (a) the unexpected resignation of Tom Murray, the last director and officer of Arc, on Thursday, August 4, 2016;
- (b) the Interim Receiver’s efforts to engage with Arc’s customers and multiple parties with an interest in the Company’s assets; and
- (c) the Interim Receiver’s recommendation that a full receivership order be granted as soon as possible.

C. Background

4. Arc is a corporation incorporated under the laws of Ontario. Arc has its head office in Toronto, Ontario. Arc is in the business of providing animation and computer graphic services to the film and television industry. Prior to the Interim Receivership, Arc had approximately 550 full time and contract employees.
5. Each of the other corporate defendants (the “Corporate Guarantors”) has its head office in Toronto, Ontario, and each is a subsidiary and/or affiliate of Arc.
6. Thomas Murray, Kallan Kagan and Peter Kozik, are the only shareholders of Arc Investments Ltd., the ultimate indirect parent of Arc.
7. On Friday, July 29, 2016, the Plaintiff, Grosvenor Park Media Fund L.P. (the “Lender”), brought a motion seeking the appointment of an Interim Receiver over Arc and certain other property. That motion was granted by the Honourable Mr. Justice Wilton-Siegel, and the Interim Receiver was appointed pursuant the Interim Receivership Order dated July 29, 2016 (the “Original Interim Receivership Order”). The endorsement of Justice Wilton Siegel of July 29, 2016 provided, inter alia, that the Original Interim Receivership Order be confidential, directed that certain of the powers of the Interim Receiver be held in abeyance until August 4, and directed a 9:30 am attendance on August 2. Commencing on August 1, the Company notified its employees not to attend for work on August 2 and directed them to the Interim Receiver. Similarly, the Directors contacted the suppliers and the producers of its various production contracts via email and advised of the Interim Receivership.

8. On Tuesday, August 2, 2016, the Lender sought and obtained the (fresh) Interim Receivership Order.

9. Pursuant to paragraph 14 of the Interim Receivership Order, the employment of all of the employees of Arc and the Corporate Guarantors (as defined therein) was terminated. The operations of Arc in the ordinary course ceased as of the opening of business on August 2, 2016.

D. Resignation of Arc's Last Remaining Director and Officer

10. At the time the Original Interim Receivership Order and the (fresh) Interim Receivership Order were granted, the only director and officer of Arc was Tom Murray, Arc's then chief executive officer and director. On the evening of July 28, 2016, the Interim Receiver was advised by Mr. Murray, Mr. Kozik and Ms. Kagan that Mr. Kozik and Ms. Kagan had resigned as directors.

11. On August 4, 2016, Mr. Murray sent the Interim Receiver an email at or about 1:22 p.m. advising that, effective August 3, 2016, he had resigned as a director and officer of Arc. A copy of that email is attached as Appendix "A".

12. As a result of Mr. Murray's resignation, Arc does not have any directors or officers, or any other person authorized to direct its corporate affairs or make decisions on its behalf, including to instruct counsel.

E. Preservation of Value – Client Contracts and Potential Acquirers

13. Since its appointment, the Interim Receiver has taken various steps to secure the Property and, working with parties including those introduced to it by Mr. Murray, Mr. Kozik and

Ms Kagan, has attempted to ascertain and solicit interest in a potential acquisition of some or all of Arc's assets and business.

14. The Interim Receiver has attempted to identify which of Arc's contracts are most likely to generate realizations, and which contracts are at most risk of having their value deteriorate as a result of delays in production, loss of talent, etc. (the "Key Contracts").
15. The Interim Receiver has been in contact with customers having the Key Contracts and advised them that the Interim Receiver was collecting information regarding the current productions of Arc, including the production agreements, status of work, milestone deliverables, revenues and costs for the purpose of assessing whether further work can be delivered for the benefit of the estate.
16. The Interim Receiver has communicated with parties that have expressed interest in carrying on certain of the business and projects of Arc. Due to the urgency of the situation created by the fact that work on all ongoing productions was halted on the morning of August 2, 2016, the Interim Receiver advised interested parties that it had established a deadline of noon (eastern) on Monday, August 8, 2016 for the submission of letters of intent to the Interim Receiver which should include details of:
 - The specific assets of the business of Arc to be purchased or assigned
 - The conditions associated with such offer including third party consents
 - The cash and other consideration to be received by the Interim Receiver
 - Deposit to be posted upon execution of a binding agreement
 - Expected closing date
 - Evidence of financial ability to close the transaction

The Interim Receiver advised these parties that it was under no obligation to accept any offer, and any offer that may be negotiated by the Interim Receiver would be conditional

on execution of an acceptable agreement of purchase and sale and approval of the Superior Court of Justice.

17. Since its appointment, the Interim Receiver has responded to 21 inquiries from prospective purchasers and provided them with our process timeline and a form of non-disclosure agreement (“NDA”) prepared by the Interim Receiver’s independent legal counsel. Almost all of the interested parties had requested amendments to the NDA and we have been able to resolve most of these requested amendments. 14 parties have executed an acceptable NDA and have been given access to the data room set up by the Interim Receiver. Site visits have been conducted by 3 parties or their representatives. 4 parties have submitted letters of intent which have varying attributes and timelines; the Interim Receiver is evaluating these letters of intent and, in consultation with the senior secured lender and counsel, will determine the most certain and commercially reasonable way forward as soon as possible.
18. From its activities thus far, the Interim Receiver has determined that in order to preserve and maximize value, the sale or assignment of the Key Contracts and other contracts must be concluded in the immediate term. As a result, in order to preserve and maximize recoveries, the Interim Receiver requires the additional powers provided to receivers under the Commercial List Model Receivership Order in order to (i) instill confidence in the customers and potential purchasers that the Interim Receiver has the authority and ability to conclude sales and assignments within the short timeframe necessary to preserve value; and (ii) to in fact conclude such sales and assignments subject to further approval of this Court as may be required.

19. One of the key factors to preserving value in the Key Contracts and the other contracts is ensuring that the employees who were working on the projects can continue to work on such projects, thus ensuring that artistic continuity is preserved, duplicative costs and expenses can be minimized or avoided, and better ensuring that the near and mid-term production deadlines can be met. However, the Interim Receiver is aware that a number of the key employees have already received job interviews and offers. In order to ensure that the key employees continue to be available to work on Arc's projects and accept employment with any purchaser of Arc's assets, it is necessary to try to quickly conclude sales and assignments of the Key Contracts and other contracts. That can only be accomplished if the Interim Receiver is provided with the customary powers provided to receivers to conclude asset sales.

F. A Full Receivership Is Appropriate in the Circumstances

20. Given the factors driving the maximization of the value as discussed above, the Interim Receiver is of the view that it is appropriate and convenient for the Interim Receiver to be appointed as Receiver at this junction.
21. In addition to the preservation and maximization of value, Arc, as noted above, has no officers and directors, and no one has the corporate capacity to speak on behalf of the Company. Accordingly, there appears to be no basis on which the granting of a full Receivership Order could be opposed by the Company, and there does not appear to be any other stakeholder who would have a legitimate interest or reason to oppose or delay the appointment of a full receiver.

22. In addition, during the Interim Receiver's conversations with the potential purchasers, certain interested parties have advised the Interim Receiver that they will only contemplate a purchase that is effected through a receivership or other insolvency proceeding. Accordingly, it will be necessary to have a full receivership order put in place in order to effect a sale and assignment of any of the Company's assets.
23. The Interim Receiver is aware that the Company, under the direction of Mr. Murray prior to his resignation, had taken the position that the Company might object to the Receivership Order on the basis that Mr. Murray and the other former directors wished to argue that certain tax credits that were received on July 29, 2016, be used for the payment of a portion of the wages that Arc's former employees are currently owed. The Interim Receiver is advised by its independent legal counsel, Goldman Sloan Nash & Haber LLP, that the Lender has security over all of the assets of Arc, and has specific assignments of these tax credits, and claims a priority entitlement to those funds. However, it is the Interim Receiver's view that this potential dispute does not affect the appropriateness of the appointment of a full receivership to preserve and maximize value of the Key Contracts and other assets, but rather is akin to a priority dispute that can be determined following the appointment of a receiver.
24. It is the Interim Receiver's recommendation that in order to preserve and maximize the Company's assets, and to maximize the opportunities for reemployment of the Company's employees, a full Receivership order should be granted at the earliest possibility.

25. The Interim Receiver consents to acting as receiver, without security, of the Property as defined in the Interim Receivership Order, on terms substantially similar to the Commercial List Model Order.

RELIEF SOUGHT

26. For the reasons set out above, the Receiver recommends that a full Receivership order should be granted at the earliest possibility.

All of which is respectfully submitted at Toronto, Ontario this 8th day of August, 2016.

Deloitte Restructuring Inc.,
solely in its capacity as the
Court-appointed interim receiver of
Arc Productions Ltd.



Per:
Paul M. Casey, CPA, CA, CIRP
Senior Vice-President

Appendix “A”

to the First Report of the Interim Receiver of Arc Productions Ltd.

dated August 8, 2016

From: [Tom Murray](#)
To: [Casey, Paul \(CA - Toronto\)](#)
Subject: Resignation
Date: Thursday, August 4, 2016 1:21:52 PM
Attachments: [JTM Resignation.pdf](#)

Paul:

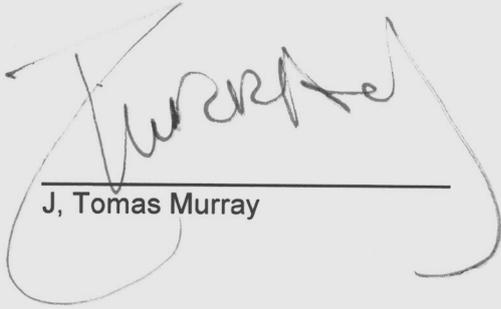
Attached for your reference is my resignation as a Director of Arc.

Also, could you please clarify what role, if any, you perceive for me in the go-forward processes you are engaged in.

Thanks. Tom

J. Thomas (Tom) Murray
416-543-7141

The undersigned hereby resigns as a director of each of Arc Productions Ltd., Arc Investments Ltd. and Arc Holdings Inc. as of August 3, 2016.



J, Tomas Murray

GROSVENOR PARK MEDIA FUND L.P.

Plaintiff

and

ARC PRODUCTIONS LTD., et al.

Defendants

Court File No. 16-CV-11472-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

**FIRST REPORT OF THE INTERIM
RECEIVER**
(August 5, 2016)
