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C A N A D A
DISTRICT OF ONTARIO
DIVISION No.: 09- Toronto
COURT No.:
ESTATE No.:

IN THE MATTER OF THE BANKRUPTCY OF: ARC Productions Ltd. (“Arc” or the “Bankrupt”), formed under the laws of Ontario, formerly having its head office at 364 Richmond St W, Suite 100, Toronto, Ontario, M5V 1X6

Bankrupt

TRUSTEE’S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION

The *Bankruptcy and Insolvency Act* provides for a first meeting of creditors. The purpose of this Report is to provide information to the creditors of the Bankrupt for consideration at the first meeting of creditors.

SECTION A – BACKGROUND

Deloitte Restructuring Inc. was appointed as Receiver (the “Receiver”) of Arc by Order of the Superior Court of Justice (the “Court”) on August 10, 2016. For a copy of the appointment order, subsequent Court orders, the four Reports of the Receiver to date and further information on the activities of the Receiver, including the sale of assets to Jam Filled Entertainment (Toronto) Inc. (“Jam Filled”), please refer to the Receivership website at:

<http://www.insolvencies.deloitte.ca/en-ca/Pages/ArcProductionsLtd.aspx?searchpage=Search-Insolvencies.aspx>

The background and sale process supporting the Receiver’s recommendation for Court approval of the sale of Arc’s business and operating assets to Jam Filled are set out in the Second Report of the Receiver dated August 16, 2016 (the “Receiver’s Second Report”). By Order dated August 19, 2016, the Court approved the sale transaction with Jam Filled. The Receiver closed the sale transaction on August 22, 2016 and transferred the purchased assets and the assigned premises to Jam Filled. The Receiver exited the remaining premises days later. The Receiver understands that many of the former employees of Arc were offered positions with Jam Filled.

Arc’s unaudited balance sheet as of June 30, 2016 was attached as Appendix “A” to the Receiver’s Second Report and showed a deficit of assets to liabilities of approximately \$32.9 million. The largest asset of the Arc estate is Federal and Provincial film tax credit recoveries. These tax credits did not form part of the assets sold to Jam Filled and remain part of the receivership estate for administration and collection.

The largest creditor of the estate is Grosvenor Park Media Fund L.P. (“Grosvenor Park”) who has made advances to Arc of approximately \$40 million. As security for its advances, Grosvenor Park holds first-ranking security over all of the assets of these estates (and specifically including the federal and provincial tax credits recoverable). In our capacity as Court-appointed Receiver, we provided the opinion of our independent legal counsel on the validity and enforceability of Grosvenor Park’s security in Appendix “A” of our Fourth Report of the Receiver dated December 5, 2016 which can be accessed via the weblink above.

The ultimate collection of these tax credit recoveries is expected to take many years. Taking into account the expected recovery of all tax credits to which Arc may be entitled, the Receiver advises that Grosvenor Park will suffer

a significant shortfall on its secured indebtedness with the result that there will be no funds available for distribution to the unsecured creditors of the estate.

On January 27, 2017, the Court made an Order authorizing the Receiver to assign Arc into bankruptcy. The Receiver has done so, and the Office of the Superintendent of Bankruptcy issued a Certificate of Appointment of Deloitte Restructuring Inc. as trustee of Arc on January 30, 2017.

SECTION B – PRELIMINARY EVALUATION OF ASSETS AND DETILS OF SECURITY INTERESTS

A preliminary evaluation of the assets and liabilities of Arc as at the Date of Bankruptcy is as follows:

Arc Productions Ltd. Summary Financial Position as at January 27, 2017 (in 000's)	
Assets	
Cash in Receiver's Account	\$656
Provincial and Federal Tax Credits Recoverable	\$3,725
Tax Credits due from Related Parties	\$25,672
Total Receivership Assets	\$30,053
Liabilities	
Secured claims:	
Grosvenor Park Media Fund LP	\$39,992
Other (See List "B" in Form 78)	\$2,259
Total Secured claims	\$42,251
Unsecured claims (excluding contingent claims and WEPP recoveries)	\$23,665
Total Liabilities (excluding contingent claims and WEPP recoveries)	\$65,916
Deficit	(\$35,863)

As noted above, the business and operating assets of Arc were sold to Jam Filled in August 2016. The only remaining assets in the receivership estate are the bank account balances in the receivership trust account and the federal and provincial tax credits recoverable. These assets total approximately \$30.0 million. Estimated secured claims against the estate exceed \$40.0 million. There will be a significant shortfall on the repayment of the secured indebtedness against the estate with the result that there will be no funds available for distribution to the unsecured creditors of the estate.

As noted in in the Fourth Report of the Receiver dated December 5, 2016, the Receiver has administered the employees' Wage Earner Protection Program ("WEPP") applications and responded to employee inquiries as received. As of November 30, 2016, 537 proofs of claim, out of 543 total employees, have been submitted by former employees of Arc and reviewed by the Receiver. 535 former employees have been paid their WEPP claims by Service Canada. The total amount paid to these 535 employees was \$1.9 million comprised of \$1.7 million for wages and \$0.2 million for vacation, termination and severance pay. These recoveries by the former employees have not been deducted from the unsecured claims reported in the table above or in the Statement of Affairs of Arc as of January 27, 2017. Former employees of Arc who have submitted proofs of claim to the Receiver do not need to re-submit proofs of claim to the Trustee for the purpose of the bankruptcy administration. All accepted claims filed with the Receiver will be accepted by the trustee, subject to the appropriate reduction in claims for WEPP receipts.

SECTION C – BOOKS AND RECORDS

The Trustee, via the Receiver, has access to available books and records of Arc.

SECTION D – CONSERVATORY AND PROTECTIVE MEASURES

Upon appointment, the Receiver took possession of all of the assets and undertaking of Arc and remains in possession of the residual assets noted above. Accordingly, there are no assets in the possession and control of the trustee.

SECTION E – PROVABLE CLAIMS AND DESCRIPTION OF CREDITORS

Based on the books and records of the Company, there are 728 unsecured creditors owed approximately \$23.7 million. In addition to the security granted by the Company in favour of Grosvenor Park, other parties have registered security interest against Arc as evidenced by the *Personal Property Security Act* search result provided by the Receiver's independent legal counsel. Leased assets have either been assigned to Jam Filled or returned to lessors.

These claims are summarized in the table above. The Trustee will update the creditors on proofs of claim received at the first meeting.

SECTION F – LEGAL PROCEEDINGS, REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

A general contractor, Vestacon Limited, is claiming \$2.0 million for the provision of construction services and materials supplied to the improvements located at 134 Peter St and 364 Richmond St W in Toronto. Vestacon registered a construction lien on June 6, 2016 and issued a statement of claim on July 19, 2016. Counsel for Vestacon has also advised the Receiver that it may be entitled to claims pursuant to the trust provisions of the *Construction Lien Act*.

Grosvenor Park has filed a Statement of Claim against Arc and certain other parties in the sum of USD \$32.0 million less any recovered security amounts for damages for negligent misrepresentations made to Grosvenor Park.

The Trustee will perform an assessment of preferences and transactions at undervalue and will report any findings at the first meeting of creditors.

SECTION G – DETAILS OF THIRD PARTY DEPOSITS OR GUARANTEES

As there are no assets in the bankruptcy estate to fund any claims, fees and costs of administration, the Trustee has requested that Grosvenor Park indemnify the Trustee and fund the fees and disbursements, including legal fees, by way of advances to the bankrupt estate from Court-approved distributions from Arc's receivership estate.

SECTION H – TRUSTEE'S INTENTION TO ACT FOR SECURED CREDITORS

As noted above, Deloitte Restructuring Inc. acts as the Court-appointed Receiver of Arc and will continue to do so for the purpose of realizing on the remaining assets of Arc, making Court-approved distributions to creditors and eventual discharge. As Court-appointed Receiver, Deloitte Restructuring Inc. acts as an officer of the Court and does not act as agent for any secured creditor.


SECTION I – PROJECTED DISTRIBUTION AND TRUSTEE COMMENTS ON ANTICIPATED ASSET REALIZATIONS

As noted above, the Trustee advises that after the claims of the secured creditors there will be no assets available for distribution to unsecured creditors.

Dated at Toronto, Ontario this 30th day of January, 2017.

DELOITTE RESTRUCTURING INC.

In its capacity as
Trustee in bankruptcy of Arc Productions Inc.

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