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Productivity Media Income Fund I LP - Film and TV Media Lending

Sector/Industry: Film Finance **www.productivity media.com**

Offering Summary	
Issuer	Productivity Media Income Fund I LP
Securities Offered	LP Units and Trust Units (various classes)
Offering	No minimum/maximum (except for class J, which has a maximum of $100M)
Unit Price	NAV as of the previous valuation date
Hurdle Rate	8% p.a.
Management fee (as a % of NAV)	0.5% to 1.5% depending on the type of LP unit
Incentive fees (applicable to returns in excess of the hurdle rate)	35% to 50% depending on the type of LP unit
Sales and commissions (upfront)	up to 5% of the gross proceeds
Trailer fees	0.5% to 1.0% depending on the type of LP unit
Origination fee to the manager	33% of gross proceeds, not more than 3% of the principal amount of each loan
Auditor	Deloitte & Touche LLP
Administrator	Apex Fund Services
Legal Counsel	AUM Law

-Based on Offering Memorandum dated July 15, 2013
-Amount raised to date: $0.22 million

Investment Highlights

- Productivity Media Income Fund I LP ("fund", "LP") was formed by Productivity Media Inc. ("company", "GP", "PMI") in February 2012, and commenced operations in August 2012.
- PMI, formed in January 2012, in Oakville, Ontario, is a film financing company specializing in providing late stage senior loans with 12-18 month terms. Their focus is on Canadian, American, United Kingdom and Australian based independent film and television projects, with $1-$20 million budgets.
- The loans are secured against collateral, which include sales and distribution rights, government rebate and/or incentive programs and tax credits, and other tangible and intangible assets.
- The fund generates returns from origination fees, interest earned on loans, and future revenue participation arrangements.
- From August 1, 2012, to July 31 2013, the Net Asset Value ("NAV") per unit of the fund has increased by 12% - 13%, depending on the type of LP unit.
- The fund intends to maintain a maximum loan to budget (loans as a percentage of the total film budget) ratio of 30%, and loan-to-value ("LTV") ratio of 50% (loans as a percentage of collateral).
- The fund has loaned to three projects to date ($385k), and is currently in the process of finalizing the fourth loan.
- Canadian produced shows are experiencing an increasing popularity and presence in the international market. There is also increasing support for independent productions in the US.

Risks

- Return of principal is not guaranteed.
- Timely deployment of capital is crucial.
- Loans are typically short-term, and therefore, management needs to always have a long pipeline of potential investment opportunities.
- PMI has just over one year of experience, however, management has a long track record in lending and the production side of the business.
- The three loans funded by the LP are secured by distribution rights on territories, some of which are yet to be sold.
- The fund might use leverage to a maximum of 50% of the NAV.
- The units can be redeemed by the GP. As a result, investors are exposed to prepayment risk.

FRC Rating	
Base-Case IRR	8% p.a.
Rating	3-
Risk	4

*see back of report for rating and risk definitions

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Overview

Productivity Media Income Fund I LP was established on February 29, 2012, in Oakville, Ontario. The LP is planning to raise funds by offering Class A, B, I and J units. Except for Class J, which has a maximum offering of $100 million, there is no minimum or maximum for the offering. The LP's business is to provide loans to independent media productions ("indies") – which are basically film and media productions that are produced outside of the major Hollywood studios.

Purpose

The purpose of this report is to analyze the risks and returns associated with the LP units.

Management Team

The fund was formed by PMI. PMI, incorporated on January 17, 2012, is a film financing company which provides loans to late-stage film (which means the stage after pre-production and just before production) and media productions. The company and its related parties have offices in Oakville, Vancouver, Los Angeles and Montreal.

The fund intends to lend to Canadian, American, United Kingdom and Australian based independent film and television projects, with total budgets ranging between $1 and $20 million. Loans are typically 12-18 month terms, and management expects to keep the loan to budget below 30%. Loans are secured against collateral which include sales and distribution rights, government rebate and/or incentive programs, tax credits, and other tangible and intangible assets. The fund may also seek a long term revenue participation share on the box office performance (the amount of money received from ticket sales and/or distribution performance). Note that the fund's primary returns, however, will not be tied to box office performance, but will primarily be tied to project completion, and cash flows from the sale of a project's distribution rights to distributors.

The fund has so far funded three loans – two in Canada, and one in the U.S. The principal amounts on the loans range between $110k and $150k. According to management, the LP is currently in the process of finalizing the fourth loan of $850k. The LP has only raised $0.22 million to date. Therefore, the LP has to either raise capital quickly, or arrange a bridge financing to fund the fourth loan.

PMI currently has seven full-time employees – four on the senior management team, and three in sales and administration. Brief biographies of the management team, as provided by the company, follow:

William G. Santor, Director and President - William G. Santor is the founder and President of Productivity Media Inc. and has served in this capacity for the GP since its inception in 2012. He is a member of the Investment and Valuation Committees. He oversees all of the day-to-day firm decision making within management, operations, investment origination and investor relations. His role involves the coordination of the team and monitoring of the performance of external service providers utilized by the GP and the fund. He brings over a decade of investment structuring and management expertise. From 2006 to the present, Mr. Santor is also the co-founder and President of Prosapia Wealth Management, a firm dedicated to asset allocation, wealth transfer and the creation of prudent wealth building strategies for families to plan for multiple generations. It was through his work at Prosapia Wealth Management that he became aware of the opportunities for participation in new media, predominantly film and television finance. Over the last decade, Mr. Santor held roles at both Tristar Film Finance and Media House Capital. Mr. Santor's role has evolved in the area of new media, primarily film, over the past 5 years from mid-stage project investor to structurer of debt and equity participation interests in Canada, the US and UK where he has assumed a variety of roles including positions at Tristar Film Finance in 2008. Mr. Santor was also involved in the formation of Media House Capital in 2010, where he participated in financing of 4 feature films: Daydream Nation ($3.5M budget), Janie Jones ($3.7M budget), I Melt With You ($1M budget), and Paradox ($3.6M budget). These financings were mainly conducted through a direct investment, as direct private equity deals. Mr. Santor participated in these financings as lead investor, and used his own and other related parties' capital.

John Hills, Chief Operating Officer - John Hills is the Chief Operating Officer of Productivity Media Inc. He oversees day-to-day operational controls and investor relations and has been in this role since the inception of Productivity Media Inc. in 2012. Mr. Hills' career spans over 30 years with experience in aligning technical strategy to organizational goals for various industry sectors, which includes manufacturing, metals and mining, waste management, food and hospitality. Mr. Hills' expertise encompasses software, hardware, planning, project management and operational architecture for high-availability and mission critical systems. Mr. Hills began working for Canadian General Electric as a Finance Trainee; his first assignment being in Information Technology supporting in-house payroll systems. Mr. Hills continued working within the Canadian General Electric family of companies for the next 17 years. Mr. Hills continued in his career working for a number of large well-known Canadian firms (Laidlaw Waste, Inco, Tim Hortons). Mr. Hills' experiences at GE and Laidlaw along with strong project management skills positioned him to take on increased responsibilities, particularly for various ERP implementations as well as the e-commerce activities undertaken at GE. These opportunities increased his scope and span of control and assisted Mr. Hills in his ability to take on the strategic roles as Director, Enterprise Business Solutions at Inco and as Vice President of Information Technology with Tim Hortons.

Andrew Chang-Sang, Chief Financial Officer - Andrew Chang-Sang is the Chief Financial Officer of Productivity Media Inc. and has served in this capacity since July 2012. Mr. Chang-Sang brings almost 20 years of financial management experience with expertise in Finance, Marketing and Electronic Payments. Throughout his career, Mr. Chang-Sang has held increasingly responsible finance roles in various industries and most recently served as Director, Adfund & Payment Solutions for Tim Hortons Inc. from January 2007 to July 2012. During his tenure at Tim Hortons Inc., Mr. Chang- Sang oversaw all financial aspects of a $200 million division, served as a member on the Mastercard Advisory and Point of Interaction boards and implemented the strategic business plan for the Prepaid Card which recently was awarded the Winner of Best Prepaid Consumer Program - 2012 Prepaid Awards Canada. Prior to Tim Hortons, Mr. Chang-Sang held various finance roles which included Director, Finance for Just Energy and Manager, Planning & Analysis for the EDULINX Canada Corporation in addition to others. Mr. Chang-Sang is a Certified Public Accountant (Delaware), a Certified General Accountant and holds an Economic degree from University of Toronto.

Katherine Curry, Senior Vice President, General Counsel - Katherine Curry serves as senior vice president and general counsel for Productivity Media Inc. In this capacity, she manages the company's legal functions, including corporate and commercial transactions, management of risk, litigation, and ethics and compliance matters. Ms. Curry is also a member of the company's credit committee. Ms. Curry brings almost 15 years of in-house expertise to the company. Prior to joining Productivity Media Inc., Ms. Curry served as corporate counsel at Tim Hortons Inc. Previously, Ms. Curry provided in-house counsel services as sole legal advisor to various businesses in the Toronto area, including Akzo Nobel Canada (global parent of Color Your World), Ontario Heart & Stroke Foundation, Olesen Canada (high end women's fashion retailer) and Yak Telecommunications (discount long distance telecommunications provider). In addition, Ms. Curry served as in-house legal counsel at Purolator Courier Ltd. Prior to embarking on her in-house legal career, Ms. Curry practiced law for four years at downtown Toronto law firm McLean & Kerr LLP, focusing on litigation related to corporate commercial matter. Ms. Curry received a Bachelor of Arts, Honours from Queen's University in 1991 and subsequently graduated from Queen's Law School in 1994. Ms. Curry is a certified Entertainment Lawyer, and is a member of the Canadian Bar Association and the Law Society of Upper Canada. Ms. Curry also conducts volunteer work for, and serves on the Board of Directors of, the Centre for ADHD Awareness, Canada.

Martin Gunderson, EVP Investment Capital - Martin (Marty) E. Gunderson is Executive Vice President in charge of investment capital. He oversees the acquisition of capital for funding media productions. Mr. Gunderson manages various relationships with distribution channels such as the exempt market, while ensuring the offerings available are compliant, marketable and aligned with investor's interest. Mr. Gunderson has been in the financial services industry for 17 years, and has successfully facilitated numerous large financings in real estate, oil & gas service companies, apartment buildings, and mining and has built a robust network of exempt market dealers, representatives and professional services in the exempt market. From 2007 to 2009 Mr. Gunderson raised funds under the banner of Solomon Land Group for a number of real estate developments across Alberta. The projects are in Vegreville, Calmar and Coalhurst with the total amount raised approximately about $4M. His extensive experience in the exempt market has lead to a number of leadership roles in sales and operations functions, including Assante Financial Management, Walton International Group and Pinnacle Wealth Brokers. At Walton International Group, Mr. Gunderson was personally responsible for raising in excess of $5 million in capital over various projects; Mr. Gunderson also worked at Terra Pro, where he was a member of a group which raised over $7 million in capital.

Mark McNulty, VP Institutional Client Services - Mr. McNulty has spent the last 12 years servicing clients in the financial services sector. Prior to joining Productivity Media, Inc., he spent the last 7 years with Maestro Real Estate Advisors as Senior Director, Investors Relations. His role consisted of managing the relationship with institutional clients in relation with the firm's overall activities. Mr. McNulty was responsible for servicing Maestro's clients and raising capital for two of its private funds, namely MRRF IV ($232 million) and MRRF V, LP ($234 million). Mr. Mc Nulty also prepared financial information for the firm's various Advisory Boards and presented annual reviews to various investment committees. He later took over joint responsibilities of Investors Relations and Strategic Asset Management, where he became involved in the sale of Maestro's assets. He directly participated in the sale of Maestro's portfolio of 52 properties, which was sold to a publicly traded REIT in 2012. Prior to his tenure at Maestro, Mr. McNulty spent 4 years with AGF Group of Funds as Regional Director of Sales in Quebec and the Maritimes, where he was responsible for overseeing the relationship of a subsidiary of Citigroup, one of AGF's strategic partners. He serviced approximately 300 clients; with approximately $800M in assets under management and annual sales over $200M. Mr. McNulty graduated in Economics from Université de Montréal and holds the Chartered Investment Management designation (CIM).

Nilan Pielak, Advisor - Nolan Pielak has spent over 12 years in the international distribution of feature films and series. He has worked for 10 years in Los Angeles specializing in the international sales of feature films. Initially, for 5 years, Mr. Pielak was VP of International Distribution of Franchise Pictures, focusing on major theatrical Warner Bros films, such as The Whole Nine Yards, The Pledge, Art of War, and Spartan. Subsequently, for 5 years Mr. Pielak was President of International Distribution of Dream Entertainment handling worldwide sales on independent theatrical films, such as, Ellie Parker, and Lonesome Jim, as well as award winning documentaries.

Robert Budreau, Advisor - Robert Budreau is a former entertainment lawyer at Goodmans LLP in Toronto where he represented Canadian and US film studios. He has written, directed and produced numerous films that have won awards and sold around the world. His feature film That Beautiful Somewhere (2007) was nominated for a Genie Award and is now available on DVD through Warner Brothers. Other selected writer/director credits include: Judgment Call (2005) which won Best Film on the Emmy-winning series 'The Short List'; Dry Whiskey (2006), executive produced by Fred Fuchs (Godfather III), and The Death of Chet Baker (2009) for CBC and Bravo, distributed by IFC. Mr. Budreau's experience as both an entertainment lawyer as well as a filmmaker provides Productivity Media with unique insights in underwriting, transacting, and managing productions within the fund. Mr. Budreau is a member of PMI's Credit Committee.

Tim Brown, Advisor - Tim Brown has spent the past 20 years in all aspects of film. He started working for René Malo (Decline of the American Empire) in the distribution of STV films in Canada. Malofilm at the time distributed approximately 15-20 movies/month. After three years at Malofilm, Tim moved to Astral where he was National Sales Manager. In the 6 years spent at Astral (later known as Motion), he was responsible for evaluating thousands of scripts and feature films. By travelling the world looking for films and releasing them into the Canadian market place Tim developed a keen sense of what films worked in the marketplace and what films did not. After spending 6 years at Motion, Mr. Brown spent a year working with an independent production company, Highwire, learning the ropes of production and financing of feature films. He then went on to become head of worldwide sales and distribution for Keystone Entertainment where he was in charge of marketing and releasing all internal productions to the global marketplace. At Keystone, Mr. Brown established important relationships with all the major studios and mini- majors. After his time at Keystone, Mr. Brown decided to direct his first feature film. He directed The Cradle starring Lukas Haas. Mr. Brown went on to become President of Insight Film Studios and in just over two years was involved in the financing, creation, packaging, marketing and sales of over 40 films including Personal Effects (Ashton Kutcher and Michelle Pfeiffer), Numb (Mathew Perry), and While She Was Out (Kim Bassinger). Since 2009, Mr. Brown has executive produced over 11 films and he is currently producing 4 feature films and 2 TV series. Mr. Brown is a member of PMI's Credit Committee.

Tim is also CEO of the Joker Films Inc., which is the sales agent that works with PMI. Joker Film Inc., based in North Vancouver BC., is a private company working with large Canadian distribution companies for over 17 years.

What is ABL?

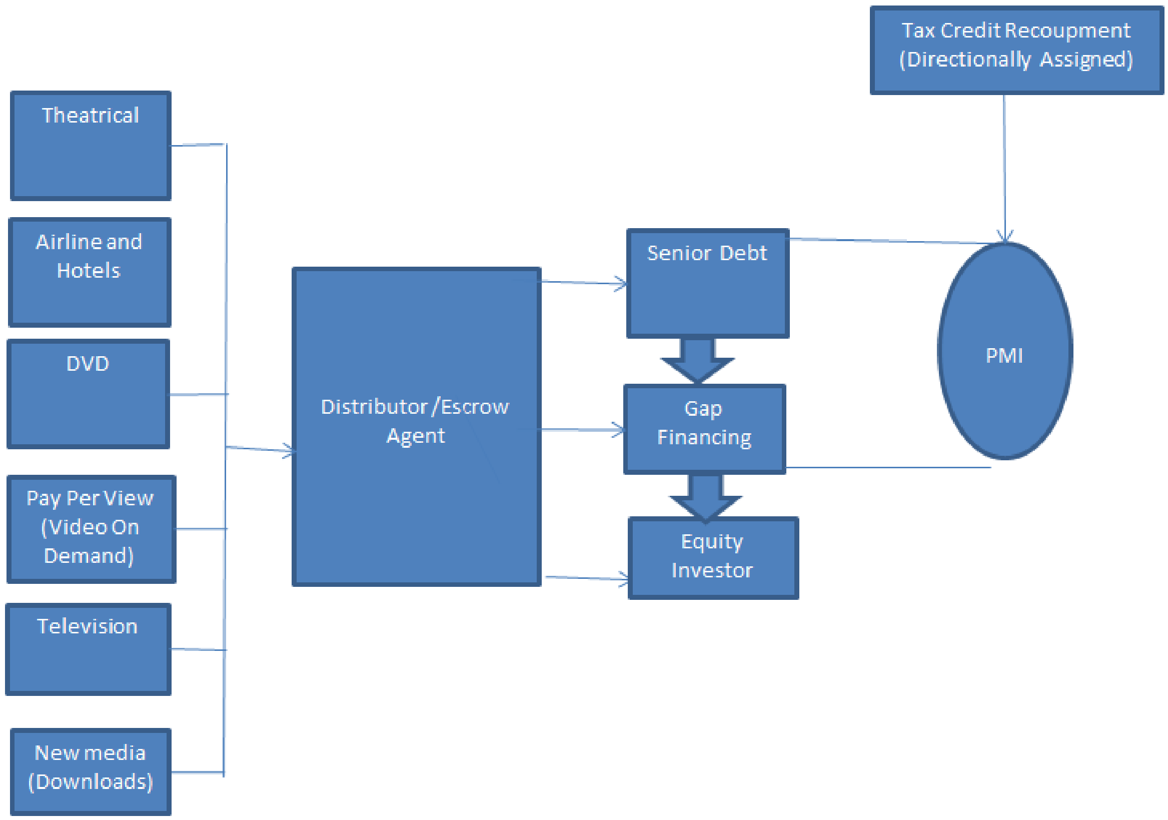
Asset Based Lending (ABL) is a form of financing secured by an asset. ABL is an ideal choice for companies who experience difficulty in obtaining capital through equity or conventional loans. Since asset-based loans are collateralized by assets put up by the borrower, lenders do not rely too much on the credit-worthiness of the borrower unlike traditional lenders.

Asset-based lending, and traditional bank lending, are similar in terms of operations, but differ in what they look for in loan repayment as well as interest rates charged. Banks look at cash flow, profitability, strong balance sheet, require more financial covenants, and generally charge interest of 1% - 5% above the prime rate**. An asset-based lender looks at what the business / individual has in terms of collateral first; they require fewer covenants, provide greater flexibility, allow borrowers quicker access to loans, etc.** The liquidity and the market value of the collateral are very crucial components. The main drawback for borrowers using ABL is the high interest rates, which are typically between 10% - 28% p.a. **The three loans in the LP's portfolio charge an interest of 10% p.a. The fund also charges an upfront origination fee of 5% - 10% on the loan amounts. Up to 33% of the origination fee (capped at 3% of the loan principal) will be paid to the GP.**

A wide variety of both fixed and current assets are accepted by lenders as collateral; property, plant and equipment, vehicles and machinery, are common fixed assets put up by borrowers. Inventory, accounts receivables, tax credit receivables, and government receivables, are common current assets put up for loans. With respect to media projects, collateral typically includes pre-sales / unsold distribution rights, tax credit receivables, etc. Loan values are typically between 80%-90% of the value of the collateral. However, **the LP's strategy is to preserve capital via overcollateralization; as mentioned earlier, the fund intends to maintain a LTV of less than 50%. The higher coverage ratio, or overcollateralization, provides the fund a much larger safety net.**

Lenders are subject to different risks when engaging in ABLs. **The quality of the assets put down as collateral can change frequently**. In the LP's case, management uses several strategies to mitigate risks; which are discussed in detail later.

Process The following flowchart shows a simplified process/cash flow chart:



Typically, distribution rights of a film to various channels (theatrical, airline and hotels, DVD, video on demand, etc.) are sold by sales agents to distribution companies. The sales agents, who are contracted by production companies or the financiers, collects marketing fees, and a 15% - 25% fee (as sales commission) on the gross receipts from the sales of the distribution rights. PMI will try to negotiate (as they have in the existing loans in the portfolio) to defer the sales agent commissions until the fund fully recoups its principal + interest. For certain loans/investments, PMI will try to negotiate a share of the sales commission with the sales agent (approximately 50% of the total commission), which could provide the fund further upside.

The funds received from the various channels flow through to the distributors, to the sales agents, and then to the financiers, starting with senior debt holders. Funds are often placed in escrow to ensure timely and proper distribution.

Types of financing Financing of independent film/media projects is typically done through equity (20% - 30%), and the following methods. **PMI's focus will be on the below mentioned financings, and will not participate in any direct equity financings.**

Pre-Sales - Distribution rights of a film to various channels (theatrical, DVD, video-on-demand, etc.) are sold by sales agents (hired by the production company) to distribution companies even before a film is completed. **Under a pre-sale agreement, a distributor commits to pay the production company a minimum payment called "Minimum Guarantee" or "MG", once the film is completed**. Producers use the pre-sale contracts as collateral to raise funds (loans) for the film's production. The loan amount will be based on the financier's assessment of the distributors' creditworthiness.

Soft Money (Government Incentives) – Producers also receive 'soft' financing through government incentives, such as refundable tax credits, cash rebates, grants, etc. Lenders, such as PMI, use refundable tax credits as collateral for their loans. Tax credit financings typically account for approximately 25% - 30% of the total budget of a project.

Gap Financing - After the above types of financings have been used, gap financing is used to bridge the difference. With gap financing, financiers typically provide a loan of between 10% - 15% of a film's total budget. The loans will be secured by estimated MG from sales to unsold territories. In the case of PMI, Joker Films (sales agents) is engaged to provide an estimate of what those territories are cumulatively worth. This method is less risky than equity financings, and more risky than the above mentioned financings, due to the lack of pre-sales agreements.

Completion Guarantees – PMI also expects to participate in such type of financings. Here, the LP will provide a letter of credit guaranteeing to fund the project in case of cost overruns, of up to an additional 30% of the initial budget. PMI intends to charge a premium of 3% to 5% of the total budget as their fee.

All the loans in the current portfolio are gap financings.

Due Diligence Process

PMI sources deals primarily through management and advisor contacts. PMI then performs due diligence to examine how a project will fit into the overall investment portfolio from a diversification perspective, with regard to the type of loan (gap financing, tax credit, etc) and location (Canada, US, Australia, and UK). The key steps involved in their due diligence process are shown below:

- **Initial Review –** In this stage, management reviews various materials such as: detailed budget, shooting schedule, financing structure, chain of title (a documentation that establishes proprietary rights of a film), tax credit estimate, and any tax credit opinion on the project. Management may reject a project due to reasons such as: unrealistic financial plan or budget, low market value, too early stage for investment, non-experienced producer, director, undetermined key cast, etc. **According to management, they currently have $37 million of funding requests that have passed initial review.**
- **Second review** – Once the project has been approved based on the above criteria, the committee will conduct further due diligence by reviewing all relevant corporate documentation, evidence of all insurance requirements, sales, broadcast and/or distribution agreements, personal and corporate credit and professional reference checks.
- **Structuring and completion** – In this stage, PMI finalizes terms of the items such

as: General Security Agreement (a document that provides PMI a security interest in the assets that are used as collateral), copyright on mortgage (a document which can be used to secure debt using the copyright as collateral), certified cost report, etc. Some key documents / agreements are listed below:

(a) General Security Agreement;
(b) Copyright Mortgage and Assignment;
(c) Certified Cost Report and Cost to Complete;
(d) Certified Final Locked Budget;
(e) Assignment and Interparty Agreements (as necessary) with sales company;
(f) Agent Agreement, Direction to Canada Revenue Agency or State Government Office;
(g) Searches and Undertakings (including registration of security on production company), Subordination Agreements (as appropriate) with third party lenders;
(h) Corporate and Chain of Title legal opinion letters;
(i) Officer and Director Resolution; and
(j) Agreement on Complete Transition.

Source: Management

- **Execution:** In the final stage, the legal documents are signed by all the parties, and funds are forwarded to the production company.

According to management, they have developed an internal ranking system to screen / select investment opportunities. **Management stated that they review, on average, 10 – 15 projects every week.** Management's policy is to complete all the steps above in not more than 30 days.

Risk management - According to management, they try to mitigate risks by having dominion (or takeover) rights over the production, and/or by requiring projects to have completion bonds, as described below:

- **Takeover / Dominion rights:** This feature will allow PMI to take over a project, remove the existing key personnel, and insert its own staff to take the project to completion. PMI will consider takeover in the following scenarios - loss of confidence in the initial producer and/or director to complete the project, cost overruns, delays in the project, etc. All additional expenses associated with the completion of a project (after a takeover) will be covered by the cash flows from the project (when completed), and will not be PMI's responsibility.

- **Completion Bond -** If a film/project is budgeted above \$2-\$3M, PMI will demand a completion guarantee (from a third-party) to ensure that the project is completed without running over budget / schedule. One of the primary providers of completion bonds is Film Finances Inc., a private company, founded in 1950, and based in the U.S. Note that PMI will not provide completion guarantees to projects they also provide financing to.

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PMI will have the first claim on the collateral that their loan is secured by. Other ways PMI tries to mitigate risks are by regular monitoring of cash flows, reviewing project completion schedules, reviewing tax credit claims, etc. Management also requires producers to use third-party services such as **collection account management** to collect and administer a project's cash flows.

Current Portfolio

The table below shows a summary of the three loans in the LP's portfolio. We have reviewed all the loan agreements. All of the investments are gap financings. None of the projects had any pre-sales when the loans were advanced. Since then – a) the distribution rights of "Lifeguard" have been sold for $20k in Canada, $18k in Australia / New Zealand, and $9k in Scandinavia, and b) the distribution rights of "Cubicle Warriors" has been sold for $75k in the U.S.

Name	Amount Invested (million)	Location	Date Invested	Total Budget (million)	Assets Collateralized	Additional revenue participation	Production stage	Interest rate	Maturity date
Lifeguard	$0.125	US	October 15, 2012	$1.60	Unsold world distribution right excluding the US	10% commission on sales of the film in the world excluding the US	distribution	10%	18 months
Cubicle Warriors	$0.150	Canada	October 29, 2012	$1.28	Unsold foreign distribution rights excluding Canada	10% equity	Post production (final phase of technical work after shooting- editing/sound tracks)	10%	18 months
That Burning Feeling	$0.110	Canada	August 30, 2013	$1.20	Unsold international distribution rights, excluding Canada	10% commission on sales of the film in the world excluding Canada	Being shown at Calgary film festival	10%	18 months

Source: Loan Agreements and Management

As shown in the table above, the total investment, at this time, is about $385k, which is about 9% of the total budget of the three projects. All the projects are in advanced stages or completed. The fund has upside potential (additional revenue participation features) on all three projects.

The interest rate charged on each loan is 10% p.a., with maturity terms of 18 months.

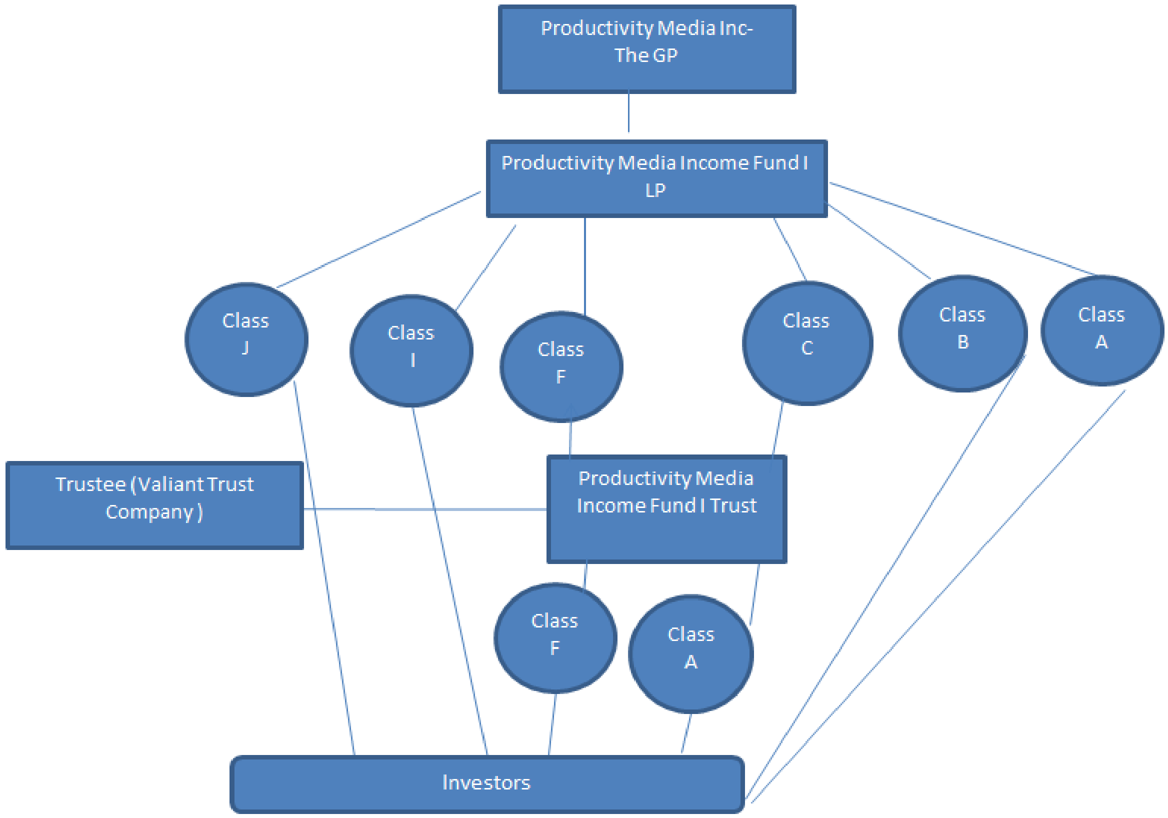
Competitors

The key participants in film and media production financings in Canada are RBC and National Bank. The Bank of Montreal recently entered into the space with the acquisition of the loan assets of Aver Media in February 2013. Aver Media, founded in 2006, is a private media financier that specializes in providing secured debt financing, sales consulting and advisory services to producers and distributors of television programs, theatrical feature films, and digital media content.

One of PMI's key competitors is Media House Capital Corp ("MH"). As mentioned earlier, Mr. Santor was involved in the formation of MH in 2010. MH's headquarters are located in Vancouver, with offices in Toronto and Los Angeles. According to MH's website, the company has so far invested in 10+ projects. Crystal Wealth, based in Ontario, is a wealth management firm, and an investor of MH. **Crystal Wealth's fund, Strategic Yield Media Fund, founded in September 2011, generated a return of 12% in 2012.**

Structure

The chart on the next page shows the structure of the offering.



The assets (investments) will be held by the limited partnership, Productivity Media Income Fund I LP. The partnership will be managed by the GP, who will assume full responsibility for the day-to-day management of the projects, and has unlimited liability. It should be noted that PMI does not receive investors' funds directly. A third-party fund administrator, Apex Fund Services (Canada) Ltd., administers all the cash flows. Apex administers more than 250 investment funds around the globe, representing assets under administration of $23 billion.

The partnership currently issues 6 classes of units; Classes A, B, C, F, I and J. In July 2013, Productivity Media Income Fund I Trust (the "trust") was formed; the trust issues class A and class F trust units. Funds from class A and class F trust units will be used to purchase class C and class F LP units, respectively. The units of the trust will be qualified for registered plans such as RRSP, RRIF, RESP, etc. The trustee is Valiant Trust Company. Valiant is an operating company of Canadian Western Bank (TSX: CWB).

The table on the next page shows a summary of the various features of the LP unit classes.

	Class A	Class B	Class C	Class F	Class I	Class J
Number of the units outstanding	12,000	8,932	0	0	0	0
Target investors	Accredited investors	Eligible investors relying on the offering memorandum exemption	Issued to trust units-which in turn will be issued to individual investors	Issued to trust units-which in turn will be issued to portfolio mangers and advisors	Institutional investors (Minimum invesment - $2 million)	Institutional Investors (minimum investment - $10 million)
Maximum Offering	NA	NA	NA	NA	NA	$100 Million
Fees						
Management Fee	1.5%	1.5%	1.5%	0.5%	1.0%	1.0%
Performance Fee			50%			35%
Sales commission	5%	5%	5%	NA	5%	5%
Trailer fees, paid by the GP	1.0%	1.0%	NA	NA	0.5%	0.5%
Redemption						
Valuation date (for the purpose of redemption)	Once per quarter	Once per year (December 31)	Once per month	Once per month	Once per quarter	Once per quarter
Amount	up to 25% per quarter	up to 25% per year	NA	NA	up to 25% per quarter	up to 25% per quarter
Lock up period	18 months	18 months	18 months	18 months	18 months	36 months
Optional redemption (no lock up and no redemption fee)	Up to 10% a year	NA	NA	NA	Up to 10% a year	NA
Early redemption fee	5%	NA	5%	5%	5%	5%

We believe the sales fee (up to 5%), and the management fee (0.5% to 1.5%) are lower than comparable offerings. The manager also collects an origination fee of 33% of the upfront origination fee (capped at 3% of the loan amount), which we believe is reasonable.

The GP has the right to redeem some or all of the units at NAV per unit.

The LP units receive all the return on investment up to 8% p.a. (hurdle rate) or less. All the returns in excess of 8% will be allocated 50:50 in the case of classes A to I, and 65 (investors): 35 (management) in the case of Class J. **It should be noted that, at this time, the LP does not intend to make cash distributions to investors other than the redemption of units.**

NAV will be calculated monthly by Apex. Also, the NAV will be reviewed quarterly, and audited annually by the fund's auditor (Deloitte and Touche LLP).

Class A and B are the only unit classes that have been issued at this time. The following table shows the NAV per unit since inception. From October 2012 to July 2013, the NAV of class A units increased by 12.70% (from $10.00 to $11.27 per unit). The NAV of class B units increased by 11.90% (from $10.00 to $11.19 per unit).

		2012			2013						
		October	*November*	*December*	*January*	*February*	*March*	*April*	*May*	*June*	*July*
Class A[1]	NAV	10.00	10.47	10.56	10.66	10.81	10.86	10.95	11.10	11.19	11.27
	Return (%)	0.10	4.70	0.90	0.90	1.40	0.50	0.80	1.40	0.80	0.70
Class B[2]	NAV	10.00	10.41	10.50	10.60	10.74	10.79	10.88	11.03	11.12	11.19
	Return (%)		4.10	0.90	0.90	1.30	0.50	0.80	1.40	0.80	0.70

1-Commenced in October 2012
2-Commenced in November 2012

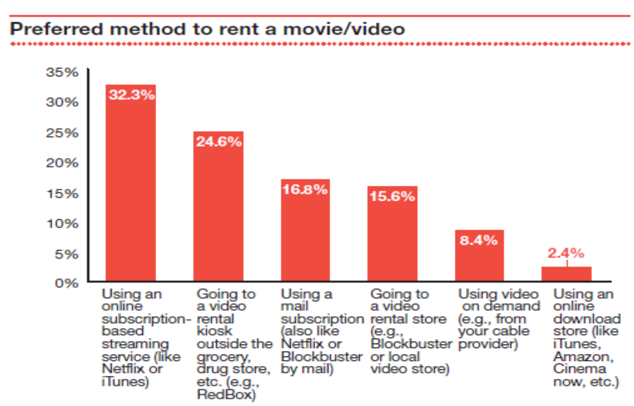
Source: Management, Apex Fund Services, Audited and Unaudited financial statements December 31,2012 and March 31 2013

Independent Film Industry

According to PwC, in 2012, independent films represented more than 74% of all the films in theatres worldwide, of which, 42% were from North America. The number of independent films globally, was up 46% in the past 10 years. However, gross revenues (box office sales) generated by these films ($10.8 billion) comprised only 18% of overall revenues, and were down 25% in the past 10 years. The drop in revenues was mainly attributed to the fact that independent films have been increasingly using other channels (including video-on-demand, on-line streaming, etc) which are not tracked by box office revenues, and piracy. However, we believe piracy will not be a key factor in this offering because PMI's primary returns will not depend on the performance of the project in box offices.

The number of productions and associated revenues in the independent film industry are mainly influenced / affected by the following factors:

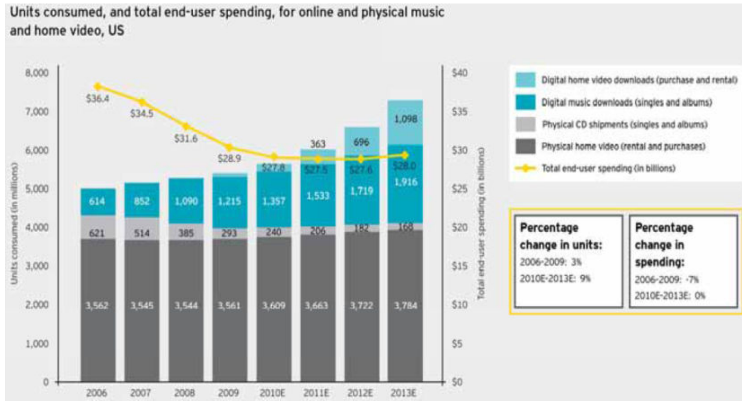
- **Film Incentives**: Various incentives are offered to independent media productions, described in detail below.
- **On-line technologies** (internet / cable TV) enable producers to distribute films more easily, and at a significantly lower cost, and reach a large global audience. As shown in the bar chart below, online subscription based streaming services (such as Netflix; Nasdaq: NFLX) are the most popular method of renting a movie/video. We believe the increasing popularity of such services will continue to drive the viewership of independent movies.



Source: PwC

It is anticipated that the amount of digital home video downloads will increase from

$698 million in 2012, to $1.1 billion in 2013) – see chart below.



Source: PwC

We believe that the increasing use of online technologies will continue to lower the cost of independent production, and drive the number of independent productions higher.

Canada's Indie Market

Canada is considered to be one of the best jurisdictions for film production, primarily due to its infrastructure, affordable production costs, and the incentives received by producers (listed below).

- Canada encourages co-production with other countries by qualifying those productions, or the Canadian component of those productions, for receiving incentives.
- Canada offers direct federal and provincial assistance in the form of grants, loans and equity investments in Canadian content programming.
- Canada offers federal and provincial refundable tax credit programs to film and media productions filmed in Canada – 16% to 25% of qualified Canadian labour expenditures are eligible for tax credits.

The different tax incentives at the provincial level, in 2012, are summarized in the table below. Overall, Ontario, BC, and Quebec, we believe, offer better incentives than the other provinces.

Alberta Multimedia Development Fund (AMDF)
25% (no Alberta ownership is required) to 30% of eligible Alberta production costs.
This is a non-recoupable grant.

Film Incentive BC Tax Credit
35% of qualified BC labour (maximum: 21% of total production cost).
- Regional credit: 12.5% of pro-rated qualified BC labour if more than 50% of the BC principal photography days are outside the Vancouver area (maximum: 7.5% of total production cost).
- Distant location credit: 6% of pro-rated qualified BC labour for principal photography in a prescribed area.
- Training credit: 3% of qualified BC labour (maximum: 30% of trainees' salaries).
- BC Digital Animation or Visual Effects Tax Credit (see Part 2).

British Columbia Production Services Tax Credit
33% of qualified BC labour expenditure (no maximum).
- Regional credit: 6% of pro-rated qualified BC labour if more than 50% of the BC principal photography days are outside the Vancouver area.
- Distant location credit (see Film Incentive BC Tax Credit above).
- BC Digital Animation or Visual Effects Tax Credit (see Part 2).

Manitoba Film and Video Production Tax Credit
Either: 45% of eligible Manitoba labour (no maximum).
- Regional credit: 5% of eligible Manitoba labour if at least 50% of principal photography shot outside Winnipeg.
- Frequent filming bonus: 10% of eligible Manitoba labour on third film produced within 2 years (or first film, if co-produced with a Manitoba company that claimed the bonus).
- Producer bonus: 5% of eligible Manitoba labour if a Manitoba resident is credited as a producer, co-producer or executive producer.

Or: 30% of eligible Manitoba production costs (no maximum).

New Brunswick Multimedia Initiative
25% of eligible New Brunswick expenditures.
- Eligible project: 5% of eligible New Brunswick expenditures for projects in eligible genres.

Newfoundland and Labrador Film and Video Industry Tax Credit
40% of eligible Newfoundland and Labrador labour (maximum: 25% of total production costs. Maximum tax credit: $3 million per 12-month period).

Nova Scotia Film Industry Tax Credit
50% of eligible Nova Scotia labour (no maximum).
- Regional credit: 10% of eligible Nova Scotia labour if principal photography is outside metro Halifax.
- Frequent filming bonus: 5% of eligible Nova Scotia labour on third film produced within 2 years.

Nunavut Spend Incentive Rebate
17% to 30% of eligible Nunavut expenditures, depending on Nunavut ownership, Nunavut key creative positions and if production versioned in the Inuktitut/Inuinnaqtun language (maximum funding: $415,000/year).

Ontario Production Services Tax Credit
25% of qualified Ontario production expenditures (no maximum).
- Ontario Computer Animation and Special Effects Tax Credit (see Part 2).

Quebec Film and Television Production Tax Credit
French language and giant-screen films: 45% of qualified Quebec labour (maximum: 22.5% of production costs).
- Regional bonus: 10% of qualified labour for Quebec corporations outside Montreal and productions shot outside Montreal (maximum: 5% of production costs).
- No public financial assistance bonus: 10% of qualified Quebec labour (maximum: 5% of production costs).

Other: 35% of qualified Quebec labour (maximum: 17.5% of production costs).
- Regional bonus: 20% of qualified labour for Quebec corporations outside Montreal and productions shot outside Montreal (maximum: 10% of production costs).
- No public financial assistance bonus: 10% of qualified Quebec labour (maximum: 5% of production costs).
- Quebec Computer Animation and Special Effects Tax Credit (see Part 2).

Maximum combined tax credits: 65% of qualified Quebec labour.

Quebec Production Services Tax Credit
25% of qualified Quebec production expenditures (no maximum).
- Quebec Computer Animation and Special Effects Tax Credit (see Part 2).

Quebec Film and Television Dubbing Tax Credit
35% of eligible dubbing labour (maximum: 15.75% of dubbing costs).

Saskatchewan Film Employment Tax Credit
45% of eligible Saskatchewan labour (maximum: 22.5% of total production costs).
- Regional credit: 5% of total Saskatchewan production costs for operations 40 km outside Saskatoon or Regina.
- Saskatchewan key position bonus: 5% of eligible labour.

Yukon Film Location Incentive
Total rebate = (A + B) or C.
Yukon Spend Rebate (A): 25% of eligible Yukon expenditures (if Yukon labour content is at least 50%).
Yukon Training Rebate (B): Up to 25% of eligible trainer's wages.
Yukon Travel Rebate (C): Up to 50% of travel costs from Vancouver, Edmonton or Calgary to Whitehorse (maximum: $15,000) if Yukon labour content is at least 15% of the total person-days spent on the Yukon portion of the production.

Source : PwC -2012

As shown in the chart below, between 2008 and 2012, **Canadian proprietary production (which includes television and theatrical), and Foreign Location and Service Production (foreign films shot in Canada) increased by 19% and 16%, respectively.**

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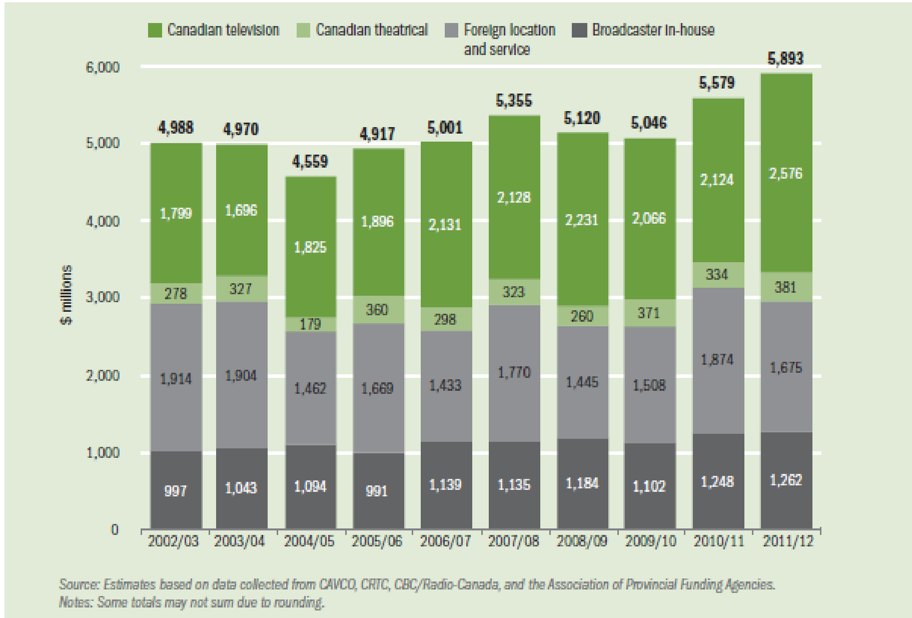

Source: Canadian Media Production Association

In addition, we believe the Canadian Radio-Television and Telecommunications Commission's (CRTC) requirements that broadcasters have a certain amount of Canadian content is positive for the industry.

U.S., Australia and the UK Indie Market

Indie movies have experienced strong growth in the U.S. From 2002 to 2011**. The number of independent films increased from 270 to 469, up 74%.**

Films Released

Sources: Rentrak Corporation – Box Office Essentials (Total), MPAA (Subtotals)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	11 vs. 10	11 vs. 02
Films released	475	455	489	507	594	611	638	558	569	610	7%	28%
- 3D film releases	0	2	2	6	8	6	8	20	26	45	73%	n/a
MPAA member total	205	180	179	194	204	189	168	158	141	141	0%	-31%
- MPAA studios	123	102	100	113	124	107	108	111	104	104	0%	-15%
- MPAA studio subsidiaries	82	78	79	81	80	82	60	47	37	37	0%	-55%
Non-members	270	275	310	313	390	422	470	400	428	469	10%	74%

Source: Theatrical Market Statistic-2011

Incentives in the U.S. – Although many independent U.S. productions are filmed outside the U.S. (particularly in Canada), recently, a number of U.S. states introduced a tax credit program, indicating increasing support for independent production. The following table shows US tax incentives in different states.

State	Type	Amount
Alabama	L.T.C.* P.T.C.*	35% 25%
Alaska	P.T.C.***	30 - 44%
Arizona	P.T.C.***	20 - 30%
Arkansas	P.R.* / L.R.*	15% / 25%
California	P.T.C.***	20 - 25%
Colorado	P.R.*	10%
Connecticut	P.T.C.***	15 - 30%
District of Columbia	P.R.*	10 - 42%
Florida	P.R.*	10 - 22%
Georgia	P.T.C.***	20 - 30%
Hawaii	P.T.C.*	15 - 20%
Idaho	P.R.*/***	20%
Illinois	P.T.C.***	30%
Indiana	P.T.C.*	15%
Kentucky	P.T.C.**	20%
Louisiana	P.T.C.*/*** L.T.C.*	30% 5%
Maine	T.C.* (income) L.R.*	– 10 - 12%
Maryland	P.R.*	25%
Massachusetts	L.T.C.*** /P.T.C.***	25% / 25%
Michigan	P.T.C.*/***	30 - 42%
Minnesota	P.R.*/***	15 - 20%
Mississippi	P.R.*	20 - 25%
Missouri	P.T.C.***/L.T.C.***	35% / 30%
Montana	L.T.C.* / P.T.C.*	14% / 9%
New Jersey	P.T.C.***	20%
New Mexico	P.T.C.* Loans	21.25 - 25% 100%
New York	P.T.C.*	30 - 35%
North Carolina	P.T.C.*	15 - 25%
Ohio	L.T.C.* / P.T.C.*	25 - 35% / 25%
Oklahoma	P.R.*	35 - 37%
Oregon	P.R. / L.R.	20% / 10 - 16.2%
Pennsylvania	P.T.C.***	25%
Puerto Rico	P.T.C.***	40%
Rhode Island	P.T.C.***	25%
South Carolina	L.R.* / P.R.*	20% / 30%
South Dakota	T.R.*	6%
Tennessee	P.R.*	17 - 32%
Texas	P.R.* / L.R.*	5 - 15% / 8 - 25%
Utah	P.R.* or / P.T.C.*	20% / 20%
Washington	P.R.*	30%
West Virginia	P.T.C.*** / L.T.C.***	27% / 4%
Wyoming	P.R.*	12 - 15%

* Refundable
** Non-Refundable
*** Transferable
G.S.F. Grant of Spend Funding
L.R. Rebate on eligible labor or employment costs
L.T.C. Tax credit calculated on labor costs
P.R. Rebate of a portion of qualified production expenses
P.T.C. Tax credit calculated on production expenditures
T.C. Tax Credit
T.D. Tax Deduction
T.R. Tax Refund
T.S. Tax Shelter
◆ New legislation expected soon

Source: BLG Entertainment Law Group

The table below shows a summary of incentives in the U.K. and Australia.

Country	Type
Australia	40% tax credit on production expenditures / 15% rebate on a qualified production expenses
United Kingdom	20-25% rebate on qualified production expenses

Source: BLG Entertainment Law Group

Due to all the factors mentioned above, we expect steady growth over the coming years in the independent film industries in PMI's target regions, which should give the fund an increasing number of investment opportunities.

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Financials The following tables show the LP's income statements:

Income Statement	Aug 1 to Dec 31, 2012	Jan 1 to Mar 31, 2013
Investment Income		
Loan Interest Income	$5,284	$6,825
Loan Fees	$2,745	$3,657
Total Revenue	**$8,029**	**$10,482**
Direct Operating Costs		
Management Fee	$1,075	$949
Administration Fee Expense	$8,419	$7,119
Audit Fee	$21,560	$5,500
Bank Charge and Other Operating Expenses	$430	$74
Total	**$31,484**	**$13,642**
Less Expenses Absorbed by the GP	-$31,501	-$13,320
Net gain	**$8,046**	**$10,160**
Realized and unrealized gain and loss on investment and foreign currency		
Gain (Loss) on Foreign Exchange	-$17	
Unrealized Change in the Value of Investment		$1,591
Net income	**$8,029**	**$11,751**

Source: Audited financial statements (Auditor - Deloitte), and unaudited financial statements for the period ended March 31,2013

As shown above, from August 1, 2012, to December 31 2012, and during the three months ended March 2013, the LP generated net income of $8k and $12k, respectively. Interest revenues and loan fees (origination fees) in the 3 months ended March 2013, were $10k.

Total operating expenses were $31k and $13k, 14% and 6% of the NAV, respectively, during those periods, which were absorbed by the GP, as the LP is still in start-up stages. As per the OM, the GP's current intention is to limit the operating expenses of the LP to 0.5% of the NAV. The GP will absorb any amount in excess of the 0.5% limit. However, the GP has discretion to change the limit. Based on PMI's current G&A expenses ($0.75 million to $1 million), the break even portfolio size of the fund is approximately $30 million. PMI's high G&A expenses are justified as the management team is strong. However, we believe the fund has to raise capital quickly to meet the manager's expenses.

The LP's balance sheets are shown on the next page.

Balance Sheet	December 31, 2012	March 31, 2013
Assets		
Investment at Fair Value	$255,515	$262,107
Cash	$8,228	$6,990
Loan Interest Receivable	$5,280	$12,175
Due from Investment Manager	$10,049	$10,049
Other receivable	$993	$728
Total Asset	**$280,065**	**$292,049**
Liabilities		
Broker Fee Payable	$1,250	$0
Due to Investment Manager	$60,536	$62,019
Total Liabilities	**$61,786**	**$62,019**
Net Asset	**$218,279**	**$230,030**
Equities		
Limited Partner Capital	$216,389	$226,249
General Partner Capital	$1,890	$3,781
Total Equities	**$218,279**	**$230,030**
Total liabilities and equities	**$280,065**	**$292,049**

As shown above, at the end of March 2013, the fair value of the total investments was $262k.

Expected Return to Investors

The following section shows the expected return for investors. We used the following key assumptions:

- As the current portfolio only has gap financings, we used a conservative LTV of 33.3% LTV; management has set a max LTV of 50%.
- The LP charges an origination fee of 5%-10% of the loan amount - we used 7.5%, of which, the GP collects a fee of up to 33%. Therefore, we used a net fee of 5%.
- Other expenses (legal, accounting, etc) related to the closing of the loan – 3% of the loan amount
- Management fee of 1.5% of the NAV
- Operating expenses of 0.5% of the NAV
- 100% of the capital raised is deployed
- Assumed a default rate of 2% p.a.

The table below shows two scenarios – one with no upside (pure loan structure), and one with upside potential. In the scenario with upside potential, we assumed management negotiates to receive a percentage (50%) of the sales agent commissions, which is typically 20% of the value of the sales.

Class C Trust Unit	With Upside	Without Upside
Gross Capital Raised	$100.00	$100.00
- Selling Fee (5%)	-$5.00	-$5.00
Net Capital Raised	$95.00	$95.00
Capital Deployed	$95.00	$95.00
Revenues (18 months)		
Interest Income (10% p.a.)	$14.25	$14.25
Loan Fee (5%)	$4.75	$4.75
Share of Sales Agent Fee (50% of total)	$28.50	
Expenses (18 months)		
Closing Costs (legal, accounting, etc) - 3%	-$2.85	-$2.85
Management Fee - 1.5% of the portfolio	-$2.14	-$2.14
Operating Expenses - 0.5% of the portfolio	-$0.71	-$0.71
Default - 2% p.a. of the portfolio	-$2.85	-$2.85
Net Income (18 months)	$38.95	$10.45
Return (annualized)	**25.97%**	**6.97%**
Returns to Investors (hurdle rate + profit share)	**16.98%**	**6.97%**

As shown in the table above, the expected return for investors for the two scenarios are 6.97% p.a., and 16.98% p.a. In order to get a better sense of the risk involved including default rates, the sensitivity of the expected returns (no upside scenario) to various inputs is shown below:

Capital Deployed (% of net proceeds raised)	80.00%	85.00%	90.00%	95.00%	100.00%
	5.57%	5.92%	6.27%	6.62%	6.97%
Interest Rate on Loans	8.00%	9.00%	10.00%	11.00%	12.00%
	5.07%	6.02%	6.97%	7.92%	8.43%
Operating Expenses (% of NAV)	0.50%	1.00%	1.50%	2.00%	2.50%
	6.97%	6.49%	6.02%	5.54%	5.30%
Defaults (% of NAV)	0.00%	1.00%	2.00%	3.00%	4.00%
	8.43%	7.92%	6.97%	6.02%	5.07%

Risks

The following, we believe, are the key risks of the investment:

- Return of principal is not guaranteed.
- Timely deployment of capital is crucial.
- Loans are typically short-term, therefore, management needs to always have a

long pipeline of potential investment opportunities.

- PMI has just over one year of experience; however, management has a long track record in lending and the production side of the business.
- The three loans funded by the LP are secured by distribution rights on territories, some of which are yet to be sold.
- The fund might use leverage; maximum of 50% of the NAV.
- The units can be redeemed by the GP. As a result, investors are exposed to prepayment risk.

Rating

Based on our review of the fund's business model, investment strategy, management track record, and the risks associated with the offering, we have assigned an overall rating of 3-, and a risk rating of 4 on the LP units.

FRC Rating	
Base-Case IRR	8% p.a.
Rating	3-
Risk	4

Fundamental Research Corp. Rating Scale:

Rating – 1: Excellent Return to Risk Ratio
Rating – 2: Very Good Return to Risk Ratio
Rating – 3: Good Return to Risk Ratio
Rating – 4: Average Return to Risk Ratio
Rating – 5: Weak Return to Risk Ratio
Rating – 6: Very Weak Return to Risk Ratio
Rating – 7: Poor Return to Risk Ratio
A "+" indicates the rating is in the top third of the category, A "-" indicates the lower third and no "+" or "-" indicates the middle third of the category.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk)
2 (Below Average Risk)
3 (Average Risk)
4 (Speculative)
5 (Highly Speculative)

FRC Distribution of Ratings			
Rating - 1	0%	Risk - 1	0%
Rating - 2	24%	Risk - 2	0%
Rating - 3	51%	Risk - 3	32%
Rating - 4	4%	Risk - 4	44%
Rating - 5	4%	Risk - 5	0%
Rating - 6	0%	Suspended	24%
Rating - 7	0%		
Suspended	16%		

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