

RSM Richter Inc.

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CANADA  
PROVINCE OF QUÉBEC  
DISTRICT OF QUÉBEC  
DIVISION NO.: 01-MONTRÉAL  
COURT NO.: 500-11-032749-083  
ESTATE NO.: 41-1047284

SUPERIOR COURT  
(Commercial Division)

IN THE MATTER OF THE BANKRUPTCY OF:

**Meteor Studios Inc.**

a body politic and corporate, duly incorporated  
according to law and having its head office and its  
principal place of business at:  
1751 Richardson St.  
Suite 7200  
Montréal, Québec H3K 1G6

**Bankrupt**

– and –

**RSM RICHTER INC.**

**Trustee**

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## TRUSTEE'S REPORT TO THE FIRST MEETING OF CREDITORS

Meteor Studios Inc. ("**Meteor**") filed an assignment on March 10, 2008. RSM Richter Inc. ("RSM Richter" or "Trustee") was appointed Trustee to the bankruptcy. The fees of the Trustee to the extent of \$25,000 have been guaranteed by DTHC (as defined below) and Royal Bank of Canada ("RBC"), each for one half.

**The information contained in this Report has been prepared from the available books and records of Meteor Studios Inc. These books and records have not been reviewed or otherwise audited by the Trustee. Consequently, the Trustee expresses no opinion whatsoever with respect to the validity, the exactness or the reliability of the information contained herein.**

## 1. CORPORATE STRUCTURE AND BACKGROUND

Meteor Studios Inc. is a Quebec Corporation formed in 2000, of which Evergreen Digital LLC (50%) and Discovery Trademark Holding Company Inc. (50%) (DTHC Inc.) are the shareholders. The Company operated in Quebec and provided animation services to film, television and online producers. Its main client was The Discovery Channel.

According to Management, Meteor Studios Inc. had suffered significant losses because of the absence of new contracts, particularly due to the "Writers' Strike" in the USA.

## 2. FINANCIAL INFORMATION

The financial information contained herein is extracted from the Financial Statements of the Company. The March 10, 2008, (bankruptcy date) financial information (Statement of Affairs) primarily emanates from the books and records of the Company and best estimates of Management. **This financial information is unaudited and is subject to adjustment.**

### 2.1. Historical Financial Results

We provide below an overview of the financial results of Meteor Studios Inc. for the last fiscal years ending December 31, 2004, 2005 and 2006, respectively. Also provided are the unaudited financial results for the 6 months ended June 30, 2007. The highlights pertaining to these results are as follows:

- The Company suffered increasing losses over the years, being of \$584,255 in 2004, \$921,481 for fiscal 2007 and \$2,721,145 in 2006;
- Current assets decreased in 2005 due mainly to a decrease in revenue contracts, therefore, reduction of cash and a reduction in tax credits receivable for film production;
- Shareholder's deficiency increased dramatically over the last three years.

Meteor Studios Inc.  
 (Extracted from audited Financial Statements)  
 Years ended December 31

	2004	2005	2006	2007 (6 months)
	Audited	Audited	Audited	Unaudited
<b>Statement of Income</b>				
Revenue	\$10,239,676	\$12,667,423	\$8,204,837	\$7,288,807
Gross margin	4,335,472	4,509,868	1,763,692	2,134,637
Expenses	<u>4,919,727</u>	<u>5,431,349</u>	<u>4,484,837</u>	<u>1,874,768</u>
Loss from operations before income taxes	\$ <u>(584,255)</u>	\$ <u>(921,481)</u>	<u>\$(2,721,145)</u>	<u>\$ 259,869</u>
<b>Balance Sheet</b>				
Current assets	\$1,781,644	\$1,467,387	\$755,256	\$1,829,066
Fixed assets and other	<u>4,187,448</u>	<u>3,229,497</u>	<u>2,993,960</u>	<u>3,407,893</u>
	<u>\$5,969,092</u>	<u>\$4,696,884</u>	<u>\$3,749,216</u>	<u>\$5,236,959</u>
Current liabilities	\$2,816,054	\$2,794,556	\$3,707,499	\$4,718,705
Obligation under capital lease	445,502	452,607	670,438	1,173,689
Advances from the shareholders	5,201,089	4,864,755	5,507,458	5,220,877
Shareholder's deficiency	<u>\$(2,493,553)</u>	<u>\$(3,415,034)</u>	<u>\$(6,136,179)</u>	<u>\$(5,876,312)</u>
	<u>\$5,969,092</u>	<u>\$4,696,884</u>	<u>\$3,749,216</u>	<u>\$5,236,959</u>
		-	-	-

## 2.2. Statement of Affairs as at March 10, 2008

The following is a summary of the Statement of Affairs as declared by Mr. Radu Vintila, Director of Technical Services of the Company, as of the date of bankruptcy. We would point out that as of the date of the bankruptcy Mr. Radu was the sole remaining employee and that he was not integrally involved with the financial aspects of the Company.

Meteor Studios Inc. Statement of affairs as at March 10, 2008 Unaudited	
<u>As declared</u>	
<b>Liabilities</b>	
Secured creditors	\$2,021,310
Unsecured creditors	<u>1,292,749</u>
	\$ 3,314,059
<b>Assets</b>	
Office furniture and equipment	\$20,000
Other assets subject to a capital lease	<u>1,500,000</u>
	\$1,520,000
<b>Deficit</b>	<b><u>\$ (1,794,059)</u></b>

## 2.3. Assets

### a) Office furniture and equipment (\$20,000)

Amongst the assets of Meteor Studios Inc. are office furniture and equipment. These assets are subject to a conventional hypothec from RBC. These assets are valued at \$20,000 on a liquidation basis. RBC has sent a legal notice ("Notice") to the Trustee electing to "Take these assets in Payment" of its operating debt which exceeds \$300,000. The Trustee has sent this Notice and RBC's security documentation to legal counsel for review. The opinion validates RBC's hypothecary rights and as such the Trustee intends to abandon the Estate's interest in these assets in favour of RBC.

**b) Other assets under capital lease (\$1,500,000)**

Other assets are primarily those subject to a capital lease with an original cost exceeding \$1,600,000.. They are mainly comprised of leasehold improvements, media production equipment and software licenses. These capital lease assets are owned by RBC in virtue of a leasing agreement and are the property of RBC which had, prior to the bankruptcy, exercised its rights to cancel the lease and take possession of its Assets ("Leased Assets"). RSM Richter is presently overseeing the custody of these Leased Assets which remain at Meteor's premises. Global Vantage LTD also appears to hold limited hypothecary security over some specific assets. In view of the above referred to legal opinion, the Trustee intends to abandon the Estate's interest in these Leased Assets.

**c) Cash in bank and Receivables(nil)**

Meteor Studios had bank accounts at Royal Bank of Canada (Canadian and US dollars). There was an overdraft of \$389,858 at the date of the bankruptcy. There are no receivables owing to the Bankrupt as per the sworn Statement of Affairs.

**2.4. Liabilities**

**a) Secured Creditors (\$2,021,310)**

The only secured creditors are RBC (security on all movable assets) and Global Vantage LTD (security on specific assets, namely, flame and Inferno systems).

The Trustee performed a Quebec research in moveable registry (RDPRM). There were no other known secured lenders with security rights pursuant to the Bankruptcy and Insolvency Act.

**b) Unsecured Ordinary Creditors (\$1,292,749)**

According to the Statement of Affairs, unsecured ordinary creditors total approximately \$1,292,749. This amount is mainly comprised of claims from the landlord, various suppliers and employees/contractors. The Trustee is currently reviewing amounts due to employees as the latest amount reflected in the Statement of Affairs was incomplete.

As of the date of the preparation of this Report, the Trustee has not received sufficient proofs of claim to assess the actual amount owed to the ordinary unsecured creditors.

It is evident, however, that there will be no funds available to pay any dividend to the Preferred or Unsecured creditors of Meteor.

**3. SUMMARY OF THE PRELIMINARY ADMINISTRATION OF THE TRUSTEE**

**3.1. Books and Records and Security and Protective Measures**

From the day of bankruptcy, the Trustee took the following security and protective measures:

- Took inventory of the books and records of Meteor Studios Inc. and placed them under the custody of Mr. Radu Vintila;
- Took back-up of all computerized data;
- Insured the assets;
- Contacted the security system company and guaranteed payment of current charges;
- Took a physical count of the assets at the Company's premises and maintained control thereover;
- Had the assets under the custody of Mr. Radu Vintila of Meteor Studios Inc. and a letter of responsibility signed by him and 3 other employees of Lumières VFX Inc.

### 3.2. Reviewable Transactions and Preferential Payments

The Trustee is presently performing a review of the payments to creditors in the last three months and twelve months (with respect to related parties) preceding the date of bankruptcy, as well as a review of transactions made with its parent company and other related companies. We will advise the Inspectors to the bankruptcy of any relevant findings upon completion of the review.

### 3.3. Transaction with Lumières VFX Inc

Months prior to the bankruptcy the shareholders of Meteor had entered into a letter of intent to sell the Company. Unfortunately the due diligence of the purchaser was not favourable and the transaction never came to fruition. Upon the failure of that transaction RSM Richter was appointed consultant to RBC to try to revitalize the transaction or find another purchaser. The Company representatives were cooperative with this process. Ultimately a transaction on a less favourable basis was negotiated with the original party, Lumières VFX Inc. The transaction is yet to be concluded and entails RBC selling its Leased Assets and those subject to the Taking in Payment. RBC shall nonetheless suffer a significant shortfall.

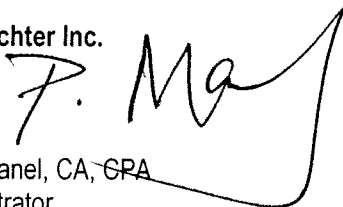
## 4. ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

The main assets of Meteor Studios Inc. are its production equipment and software licenses, which are secured by either a hypothec from RBC or Global Vantage or subject to a leasing agreement from RBC. The assets are of a lesser value than the secured claims. As mentioned above the Trustee intends to forthwith abandon the Estate's interest in these assets and remit them to the secured lenders. Accordingly, at this stage of administration of the file, there will not likely be any dividend available to any of the creditors.

DATED AT MONTRÉAL, this 31<sup>st</sup> day of March, 2008.

RSM Richter Inc.  
Trustee

Philip Manel, CA, CPA  
Administrator

A handwritten signature in black ink, appearing to read "P. Manel", is written over the printed name and title of Philip Manel. The signature is fluid and cursive.