

Financial Statements of

CANADA MEDIA FUND

Years ended March 31, 2012 and 2011



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Canada Media Fund

We have audited the accompanying financial statements of Canada Media Fund, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, the statements of operations, changes in net assets and cash flows for the years ended March 31, 2012 and March 31, 2011, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits 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 in our audits 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, 2012, March 31, 2011 and April 1, 2010, and its results of operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Accountants, Licensed Public Accountants

June 5, 2012
Toronto, Canada

CANADA MEDIA FUND

Statements of Financial Position
(In thousands of dollars)

March 31, 2012, March 31, 2011 and April 1, 2010

	March 31, 2012	March 31, 2011	April 1, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,378	\$ 9,509	\$ 6,031
Investments	218,712	215,612	185,495
Accounts receivable (note 3)	22,753	25,566	24,285
Due from Department of Canadian Heritage	1,148	1,124	4,049
Prepaid expenses	109	79	69
	<u>245,100</u>	<u>251,890</u>	<u>219,929</u>
Long-term investment (note 10)	2,490	2,038	2,040
Capital assets (note 4)	111	101	147
	<u>\$ 247,701</u>	<u>\$ 254,029</u>	<u>\$ 222,116</u>

Liabilities and Net Assets

Current liabilities:

Accounts payable and accrued liabilities (note 6)	\$ 3,454	\$ 4,188	\$ 3,296
Programming commitments payable	178,876	177,597	154,498
	<u>182,330</u>	<u>181,785</u>	<u>157,794</u>

Net assets:

Invested in capital assets	111	101	147
Internally restricted net assets (note 5)	34,522	33,783	42,462
Unrestricted	30,738	38,360	21,713
	<u>65,371</u>	<u>72,244</u>	<u>64,322</u>

Commitments, guarantees and
contingencies (note 9)

	<u>\$ 247,701</u>	<u>\$ 254,029</u>	<u>\$ 222,116</u>
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See accompanying notes to financial statements.

On behalf of the Board:



Chair



Chair, Audit Committee

CANADA MEDIA FUND

Statements of Operations
(In thousands of dollars)

Years ended March 31, 2012 and 2011

	2012	2011
Revenue:		
Contributions from broadcasting distribution undertakings	\$ 218,241	\$ 214,227
Contributions from Department of Canadian Heritage (note 1)	134,146	134,146
Recoveries on production investments	10,265	9,502
Interest	2,779	1,797
	<u>365,431</u>	<u>359,672</u>
Expenses:		
Programming commitments	355,346	334,492
Industry partnerships	1,074	756
General and administrative	5,278	6,138
Program administration	10,548	10,304
Amortization	58	60
	<u>372,304</u>	<u>351,750</u>
Excess (deficiency) of revenue over expenses	\$ (6,873)	\$ 7,922

See accompanying notes to financial statements.

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

2012	Invested in capital assets	Internally restricted (note 5)	Unrestricted	Total
Net assets, beginning of year	\$ 101	\$ 33,783	\$ 38,360	\$ 72,244
Deficiency of revenue over expenses	(58)	–	(6,815)	(6,873)
Investment in capital assets	68	–	(68)	–
Internally imposed restrictions (note 5)	–	739	(739)	–
Net assets, end of year	\$ 111	\$ 34,522	\$ 30,738	\$ 65,371

2011	Invested in capital assets	Internally restricted (note 5)	Unrestricted	Total
Net assets, beginning of year	\$ 147	\$ 42,462	\$ 21,713	\$ 64,322
Excess (deficiency) of revenue over expenses	(60)	–	7,982	7,922
Investment in capital assets	14	–	(14)	–
Internally imposed restrictions (note 5)	–	(8,679)	8,679	–
Net assets, end of year	\$ 101	\$ 33,783	\$ 38,360	\$ 72,244

See accompanying notes to financial statements.

CANADA MEDIA FUND

Statements of Cash Flows
(In thousands of dollars)

Years ended March 31, 2012 and 2011

	2012	2011
Cash flows from (used in) operating activities:		
Excess (deficiency) of revenue over expenses	\$ (6,873)	\$ 7,922
Items not involving cash:		
Amortization	58	60
Gain on long-term investment as a result of fair value adjustment	(452)	–
Change in non-cash operating working capital:		
Accounts receivable	2,813	(1,281)
Due from Department of Canadian Heritage	(24)	2,925
Prepaid expenses	(30)	(10)
Accounts payable and accrued liabilities	(734)	892
Programming commitments payable	1,279	23,099
	(3,963)	33,607
Cash flows from (used in) investing activities:		
Repayment of long-term investment	–	2
Purchase of capital assets	(68)	(14)
Purchase of investments, net	(3,100)	(30,117)
	(3,168)	(30,129)
Increase (decrease) in cash and cash equivalents	(7,131)	3,478
Cash and cash equivalents, beginning of year	9,509	6,031
Cash and cash equivalents, end of year	\$ 2,378	\$ 9,509

See accompanying notes to financial statements.

CANADA MEDIA FUND

Notes to Financial Statements
(In thousands of dollars)

Years ended March 31, 2012 and 2011

Canada Media Fund ("CMF") is a non-profit organization under the Income Tax Act (Canada). The mandate of 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.

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.

CMF delivers financial support to the Canadian television and digital media industries through two streams of funding. The Convergent Stream supports the creation of convergent television and digital media content for consumption by Canadians anytime, anywhere. The Experimental Stream encourages the development of innovative, interactive digital media content and software applications. File administration is contracted to CMF Program Administrator at Telefilm Canada ("Telefilm").

On April 1, 2011, CMF early adopted accounting standards for not-for-profit organizations. These are the first financial statements prepared in accordance with accounting standards for not-for-profit organizations.

In accordance with transitional provisions in accounting standards for not-for-profit organizations, CMF has adopted the changes retrospectively, subject to certain exemptions allowed under these standards.

The transition date is April 1, 2010 and all comparative information has been presented by applying accounting standards for not-for-profit organizations.

There were no adjustments to net assets as at April 1, 2010 or excess of revenue over expenses for the year ended March 31, 2011 as a result of transition to accounting standards for not-for-profit organizations.

1. Operations:

These financial statements comprise the financial position and results of operations of CMF.

CMF received funding under a Contribution Agreement from the Department of \$134,146 for the fiscal year ended March 31, 2012 (2011 - \$134,146).

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

1. Operations (continued):

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 CMF.

2. Significant accounting policies:

The financial statements have been prepared in accordance with accounting standards for not-for-profit organizations applied within the framework of the significant accounting policies summarized below:

(a) Revenue recognition:

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 CMF's financial contribution to production, development, marketing and versioning projects.

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

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

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

All forms of funding are expensed in the year in which CMF determines that the financial contribution to the project is approved. Some forms of funding may be recovered in the case of equity investments, repayable advances, recoupable investments and loans if certain criteria in the funding agreements are met. As the likelihood of the project achieving those criteria is uncertain, and the actual amount and timing of recovery of these types of funding is not determinable, or may never be recovered, no amount is recorded in the financial statements of CMF until the criteria have been met and the amounts are known.

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 \$235 (2011 - \$1,630) of adjustments relating to the licence fee top-ups and an aggregate of \$4,161 (2011 - \$1,359) of adjustments relating to the equity investments, recoupable investments and advances were recorded relating to prior years.

(c) Capital assets:

Capital assets of 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) Cash and cash equivalents:

CMF's policy is to present bank balances under cash and cash equivalents.

(e) Financial investments:

Financial investments include Government of Canada treasury bills, Province of British Columbia promissory notes and term deposits with term to maturity of one year or less.

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

Long-term investment include asset-backed term notes (note 10).

CMF has irrevocably elected to carry all of its financial investments, including its long-term investment, at fair value.

(f) Financial instruments:

CMF initially measures its financial assets and financial liabilities at fair value. It subsequently measures all its financial assets and financial liabilities at amortized cost, except for investments and long-term investment that are measured at fair value. Changes in fair value are recognized in the statements of operations.

Financial assets subsequently measured at amortized cost include accounts receivable and due from Department of Canadian Heritage. Financial liabilities subsequently measured at amortized cost include accounts payable and accrued liabilities and programming commitments payable.

Financial instruments measured at amortized cost are adjusted by financing fees and transaction costs. All other transaction costs are recognized in excess (deficiency) of revenue over expenses in the period incurred.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, CMF determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying amount of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CMF expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement.

(g) Allocation of general and administrative expenses:

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

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(h) 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. The carrying value of the long-term investment is a significant item, which is subject to such estimates and assumptions.

3. Accounts receivable:

	March 31, 2012	March 31, 2011	April 1, 2010
Accounts receivable	\$ 22,768	\$ 25,590	\$ 24,303
Less allowance for doubtful accounts	15	24	18
	<u>\$ 22,753</u>	<u>\$ 25,566</u>	<u>\$ 24,285</u>

4. Capital assets:

March 31, 2012	Cost	Accumulated amortization	Net book value
Equipment	\$ 300	\$ 219	\$ 81
Office furniture and fixtures	15	10	5
Leasehold improvements	131	106	25
	<u>\$ 446</u>	<u>\$ 335</u>	<u>\$ 111</u>

March 31, 2011	Cost	Accumulated amortization	Net book value
Equipment	\$ 291	\$ 248	\$ 43
Office furniture and fixtures	15	7	8
Leasehold improvements	131	81	50
	<u>\$ 437</u>	<u>\$ 336</u>	<u>\$ 101</u>

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

4. Capital assets (continued):

April 1, 2010	Cost	Accumulated amortization	Net book value
Equipment	\$ 287	\$ 215	\$ 72
Office furniture and fixtures	16	5	11
Leasehold improvements	120	56	64
	\$ 423	\$ 276	\$ 147

5. Internally restricted net assets:

	Balance, March 31, 2011	Transfers	Balance, March 31, 2012
Settlement of CMF operational expenses in the event of dissolution of its operations	\$ 9,992	\$ –	\$ 9,992
English POV 2010 - 2011	2,191	(2,191)	–
Program funding 2011 - 2012	21,600	(21,600)	–
Program funding 2012 - 2013	–	24,530	24,530
	\$ 33,783	\$ 739	\$ 34,522

	Balance, April 1, 2010	Transfers	Balance, March 31, 2011
Settlement of CMF operational expenses in the event of dissolution of its operations	\$ 6,555	\$ 3,437	\$ 9,992
English POV 2010 - 2011	–	2,191	2,191
Program funding 2010 - 2011	35,907	(35,907)	–
Program funding 2011 - 2012	–	21,600	21,600
	\$ 42,462	\$ (8,679)	\$ 33,783

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

5. 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 March 7, 2012, the Board of Directors approved the transfer of \$24,530 (2011 - on November 25, 2010 - \$21,600) from unrestricted to restricted net assets to provide additional funding for programming commitments for fiscal 2012 - 2013 (2011 - for fiscal 2011 - 2012).

On March 8, 2011, the Board of Directors approved the transfer of \$3,437 from unrestricted 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 (April 1, 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.

6. Government remittances:

Included in accounts payable and accrued liabilities are government remittances payable of \$27 (March 31, 2011 - \$19; April 1, 2010 - \$13), which includes amounts payable for payroll related taxes.

7. Financial instruments and risk management:

CMF is exposed to various risks through its financial instruments. The following analysis presents CMF's exposure to significant risk at March 31, 2012:

(a) Liquidity risk:

Liquidity risk is the risk of being unable to meet cash requirements or fund obligations as they become due. CMF manages its liquidity risk by constantly monitoring forecasted and actual cash flows and financial liability maturities and by holding financial assets that can be readily converted into cash. All of CMF's investments, except for the long-term investment are considered to be readily realizable as they can be quickly liquidated at amounts close to their fair value. There has been no change to risk exposure from 2011.

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

7. Financial instruments and risk management (continued):

(b) Credit risk:

Credit risk arises from the potential that a counterparty will fail to perform its obligations. CMF is exposed to credit risk with respect to accounts receivable. CMF assesses, on a continuous basis, accounts receivable on the basis of amounts it is virtually certain to receive.

(c) Interest rate risk:

Interest rate risk is the risk to CMF's earnings that arise from fluctuations in interest rates and the degree of volatility of these rates. CMF is exposed to interest rate risk and its effect on interest income. The risk is low since interest income is not a major component of total revenue.

Fixed income securities have yields varying from 0.73% to 1.10% (2010 - 0.97% to 1.18%) with maturity dates ranging from April 1, 2012 to December 14, 2012 (2011 - April 14, 2011 to November 24, 2011). 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. There has been no change to risk exposure from 2011.

8. Related party transactions and balances:

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

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

9. Commitments, guarantees and contingencies:

CMF is committed to rental payments of \$1,536 for its leased premises expiring on March 31, 2017.

2013	\$ 288
2014	303
2015	309
2016	315
2017	321

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

CMF is committed to payments of \$10,952 for file administration services provided by Telefilm, in accordance with a services agreement expiring on March 31, 2013. As detailed in the services agreement, in the event of termination, CMF is committed to pay some additional expenses that will be incurred to wind down the provision of services by Telefilm.

CMF has indemnified its past, present and future directors, officers and employees ("Indemnified Persons") against expenses (including legal expenses), judgments 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 CMF. The nature of the indemnity prevents CMF from reasonably estimating the maximum exposure. CMF has purchased directors' and officers' liability insurance with respect to this indemnification.

In its services agreement with Telefilm, 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 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 CMF by Telefilm in the services agreement. CMF has contract liability coverage for this indemnification in its commercial general liability insurance.

CANADA MEDIA FUND

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

Years ended March 31, 2012 and 2011

9. Commitments, guarantees and contingencies (continued):

CMF is party to a legal action arising in the ordinary course of operations. While it is not feasible to predict the outcome of this action, it is the opinion of management that the action is without merit.

10. Long-term investment:

CMF holds asset-backed term notes ("ABTNs") that were received in exchange for third party asset-backed commercial paper 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, 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.

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 CMF's ABTNs as at March 31, 2012 was equal to \$2,490 (March 31, 2011 - \$2,038; April 1, 2010 - \$2,040). During the year, CMF received principal repayment of nil (2011 - \$2). During the year, CMF received interest of \$34 (2011 - \$16).