

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

**EIGHTEENTH REPORT OF DELOITTE RESTRUCTURING INC.,
RECEIVER OF ARC PRODUCTIONS LTD., ET AL.**
(October 21, 2021)

1. This report is filed by Deloitte Restructuring Inc. (the “**Receiver**”) in its capacity as 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 Receivership Order granted by the Honourable Mr. Justice Penny on Wednesday, August 10, 2016 (the “**Receivership Order**”).
2. The Receiver has prepared this eighteenth report (the “**Eighteenth Report**”) in its capacity as a Court-appointed officer solely for the purpose outlined herein. Parties using the Eighteenth Report, other than for the purpose outlined herein, are cautioned that it

may not be appropriate for their purposes. Unless otherwise provided, all dollar amounts contained in this Eighteenth Report are expressed in Canadian Dollars. Unless otherwise provided, all other capitalized items not otherwise defined in this Eighteenth Report are as defined in the First through Seventeenth Reports.

A. Purpose of the Report

3. The Receiver understands that Grosvenor Park Media Fund L.P. (“GP”), the plaintiff in these proceedings, has commenced an action against Arc Productions Ltd., J. Thomas Murray, Peter Kozik, Kallen Kagan, PricewaterhouseCoopers LLP, Spence McDonnell, and Andy Wilczynski seeking damages for, among other things, negligent misrepresentations made to GP. The matter is ongoing, and the Receiver understands from its counsel that in the context of case management discussions, and in particular the setting of trial date for the proceeding, the Court would be assisted in its deliberations by the provision of certain information from the Receiver prior to setting a trial date. The information provided herein will address the state of accounts relative to the collection of tax credits, and the costs and expenses (including professional fees) incurred in the totality of the receivership to date in the form of the Receiver’s statement of receipts and disbursements. In addition, the Receiver has prepared the Eighteenth Report to provide the Court with further information on the following:

- (a) the realization process of tax credits recoverable from CRA including recoveries to date; and

- (b) the Receiver's statement of receipts and disbursements to date including estimated receipts and disbursements to complete the receivership administration.

B. Terms of Reference and Disclaimer

- 4. In preparing this Eighteenth Report and making the comments herein, the Receiver has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by Arc (collectively, the "**Information**").
- 5. The Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 Generally Accepted Assurance Standards ("**Canadian GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Receiver expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
- 6. Some of the information referred to in this Eighteenth Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

7. Future oriented financial information referred to in this Eighteenth Report was prepared based on certain estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

C. The Realization Process for the Recovery of Tax Credits

8. As reported in the Second Report, Arc's most valuable assets are tax credits recoverable from CRA estimated to have been in the amount of \$32.7 million as of July 2016 (the "**July 2016 Estimate**") pursuant to Arc's borrowing base certificate filed with GP on July 20, 2016.
9. The Receiver retained former employees of the Company and engaged specialist consultants to assist with the collection of tax credits. The former VP Finance and Senior Financial Analyst of Arc assisted with the compilation of production and financial information. In addition, the Receiver engaged specialist consultants to i) prepare and file certificate applications and ii) prepare and file tax returns and tax credit applications. The following steps describe the realization process in detail:
 - (a) Apply for certificates of eligibility, which set out the eligibility of the applying corporation and an estimate of the tax credit in a given taxation year, from the relevant governing bodies, Ontario Creates (formerly Ontario Media Development Corporation) for OPSTC and OCASE tax

credits, and CAVCO for PSTC tax credits. While the information required for each tax credit differs slightly, common documentation includes incorporation documents for the applying corporation (to demonstrate the appropriate jurisdiction), production schedules (including start and end dates of the eligible activities), breakdown of financial plan for the production including all eligible production expenditures, and payment of an administration fee. As required, the Receiver, with the assistance of its specialist consultants, would respond to further requests for information from Ontario Creates or CAVCO.

- (b) Upon receipt of the certificate of eligibility, file the applying corporation's T2 corporate income tax return with the relevant schedules to the CRA.
 - (c) From time to time, CRA conducted audits of tax returns including the tax credit applications, and often requested additional supporting documentation for certain production expenditures. The Receiver, with the assistance of its specialist consultants, responded and provided information to CRA regarding its requests for information.
10. In preparing the tax returns and tax credit and certificate applications, the Receiver relied upon the books and records of Arc, including hard-copy documents and electronic records.

Tax Credit Recoveries to date

11. Attached hereto as Appendix “A” is a detailed listing of all eligible productions which qualify for refundable tax credits from the CRA. All tax credit applications and corresponding tax returns have been submitted by the Receiver to the CRA. Total tax credits received to date is approximately \$28.8 million, net of interest and before withholdings from source deductions and other penalties. Included in the total tax credits received to date of \$28.8 million is approximately \$2.3 million in tax credits related to certain eligible productions which may have been subject to third party claims and were not included in the July 2016 Estimate. These were subsequently the subject of a priority dispute between the respective production companies and GP in which GP was successful. On September 25, 2020, Justice Koehnen issued an order recognizing that GP had priority with respect to the distribution of these tax credits.
12. An additional \$1.2 million of tax credits remain subject to an audit by the CRA. Total possible tax credit recoveries are approximately \$30.0 million, which represents a 91.7% recovery to the July 2016 Estimate of \$32.7 million.


D. Statement of Receipts and Disbursements

13. Attached hereto as Appendix “B” is the statement of receipts and disbursements for the period August 2, 2016 to date and forecast receipts and disbursements expected to complete the receivership administration. The Receiver estimates a shortfall to the GP secured indebtedness of approximately \$12.4 million.

14. The Receiver considers the administration of this estate to be substantially complete, save for the resolution of an appeal relating to a CRA tax credit adjustment and the receipt of outstanding tax credits of approximately \$1.2 million. The Receiver anticipates the resolution of the appeal and receipt of the remaining tax credits in or around December 2021, after which the Receiver will make an application to the Court for, among other things, its discharge from its capacity as receiver of the estate.
15. The Receiver continues to fulfill its statutory obligations, including the filing of year-end tax returns for Arc and monthly harmonized sales tax returns.

All of which is respectfully submitted at Toronto, Ontario this **21st** day of October, 2021.

Deloitte Restructuring Inc.,
in its capacity as Court-appointed Receiver of
Arc Productions Ltd. et al and not in its personal capacity

Per: 

Warren Leung, CPA, CA, CIRP, LIT
Senior Vice-President

GROSVENOR PARK MEDIA FUND L.P.

Plaintiff

And

ARC PRODUCTIONS LTD., et al. Court File No. 16-CV-11472-00CL

Defendants

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

EIGHTEENTH REPORT OF THE
RECEIVER
(October 21, 2021)

APPENDIX "A"

In the matter of the Receivership of Arc Productions Ltd.
Schedule of Total Film Tax Credits
For the period August 2, 2016 to October 21, 2021

Film Tax Credits Received

<i>Entity</i>	<i>Year</i>	<i>Production</i>	<i>Tax Credit</i>	<i>C\$ Received</i>	<i>Note</i>
TF I Productions Inc.	2014	Thomas & Friends 17 & 18	PSTC	75,745	
			OPSTC	242,198	
			OCASE	147,040	
		Thomas & Friends 19	PSTC	360,825	
			OPSTC	1,120,374	
			OCASE	753,684	
		Accrued Interest		49,865	
	2015	Thomas & Friends 19	PSTC	220,077	
			OPSTC	638,483	
		Thomas & Friends 20	PSTC	348,231	
			OPSTC	874,225	
		Accrued Interest		18,332	
	2016	Thomas & Friends 20	PSTC	237,066	
OPSTC			612,735		
	Thomas & Friends 21	PSTC	46,501		
		OPSTC	118,818		
	Accrued Interest		9,696		
			Entity Total	5,873,896	
Eggs Ltd.	2015	Ice Age Holiday Special	PSTC	45,371	
			OPSTC	118,248	
			OCASE	64,059	
		Accrued Interest		2,491	
		Transitional Grant		122,997	
	2016	Ice Age Easter Television Special	PSTC	249,076	
	Accrued Interest		22,139		
			Entity Total	1,632,594	
In the Jungle Productions Inc.	2015	Tarzan and Jane	PSTC	6,647	
			OCASE	7,367	
	2016	Tarzan and Jane	PSTC	250,402	
			OPSTC	610,003	
			OCASE	296,882	
		Accrued Interest		12,947	
			Entity Total	1,184,248	
Kick Productions Ltd.	2016	Kody Kapow	PSTC	120,652	
			OPSTC	278,317	
			OCASE	128,030	
	Accrued Interest		6,508		
			Entity Total	533,507	

Film Tax Credits Received

<i>Entity</i>	<i>Year</i>	<i>Production</i>	<i>Tax Credit</i>	<i>C\$ Received</i>	<i>Note</i>	
ARC Productions Ltd.	2012	Matt Hatter 1	OPSTC	205,902		
		13 Projects	OCASE	980,707		
		Accrued Interest		870		
	2013	Lego Marvel	OCASE	198,925		
		Pixie Hollow	OCASE	74,088		
		Oculus	OCASE	23,462		
		Hemlock Grove	OCASE	1,749		
		Lucky 7	OCASE	5,466		
		IMAX: Wonders of the Arctic	OCASE	5,447		
		Somnia	OCASE	8,186		
		Canterville Ghost	OCASE	32,804		
		Vitaminamulch: Air Spectacular	OCASE	59,608	1	
		The Pirate Fairy	OCASE	95,644	1	
		Meet the Piston Peak Team	OCASE	2,627	1	
		Accrued Interest		46,345		
		2014	Lego Marvel 2	OCASE	3,660	
	Meet the Piston Peak Team, I (1-4)		OCASE	144,967	1	
	Rusty Rivets, I		OCASE	22,804	2	
	Somnia		PSTC	116,443		
			OPSTC	409,670		
			OCASE	154,786		
	The Pirate Fairy		OCASE	19,990	1	
	There is no place like OZ		OCASE	16,312		
	Tink'n About Animals		OCASE	106,817	1	
	Vitaminamulch: Air Spectacular		OCASE	125,748	1	
	Accrued Interest			47,566		
	2015		Lego Marvel 2	PSTC	117,736	
				OPSTC	363,385	
			OCASE	176,405		
		There is no place like OZ	PSTC	110,279		
			OPSTC	321,675		
			OCASE	170,615		
		Rusty Rivets, I	OCASE	384,213	2	
Blazing Samurai		PSTC	7,964	3		
Blazing Samurai		OPSTC	22,387	3		
Accrued Interest			67,599			
2016		Rusty Rivets, I	OCASE	330,152	2	
		Blazing Samurai	PSTC	189,989	3	
		Blazing Samurai	OPSTC	503,179	3	
	Blazing Samurai	OCASE	316,111	3		
	Accrued Interest		36,730			
			Entity Total	6,029,013		
Princess Productions Inc.	2016	Elena	PSTC	675,086		
			OPSTC	1,336,485		
			OCASE	696,962		
		Accrued Interest		29,189		
				Entity Total	2,737,722	

Film Tax Credits Received

<i>Entity</i>	<i>Year</i>	<i>Production</i>	<i>Tax Credit</i>	<i>C\$ Received</i>	<i>Note</i>		
BL II Productions Inc.	2014	Barbie's Life 4	PSTC	182,728			
			OPSTC	483,793			
			OCASE	220,037			
		Barbie's Life 5	PSTC	145,701			
			OPSTC	432,654			
			OCASE	212,337			
		Barbie DVD 2015	PSTC	313,553			
			OPSTC	923,251			
			OCASE	476,774			
	2015	Accrued Interest			68,593		
			Barbie DVD 2015	PSTC	96,418		
				OPSTC	298,828		
		OCASE		153,669			
		Max Steel	PSTC	222,594			
			OPSTC	637,689			
			OCASE	306,810			
		Barbie DVD Floating 2016	PSTC	47,640			
			OPSTC	112,998			
			OCASE	59,862			
		Barbie DVD Fall 2016	PSTC	166,991			
			OPSTC	468,287			
			OCASE	217,264			
		2016	Accrued Interest			32,123	
				Max Steel	PSTC	143,028	
	OPSTC				363,282		
	OCASE		193,478				
	Barbie Floating 2016 DVD		PSTC	1,010			
			OPSTC	2,674			
			OCASE	1,499			
	Barbie DVD Fall 2016		PSTC	208,114			
OPSTC			525,056				
OCASE			272,125				
Accrued Interest				42,485			
			Entity Total	8,033,346			

Film Tax Credits Received

<i>Entity</i>	<i>Year</i>	<i>Production</i>	<i>Tax Credit</i>	<i>C\$ Received</i>	<i>Note</i>	
Arcadia Productions Ltd.	2014	Troll Hunters, I	OCASE	10,600		
		Accrued Interest		820		
	2015	Troll Hunters, I		PSTC	330,789	
				OPSTC	841,640	
				OCASE	455,438	
		Dragons Race to the Edge, I & II		PSTC	79,794	
				OPSTC	187,495	
				OCASE	104,669	
	2016	Troll Hunters, I	Accrued Interest		78,934	
				PSTC	161,758	
				OPSTC	427,529	
		Dragons Race to the Edge, I & II		OCASE	243,060	
				PSTC	85,230	
				OPSTC	220,331	
		Accrued Interest		OCASE	123,777	
	Accrued Interest			45,925		
			Entity Total	3,397,788		

	Tax credits received to date	28,747,558
	Accrued Interest received to date	674,557
	Total processed and received to date	29,422,115
	Tax credit remittance to CRA, February 28, 2018	(11,447)
	CRA set-off for HST owings as at July 31, 2016	(24,843)
	CRA set-off for source deductions and penalties	(1,424,804)
	Net tax credits received to date, October 21, 2021	27,961,020

Film Tax Credits Expected

<i>Entity</i>	<i>Year</i>	<i>Production</i>	<i>Tax Credit</i>	<i>C\$ Expected</i>	<i>Note</i>
TF I Productions Inc.	2015	Thomas & Friends 19	OCASE	332,197	
		Thomas & Friends 20	OCASE	482,494	
	2016	Thomas & Friends 20	OCASE	316,365	
		Thomas & Friends 21	OCASE	55,684	
Entity Total				1,186,740	

Film Tax Credits Received and Expected

	Tax credits received to date	28,747,558
	Tax credits expected to be received	1,186,740
	Total possible tax credit recoveries	29,934,298
	Accrued Interest received to date	674,557
	Total possible tax credit recoveries including interest	30,608,855
	Tax credit remittance to CRA, February 28, 2018	(11,447)
	CRA set-off for HST owings as at July 31, 2016	(24,843)
	CRA set-off for source deductions and penalties	(1,424,804)
	Net possible tax credit recoveries, October 21, 2021	29,147,760

Notes:

- 1) PSA with BK2BRAC Holdings Inc.
- 2) PSA with Spin Master Riveting Productions Inc.
- 3) PSA with Blazing Productions Ltd.

APPENDIX “B”

In the Matter of the Receivership of Arc Productions Ltd. ("Arc")
Statement of Receipts and Disbursements
For the period August 2, 2016 to October 21, 2021

Description	Amount
Receipts	
Cash on hand and sale proceeds	\$ 2,205,620
Film tax credits received to date net of CRA set-off, per "Appendix B"	27,961,020
Total receipts to date	30,166,640
Disbursements	
WEPP payments (Section 81.4 Claims)	1,068,875
Receiver's fees	1,188,108
Receiver's legal counsel fees	234,425
Contract employees and third party professionals	618,208
Operating expenses	227,610
Occupation rent	155,990
Tax credits filing and application fees	82,491
HST paid (received) post-receivership, net of refunds	4,957
Total disbursements to date before distributions to Secured Creditor	3,580,664
Distributions to Secured Creditor	26,403,034
Funds on-hand as at October 21, 2021	182,943
Estimated future tax credit recoveries	1,186,740
Estimated disbursements to complete the Receivership administration	(200,000)
Surplus of estimated receipts over disbursements available for distribution to secured creditor	27,572,716
Grosvenor Park Senior Secured Debt before unpaid interest and costs	39,992,073
Estimated (Shortfall) on GP secured indebtedness	(12,419,357)