

Court File No. 35-2212212

Estate No. 35-2212212

**ONTARIO
SUPERIOR COURT OF JUSTICE
(BANKRUPTCY AND INSOLVENCY)**

**IN THE MATTER OF THE PROPOSAL OF
INTERENTAINMENT MEDIA INC.**

**A. FARBER & PARTNERS INC.
SECOND REPORT OF THE PROPOSAL TRUSTEE**

February 24, 2017

APPENDICES

- APPENDIX A: CERTIFICATE OF FILING NOTICE OF INTENTION TO
MAKE A PROPOSAL DATED JANUARY 27, 2017**
- APPENDIX B: FIRST REPORT OF THE PROPOSAL TRUSTEE**
- APPENDIX C: CREDITOR'S LIST**
- APPENDIX D: STALKING HORSE APA AND OVERBID PROCEDURE**
- APPENDIX E: SALES PROCESS TIMETABLE**
- APPENDIX F: PROJECTED CASHFLOW TO APRIL 14, 2017**

INTRODUCTION

1. On January 27, 2017, Intertainment Media Inc. (“**Intertainment**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (an “**NOI**”) under Section 50.4 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), and A. Farber & Partners Inc. (“**Farber**”) was appointed as proposal trustee in the Company’s NOI proceedings (in such capacity, the “**Proposal Trustee**”). A copy of the Certificate of Filing of a Notice of Intention to Make a Proposal is attached hereto as **Appendix “A”**.
2. Intertainment is a technology incubator focused on investing in technology and social media companies. The Company holds investments in certain technology companies. The Company was listed on the TSX Venture Exchange trading under the ticker “TSXV:INT” until it was delisted in November of last year.
3. A more comprehensive background summarizing: the company’s history and causes of financial difficulty; the lawsuits from former executives David Lucatch and Anthony Pearlman; the Demand Letter and a Notice of Intention to Enforce Security under Section 244(1) of the Bankruptcy and Insolvency Act (Canada) from Cancor Debt Agency Inc. (the “**Collateral Agent**”); and a request for an order approving a debtor-in-possession financing agreement (the “**DIP Financing Agreement**”) is found in the Proposal Trustee’s “**First Report**” attached hereto as **Appendix “B”**.

PURPOSE OF THIS REPORT

4. The purpose of this second report of the Proposal Trustee (the “**Second Report**”) is to:
 - i) report on and seek Court approval for the proposed stalking horse sales and marketing process and the terms contemplated in the Stalking Horse APA (as defined below) that has been negotiated by Intertainment and the Secured Creditors (as defined below);
 - ii) seek approval for extending the stay of proceedings by 45 days; and,
 - iii) seek approval of the Proposal Trustee’s activities.

DISCLAIMER

5. The Proposal Trustee has relied upon the financial records and information provided by the Company. The Proposal Trustee has not independently audited, reviewed, or otherwise attempted to verify the accuracy or completeness of such information. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance with respect to the information contained in this Second Report. The Proposal Trustee assumes no responsibility or liability for any loss or damage incurred by or caused to any person or entity as a result of the circulation, publication, re-production or use of or reliance upon this Second Report or for any use which any person or entity makes of this Second Report, or any reliance on or a decision made based upon this Second Report, other than for the express purposes as set out in this Second Report.
6. Unless otherwise stated herein, all references to dollars are in Canadian currency.
7. Pursuant to the E-Service Protocol of the Commercial List, a copy of this Second Report and all other Court materials, Orders and Endorsements issued in these proceedings are, and will be, available on the Proposal Trustee's website at: <http://www.farberfinancial.com/insolvency-engagements/intertainment-media-inc.>

ASSETS

8. The "**Major Assets**" of the Company are as follows:
 - a) 4.8 million shares of Yappn Corp. ("**Yappn**") a publicly traded Company on the Over the Counter Bulletin Board Exchange in the United States, which does language translation services (currently worth approximately \$500,000 based on the share price as at February 22, 2017);
 - b) 20% stake in Active ImageNation Inc., a Los Angeles based developer of a technology platform called Cap That ("**Cap That**") which allows the sharing of videos, images and commercial printing into the entertainment, music, sports and gaming sectors;
 - c) Tax losses of approximately \$60,000,000 (the "**Tax Losses**").

- d) \$1.25 million owing from a company called Mi5 Print & Digital Communications Inc. (“**Mi5**”) for the outstanding purchase price from the sale of a company called Magnum Fine Commercial Printing Limited by Intertainment to Mi5 on September 2, 2014 (the “**Magnum Litigation Proceeds**”); and,
- e) Intertainment previously owned a stake in itiBiti Ventures Inc (“**itiBiti**”), a company which creates social entertainment applications – pursuant to the terms of sale, Intertainment is entitled to a 40% stake in any sale proceeds if ItiBiti is sold on or before December 31, 2017.

9. Other Assets include:

- a) 20% stake in an Israeli voice translation company called Lexifone Communications Systems (2010) Ltd.

CREDITORS

Secured Creditors

- 10. Attached, as **Appendix “C”** is a creditors list showing all creditors as at February 10, 2017.
- 11. The Proposal Trustee engaged its counsel, Bennett Jones LLP (“**Bennett Jones**”), to conduct a review of the security of the “**Secured Creditors**” which the Proposal Trustee understands total approximately \$1,885,535 and rank as follows:
 - a) Thornton Grout Finnigan LLP (“**TGF**”), acting as counsel to the Secured Debenture Holders (defined below) and Gowlings WLG (Canada) LLP (“**Gowlings**”) as counsel to the Company;
 - b) The “**Secured Debenture Holders**” as are listed in Appendix “C”; and,
 - c) Mark Greaves, Tony Relouw and Craig Combe who advanced funds via a private placement as third ranking secured creditors.
- 12. Bennett Jones has not yet completed its security opinion at the time of this report, but expects to do so in the next few days.

Unsecured Creditors

13. Intertainment has informed the Proposal Trustee that it has approximately \$3,081,407 in unsecured liabilities as of the date hereof. It should be noted that the actual amount of unsecured debt would be dependent on the valuation of the litigation claims with David Lucatch and Anthony Pearlman noted in the Proposal Trustee's First Report.

STALKING HORSE ASSET PURCHASE AGREEMENT

14. As a result of discussions from November, 2016 to February, 2017, the Company has been successful in negotiating a form of asset purchase agreement with 2541843 Ontario Inc. ("**254 Ontario**" or the "**Stalking Horse Bidder**"), a company incorporated by the Secured Creditors. This form of asset purchase agreement is structured as a stalking horse asset purchase agreement, which is subject to Court approval. This Stalking Horse APA, as defined below, is proposed to stand as the opening bid in a Court-approved marketing and sales process (the "**Sales Process**"), to be conducted by the Proposal Trustee on behalf of and in consultation with Intertainment. Both the Stalking Horse APA and Sales Process are more fully described below.
15. By agreement dated as of February 23, 2017 (the "**Stalking Horse APA**"), 254 Ontario submitted to Intertainment an offer to purchase all of the right, title and interest in Intertainment's Major Assets, which represent substantially all assets of Intertainment. In exchange, 254 Ontario will assume all of the debt owing by Intertainment to its Secured Creditors and pay to Intertainment \$65,000 in cash. A copy of the Stalking Horse APA is attached hereto as **Appendix "D"**.
16. The Stalking Horse APA remains subject to Court approval and a better offer being received through the Sales Process, as further described in the Overbid Procedures (defined below).
17. A summary of the key terms of the transaction contemplated by the Stalking Horse APA is as follows:

- 254 Ontario will acquire, on an “as is, where is” basis, the Company’s interest in the Major Assets for the “**Purchase Price**” estimated to be \$2,130,535 as is calculated below:
 - i) an amount equal to the liabilities owing by the Company to the Secured Creditors under the Loan Agreement, which as at February 10, 2017, is estimated to be \$1,885,535 million, *plus*;
 - ii) the \$180,000 to be advanced pursuant to the DIP Financing Agreement (\$135,000 of which has already been advanced), *plus*;
 - iii) the cash component of \$65,000, *plus*;
 - iv) any amount owing to the Canada Revenue Agency in priority to the Secured creditors (“**CRA Priorities**”), which will be confirmed via a payroll audit, but is estimated to be zero.
- 254 Ontario’s bid will be satisfied by way of (i) assumption of the amounts owing to the Secured Creditors and under the DIP Financing Agreement, and (ii) a payment of cash on closing of \$65,000 to provide the Company with funding in order to make a proposal to unsecured creditors for the tax losses.
- A competing bidder would be required to offer a minimum estimated to be \$2,265,535 in cash on the Closing Date representing:
 - i) the Purchase Price estimated to be \$2,130,535 noted above, *plus*
 - ii) the “**Expense Reimbursement**” of \$75,000 payable to 254 Ontario, *plus*
 - iii) an “**Overbid Amount**” of \$60,000 payable to the Company.
- The transaction contemplated thereunder is subject to the approval of the Court and contemplates a Court Order vesting free and clear title to the

Stalking Horse Bidder, subject only to permitted encumbrances, as identified in the Stalking Horse APA.

18. The Proposal Trustee believes the process leading to the Stalking Horse APA was reasonable and establishes a reasonable floor value for the assets of the Company.

STALKING HORSE SALES PROCESS

19. The Proposal Trustee has reviewed the proposed Stalking Horse APA and the Overbid Procedures and believes that the Sales Process is reasonable, fair and appropriate under the circumstances. A copy of the Overbid Procedures is included as Schedule "B" to the Stalking Horse APA in Appendix "D".

20. Section 5 of the Overbid Procedures outlines the criteria for a bidder to be a "Qualified Bidder" and specifies, *inter alia*, that a qualified bid must:

- i) include a minimum purchase price, payable in cash, estimated to be \$2.3 million as is outlined above;
- ii) indicate the potential purchaser's willingness to close on the purchase of the Purchase Assets based on the terms set forth in the Stalking Horse APA; and,
- iii) include evidence of financial wherewithal.

21. The Expense Reimbursement is specified in the Stalking Horse APA as the fixed amount of \$75,000. This fee equates to approximately 3.5% of the Purchase Price. The Secured Creditors and 254 Ontario have incurred significant effort and expense in preparing the Staking Horse APA, and liaising with the Company and Proposal Trustee to develop the Sales Process.

22. The Proposal Trustee believes that the quantum of the Overbid Amount and Expense Reimbursement are reasonable under the circumstances.

23. A timeline of events in the Sales Process is attached hereto as **Appendix "E"**.

24. The Sales Process is transparent and will be administered by the Proposal Trustee, in consultation with the Company. The Proposal Trustee believes that the proposed Sales Process is an efficient means to broadly canvass the market. The Sales Process provides a forum and deadline to permit and encourage any serious alternative bidders to come forward with improved offers.

CASH FLOW PROJECTION

25. Intertainment has prepared a projected weekly cash flow statement for the period from February 18, 2017 to the week ending April 14, 2017 (the “**Cash Flow**”). A copy of the cash flow is attached as **Appendix “F”**. The Cash Flow indicates that Intertainment is projected to have sufficient liquidity through to the conclusion of the sales process to continue operating. The Cash Flow assumes that a further \$45,000 of the DIP is drawn upon, as is allowed under the DIP Financing Agreement.

26. The cash flow is predicated on certain assumptions outlined in the assumptions page of the cash flow, including that Intertainment receives Court for approval for the Sales Process.

27. The Proposal Trustee has reviewed the underlying assumptions on which the Cash Flow projection is based and believes them to be reasonable.

EXTENSION OF STAY OF PROCEEDINGS

28. The initial stay of proceedings will expire on February 27, 2017. The Bid Deadline as set out in the Bidding Procedures is March 22, 2017 and then further time will be needed to close. Extending the stay of proceedings by an additional 45 days to April 13, 2017 will allow the Proposal Trustee to complete the Sales Process. It will also provide time for the Company to work on drafting a proposal to creditors before returning to Court to seek an additional extension of the stay of proceedings.

29. The Proposal Trustee is not aware of any creditors who would be materially prejudiced by the granting of the requested extension to the stay of proceedings. Moreover, it would be cost effective for the Court to grant this first extension now concurrent with

the approval of the Sales Process so that the parties do not have to incur the additional expense of coming back to court.

30. Intertainment has acted in good faith and with due diligence in these NOI proceeding to date and in its efforts to negotiate the Stalking Horse APA and Sales Process.

31. In the circumstances, the Proposal Trustee believes it is the most appropriate strategy to maximize recovery for the benefit of all stakeholders.

RECOMMENDATIONS

32. The Proposal Trustee respectfully recommends that this Honourable Court approve:

(i) the Company entering into the Stalking Horse APA;

(ii) the terms of the Sales Process; and,

(iii) the requested extension to extend the time within which to file a proposal with the Official Receiver by Intertainment under section 62(1) of the BIA to April 13, 2017.

All of which is respectfully submitted this 24th day of February, 2017.

**A. FARBER & PARTNERS INC. IN ITS CAPACITY AS TRUSTEE
IN RE THE PROPOSAL OF ENTERTAINMENT MEDIA INC.**

A. Farber & Partners Inc.