

FILM & TELEVISION PRODUCTION TAX CREDIT FINANCING: A Compelling Investment Opportunity



INVESTMENT OPPORTUNITY

For Investors: to generate a meaningful risk-adjusted return from a Project Finance-based security.

For Producers: to secure key production financing at a reasonable cost of capital.

Canadian Film and Television Tax Credits are federal and provincial production-based, refundable tax credits.

DICEMARK CAPITAL, as an EMD, underwrites Tax Credit financings as debt private placements and distributes them to Accredited Investors.

Effectively, these tax credits are future government receivables that are discounted and borrowed upon today.

With government receivables and a completion bond, these are Investment Grade-quality investments.

RISKS ARE MITIGATED:

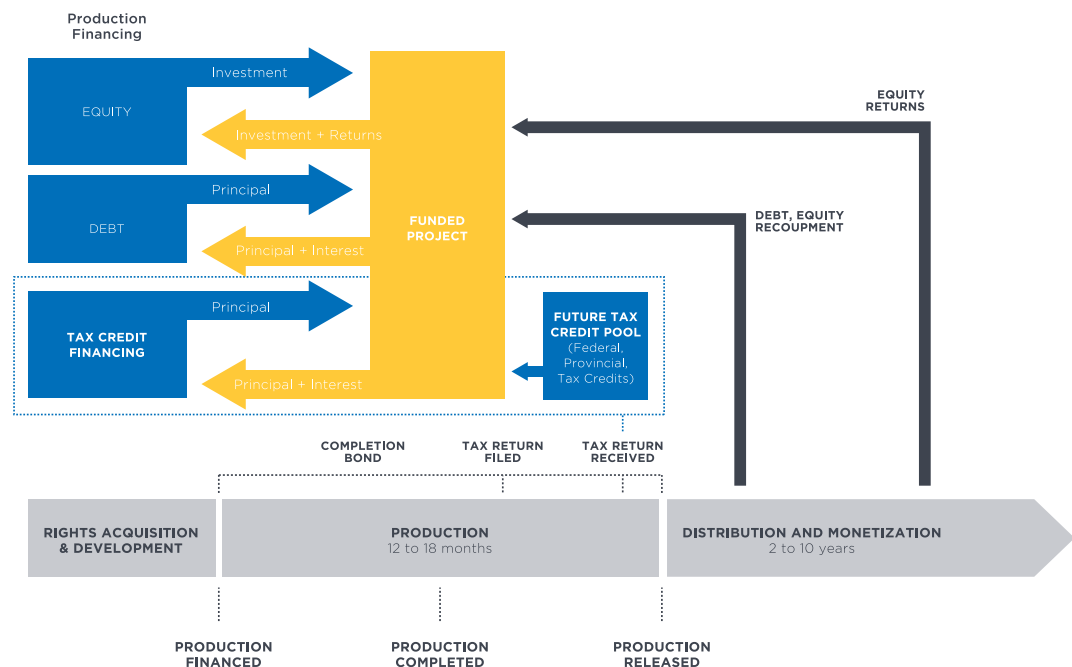
- (a) Securities over-collateralized by 110%+
- (b) Investment Grade-quality debt investments
- (c) De-coupled from project's commercial success

RETURNS ARE AMPLIFIED:

- (a) Attractive yield for a 12-to-18 month investment
- (b) Meaningful excess return over GoC bond or GIC
- (c) Priority repayment, first to realize return

FILM & TELEVISION PRODUCTION TAX CREDIT FINANCING

The future tax credits of a Funded Project are borrowed today (blue arrow) as part of a project's financing. Upon production completion, the security is repaid with the project's Tax Refund (yellow arrow.)



For more information, visit dicemark.com

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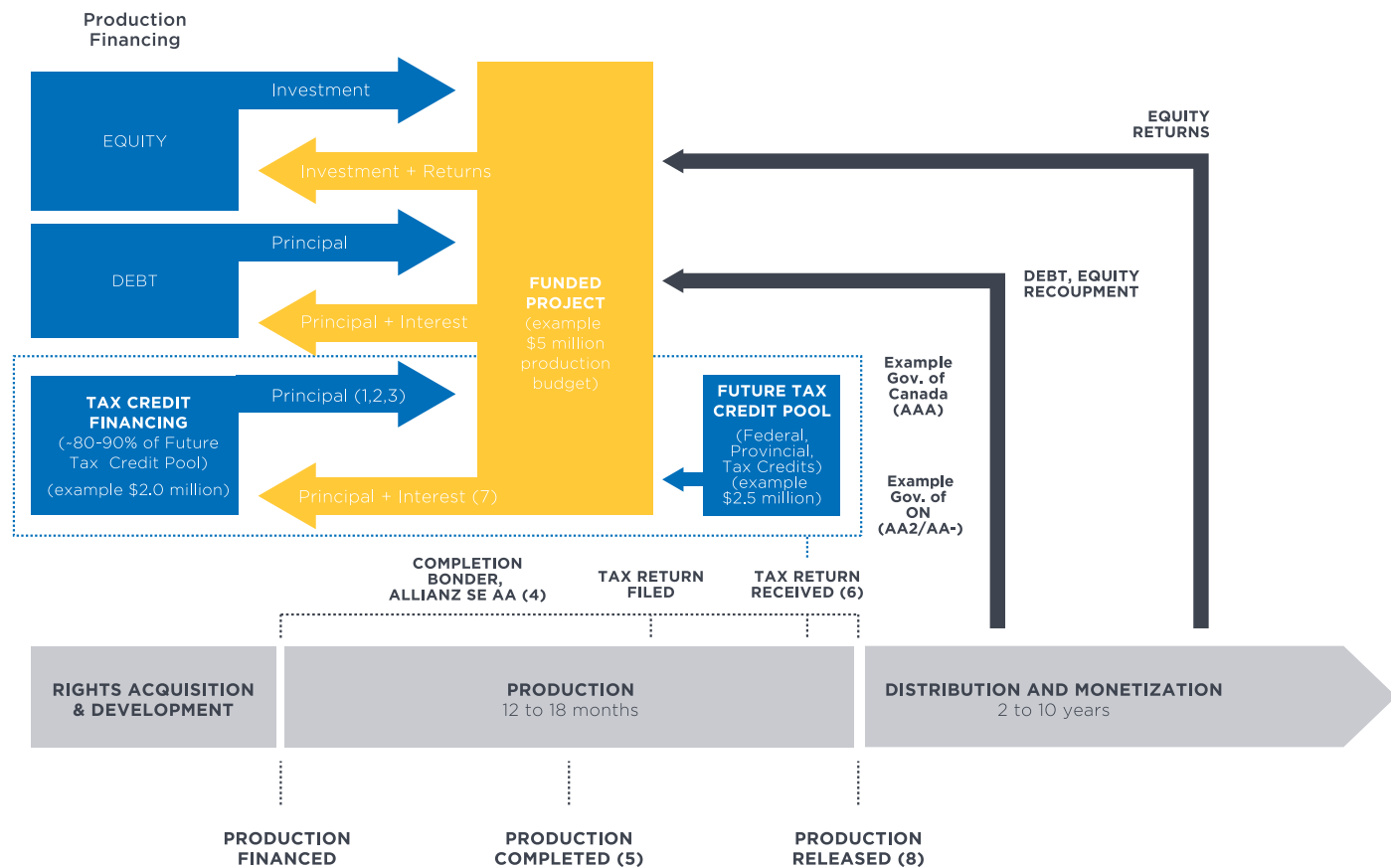
FILM & TELEVISION PRODUCTION

TAX CREDIT FINANCING:

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TAX CREDIT FINANCING: A COMPELLING INVESTMENT OPPORTUNITY



TAX CREDIT FINANCING EXAMPLE

- 1) An Investor purchases \$2.0 million, 12-month Secured Notes against a \$2.5 million Future Tax Credit Pool (LTV of 80% or 125% over-collateralized - blue arrow). The Funded Project's budget is \$5.0 million.
- 2) The Secured Notes offer an 8.0% coupon and yield-to-maturity (for an attractive spread over a similar Government of Canada bond).
- 3) Upon closing of the financing a 12-month Interest Reserve of \$160,000 is set aside from proceeds. Interest is accrued in arrears and paid out of the Interest Reserve.
- 4) A Completion Bonding company (European Film Bonds underwriting on behalf of Allianz SE rated AA) ensures the Funded Project is completed and delivered.
- 5) After 10 months, the project is completed. The project's accounting is finalized and its inaugural Tax Return is filed with Canada Revenue Agency (CRA).
- 6) CRA and related agencies review the filing against original budget and certificate. CRA processes the project's tax return filing. The project's Tax Refund is received approximately 2 months from date of filing.
- 7) Proceeds from the project's Tax Refund are immediately applied to repay the \$2.0 million of Secured Notes (yellow arrow).
- 8) The project is released, distributed and monetized. Revenue begins to flow and waterfalls back to distributors and the Funded Project's remaining investors.

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FREQUENTLY ASKED QUESTIONS

WHAT IS THE SIZE OF THE FILM AND TELEVISION PRODUCTION SECTOR IN CANADA?

The Film and Television production sector in Canada generated \$5.82 billion of annual activity in 2012/2013 and sustained 127,700 full-time jobs. It is comprised of three main components: Canadian Film and Television Production (\$2.67 billion); Foreign Location and Service Production (\$1.74 billion); and Broadcaster In-House Production (\$1.41 billion). Converged Digital Media Production is an emerging sector (\$43.4 million).

WHAT IS THE CREDIT QUALITY OF THE SECURED NOTES?

With future government based receivables (discounted to between 80% to 90%) and the assurance of a completion bond, the resulting credit risk is Investment Grade quality. (e.g. Canada at AAA, ON at AA2/AA- and Allianz SE at AA or Lloyds at A).

WHAT HAPPENS IF THE PROJECT IS INTERRUPTED OR THE PRODUCER FAILS TO COMPLETE THE FUNDED PROJECT?

The Producer has production insurance and bonding to cover any unforeseen production interruptions. If the Producer fails to complete the project, the Completion Bond will step in and ensure the project is completed and delivered.

WHO ADMINISTERS THIS TAX CREDIT PROGRAM?

Canada Audio Visual Certification Office (CAVCO) along with the respective provincial government agencies (e.g. Ontario Media Development Corporation) pre-approve qualified productions on behalf of Canada Revenue Agency (CRA).

Both agencies subject a prospective project to a thorough due diligence process before issuing a pre-production certificate. Upon completion the project's actual costs are reviewed versus the original budget before CRA issues a Tax Refund cheque.

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HOW LONG HAS THIS TAX CREDIT PROGRAM BEEN IN PLACE? IS IT SUSTAINABLE?

The current federal program was implemented in 1997 as a means to stimulate independent production. This provides a refundable tax credit on 25% of qualified labour expenditures.

The Provinces operate their own programs that were implemented in the 1990's. In Ontario, the refundable tax credit is generally 35% of the eligible Ontario labour expenditures.

Both programs are evaluated periodically for their economic impact and the fulfilment of their objectives. Any changes to the rates are grandfathered for productions that have been previously certified.

WHO HAS PERFORMED PROPER DUE DILIGENCE ON THE FUNDED PROJECT?

DICEMARK CAPITAL performs a fulsome due diligence on all aspects of the funded Project and the Producer as part of its role in underwriting these debt private placements.

WHERE CAN I FIND MORE INFORMATION?

Canadian Media Production Association: [Industry Facts and Figures](#)

Canadian Heritage: [CPTC Program Guidelines](#)

Ontario Media Development Corporation: [Ontario Film & Television Tax Credit](#)

PriceWaterhouseCoopers: The big table, [Film and video incentives in Canada 2013](#)

ABOUT DICEMARK CAPITAL

DICEMARK CAPITAL is a trusted, experienced and nimble boutique investment bank that offers corporate and investment fund issuers integrated capital advisory and execution services while providing investors with compelling private investment opportunities.

DICEMARK CAPITAL's experience, network and independence empowers issuers and investors alike to ensure they both exceed their capital markets goals.

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