

Financial Statements of

CANADA MEDIA FUND

Year ended March 31, 2011



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Canada Media Fund

We have audited the accompanying financial statements of Canada Media Fund, which comprise the statement of financial position as at March 31, 2011, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Media Fund as at March 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

June 7, 2011
Toronto, Canada

CANADA MEDIA FUND

Statement of Financial Position
(In thousands of dollars)

March 31, 2011, with comparative figures for 2010

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 9,509	\$ 6,031
Investments (note 6)	215,612	185,495
Accounts receivable	25,566	24,285
Due from Department of Canadian Heritage	1,124	4,049
Prepaid expenses	79	69
	<u>251,890</u>	<u>219,929</u>
Long-term investment (note 9)	2,038	2,040
Capital assets (note 3)	101	147
	<u>\$ 254,029</u>	<u>\$ 222,116</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,188	\$ 3,296
Programming commitments payable	177,597	154,498
	<u>181,785</u>	<u>157,794</u>
Net assets:		
Invested in capital assets	101	147
Internally restricted net assets (note 4)	33,783	42,462
Unrestricted	38,360	21,713
	<u>72,244</u>	<u>64,322</u>
Commitments, guarantees and contingencies (note 8)		
	<u>\$ 254,029</u>	<u>\$ 222,116</u>

See accompanying notes to financial statements.

On behalf of the Board:


_____ Chair


_____ Chair, Audit Committee

CANADA MEDIA FUND

Statement of Operations
(In thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Contributions from broadcasting distribution undertakings	\$ 214,227	\$ 194,273
Contributions from the Department of Canadian Heritage (note 1)	134,146	119,950
Recoveries on production investments	9,502	9,920
Interest	1,797	542
	<u>359,672</u>	<u>324,685</u>
Expenses:		
Programming commitments	334,492	325,588
General and administrative	17,198	13,710
Amortization	60	60
	<u>351,750</u>	<u>339,358</u>
Excess (deficiency) of revenue over expenses	<u>\$ 7,922</u>	<u>\$ (14,673)</u>

See accompanying notes to financial statements.

CANADA MEDIA FUND

Statement of Changes in Net Assets
(In thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

				2011	2010
	Invested in capital assets	Internally restricted (note 4)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 147	\$ 42,462	\$ 21,713	\$ 64,322	\$ 78,995
Excess (deficiency) of revenue over expenses	(60)	–	7,982	7,922	(14,673)
Investment in capital assets	14	–	(14)	–	–
Internally imposed restrictions (note 4)	–	(8,679)	8,679	–	–
Net assets, end of year	\$ 101	\$ 33,783	\$ 38,360	\$ 72,244	\$ 64,322

See accompanying notes to financial statements.

CANADA MEDIA FUND

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash flows from (used in) operating activities:		
Excess (deficiency) of revenue over expenses	\$ 7,922	\$ (14,673)
Amortization which does not involve cash	60	60
Change in non-cash operating working capital:		
Accounts receivable	(1,281)	20,621
Due from Department of Canadian Heritage	2,925	(1,952)
Prepaid expenses	(10)	33
Accounts payable and accrued liabilities	892	(2,363)
Programming commitments payable	23,099	17,073
	<u>33,607</u>	<u>18,799</u>
Cash flows from (used in) investing activities:		
Repayment of long-term investment	2	7
Purchase of capital assets	(14)	(61)
Purchase of investments, net	(30,117)	(13,824)
	<u>(30,129)</u>	<u>(13,878)</u>
Increase in cash and cash equivalents	3,478	4,921
Cash and cash equivalents, beginning of year	6,031	1,110
Cash and cash equivalents, end of year	<u>\$ 9,509</u>	<u>\$ 6,031</u>

Cash and cash equivalents are defined as cash and short-term deposits that have an original maturity of less than 90 days.

See accompanying notes to financial statements.

CANADA MEDIA FUND

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2011

The Canada Media Fund (the "CMF") is a non-profit organization under the Income Tax Act (Canada). The mandate of the CMF is to support the creation of successful, innovative Canadian content and software applications for current and emerging digital platforms through financial support and industry research.

The CMF is governed by a Board of Directors, which consists of seven directors, who are nominated by two member organizations: (i) the Canadian Coalition for Cultural Expression, representing Canada's cable and satellite distributors, which nominates five directors, and (ii) the Government of Canada, through the Department of Canadian Heritage (the "Department"), which nominates two.

The CMF develops and implements policies to offer financial contributions to Canadian producers through two program funding streams. The Convergent Stream supports multi-platform Canadian projects: they provide content on at least two distribution platforms, one of which is television. The Experimental Stream encourages the creation of leading-edge, interactive, digital media content and software applications. At present, file administration is contracted to the CMF Program Administrator at Telefilm Canada ("Telefilm").

1. Operations:

These financial statements are comprised of the financial position and results of operations of the CMF.

The CMF received funding under a Contribution Agreement from the Department of \$134,146 for the fiscal year ended March 31, 2011.

The CMF receives amounts from the broadcasting distribution undertakings ("BDUs") which are mandated by the Canadian Radio-Television and Telecommunications Commission ("CRTC") to contribute up to 5% of annual gross revenue derived from broadcasting activities to the production of Canadian programming. Under their conditions of licence with the CRTC, BDUs are required to remit at least 80% of such contributions to the CMF.

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

2. Significant accounting policies:

The financial statements have been prepared in accordance with generally accepted accounting principles applied within the framework of the significant accounting policies summarized below:

(a) Revenue recognition:

The CMF follows the deferral method of accounting for restricted contributions from the Department and unrestricted contributions from BDUs. Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the year in which the related expenses are incurred. Contributions from the Department are recognized as revenue in the year in which the related expenses are incurred and payable. Contributions from BDUs are recognized as revenue when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Interest income is recognized when it is earned.

Recoveries on production investments are recorded as revenue in the year in which the amounts are received or receivable.

(b) Programming commitments:

Programming commitments represent the CMF's financial contribution to production, development, marketing and versioning projects through two funding streams: the Convergent Stream and the Experimental Stream.

Forms of funding in the Convergent Stream include: licence fee top-up, equity investment, repayable advance and non-repayable contribution.

Forms of funding in the Experimental Stream include: recoupable investment, repayable advance and non-interest bearing loan.

All the CMF's programming commitments are accrued in the year in which the CMF determines that the contribution to the applicant is approved.

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

2. Significant accounting policies (continued):

In certain instances, the actual amounts paid differ from the original commitment. Adjustments for these differences are recorded when determined. During the year, an aggregate of \$1,630 (2010 - \$1,242) of adjustments relating to the licence fee top-ups and an aggregate of \$1,359 (2010 - \$1,178) of adjustments relating to the equity investments and advances were recorded relating to prior years.

(c) Capital assets:

Capital assets of the CMF are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the assets' estimated useful lives as follows:

Equipment	20% - 30%
Office furniture and fixtures	20%
Leasehold improvements	Term of lease

Software costs are expensed as incurred.

(d) Investments:

Investments include Government of Canada treasury bills and Province of British Columbia promissory notes. Investments are recorded at fair value.

(e) Financial instruments:

The CMF has adopted The Canadian Institute of Chartered Accountants Handbook Section 3855, Financial Instruments - Recognition and Measurement. The CMF has designated its investments as held-for-trading and, as such, they are recorded at fair value.

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

2. Significant accounting policies (continued):

(f) Allocation of general and administration expenses:

The CMF does not allocate expenses between functions on the statement of operations.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

3. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 291	\$ 248	\$ 43	\$ 72
Office furniture and fixtures	15	7	8	11
Leasehold improvements	131	81	50	64
	\$ 437	\$ 336	\$ 101	\$ 147

4. Internally restricted net assets:

	Balance, beginning of year	Contributions	Balance, end of year
Settlement of the CMF operational expenses in the event of dissolution of its operations	\$ 6,555	\$ 3,437	\$ 9,992
Program funding 2010 - 2011	35,907	(35,907)	–
Program funding 2011 - 2012	–	21,600	21,600
English POV 2010 - 2011	–	2,191	2,191
	\$ 42,462	\$ (8,679)	\$ 33,783

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

4. Internally restricted net assets (continued):

The Board of Directors has set aside amounts for specific purposes which are not available for other purposes without prior approval from the Board of Directors.

On November 25, 2010, the Board of Directors approved the transfer of \$21,600 from unrestricted to restricted net assets to provide additional funding for programming commitments for fiscal 2011 - 2012.

On March 8, 2011, the Board of Directors approved the transfer of \$3,437 from unrestricted to restricted net assets to increase the amount set aside for the settlement of the CMF operational expenses in the event of dissolution of its operations to \$9,992 (2010 - \$6,555).

On March 8, 2011, the Board of Directors approved the transfer of \$2,191 from unrestricted to restricted net assets for the 2010 - 2011 English POV program extension.

5. Fair values of financial instruments:

The carrying values of cash and cash equivalents, accounts receivable, investments, due from Department of Canadian Heritage, accounts payable and accrued liabilities and programming commitments payable approximate their fair values due to the short-term nature of these financial instruments.

6. Investment risks:

The associated risks with the investments are as follows:

(a) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. All of the CMF's investments are considered to be readily realizable as they can be quickly liquidated at amounts close to their fair value in order to meet liquidity requirements.

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

6. Investment risks (continued):

(b) Credit, interest rate and maturity risks:

Fixed income securities have yields varying from 0.97% to 1.18% (2010 - 0.27% to 0.57%) with maturity dates ranging from April 14, 2011 to November 24, 2011 (2010 - May 27, 2010 to October 28, 2010). The value of fixed income securities will generally rise if interest rates fall and fall if interest rates rise. The value of the securities will vary with developments within the specific companies or governments which issue the securities.

7. Related party transactions and balances:

There were no programming commitments funded during the current and prior years to production companies who are related to the CMF by virtue of their direct or indirect membership on the CMF's Board of Directors.

8. Commitments, guarantees and contingencies:

The CMF is committed to rental payments of \$304 for its leased premises expiring on March 31, 2012.

In relation to these leases, the CMF has agreed to indemnify the landlord against all expenses, damages, actions, claims or liabilities arising from any default under the leases or from the CMF's use or occupation of the leased premises.

The CMF has indemnified its past, present and future directors, officers, employees and volunteers ("Indemnified Persons") against expenses (including legal expenses), judgements and any amount actually or reasonably incurred by them in connection with any action, suit or proceeding in which the Indemnified Persons are sued as a result of their service, if they acted honestly and in good faith with a view to the best interests of the CMF. The nature of the indemnity prevents the CMF from reasonably estimating the maximum exposure. The CMF has purchased directors' and officers' liability insurance with respect to this indemnification.

CANADA MEDIA FUND

Notes to Financial Statements (continued)
(In thousands of dollars)

Year ended March 31, 2011

8. Commitments, guarantees and contingencies (continued):

In its services agreement with Telefilm, the CMF has indemnified Telefilm and its directors, officers, employees, agents and other representatives from and against any claims, demands, actions, judgments, damages, losses, liabilities, costs or expenses, that they may suffer or incur relating to, or caused by, the proper performance by Telefilm of its services under the agreement, any breach by the CMF of the agreement, injury to person or property attributable to the negligent acts or omissions or wilful misconduct of CMF, or any failure by CMF to comply with applicable laws relating to the services. A reciprocal indemnification has been provided to the CMF by Telefilm in the services agreement. The CMF has contract liability coverage for this indemnification in its commercial general liability insurance.

The CMF is party to legal actions arising in the ordinary course of operations. While it is not feasible to predict the outcome of these actions, it is the opinion of management that the actions are without merit.

9. Long-term investment:

The CMF holds asset-backed term notes ("ABTNs") that were received in exchange for third party asset-backed commercial paper ("ABCP") that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. The ABTNs had an original face value of \$4,000.

Since quoted market values of such investments have not been available, the CMF determined the fair value of its investment using available information regarding the credit risk attributable to the underlying assets, relevant market interest rates, and the expected amount and timing of principal and interest payments.

The CMF used a probability weighted discounted cash flow approach to determine the portion of the fair value adjustment related to the expected risk and return profile of the ABTNs in comparison to market returns. Management's best estimate of the fair value of the CMF's ABTNs as at March 31, 2011 was equal to \$2,038 (2010 - \$2,040). During the year, the CMF received principal repayment of \$2 (2010 - \$7).