

Financial Statements of

CANADA MEDIA FUND

Year ended March 31, 2018



KPMG LLP
Vaughan Metropolitan Centre
100 New Park Place, Suite 1400
Vaughan ON L4K 0J3
Canada
Tel 905-265-5900
Fax 905-265-6390

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 statement of financial position as at March 31, 2018, 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 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 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.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canada Media Fund as at March 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small arrowhead pointing to the right.

Chartered Professional Accountants, Licensed Public Accountants

July 5, 2018
Vaughan, Canada

CANADA MEDIA FUND

Statement of Financial Position
(In thousands of dollars)

March 31, 2018, with comparative information for 2017

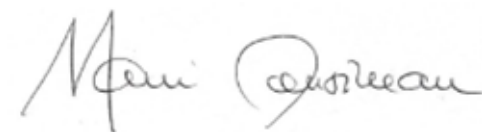
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 479	\$ 4,323
Investments (note 4)	254,133	227,137
Accounts receivable (note 3)	9,138	13,932
Due from Department of Canadian Heritage	1,710	1,748
Prepaid expenses	83	134
Receivable - Corus (note 7)	124	—
	<u>265,667</u>	<u>247,274</u>
Long-term investments (note 4)	20	12,431
Capital assets (note 5)	229	243
	<u>\$ 265,916</u>	<u>\$ 259,948</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 3,984	\$ 3,690
Program commitments payable	199,238	186,925
Program commitments payable - Corus	269	157
Deferred contributions - Corus (note 7)	—	218
	<u>203,491</u>	<u>190,990</u>
Net assets:		
Invested in capital assets	229	243
Internally restricted net assets (note 8)	56,511	60,989
Unrestricted	5,685	7,726
	<u>62,425</u>	<u>68,958</u>
Commitments, guarantees and contingencies (note 11)		
	<u>\$ 265,916</u>	<u>\$ 259,948</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, 2018, with comparative information for 2017

	2018	2017
Revenue:		
Contributions from broadcasting distribution undertakings	\$ 199,604	\$ 216,547
Contributions from Department of Canadian Heritage (note 1)	134,146	134,146
Corus contributions - tangible benefits (note 7)	955	1,062
Recoupment of production investments	6,877	7,624
Repayments of advances	5,803	6,174
Interest (note 4)	2,953	2,303
Other contributions - tangible benefits	1,427	1,406
	<u>351,765</u>	<u>369,262</u>
Expenses:		
Program commitments	338,748	358,072
Industry partnerships	1,147	1,196
General and administrative	7,311	6,484
Program administration	10,088	11,749
Corus program and administration (note 7)	955	1,062
Amortization	49	44
	<u>358,298</u>	<u>378,607</u>
Deficiency of revenue over expenses	<u>\$ (6,533)</u>	<u>\$ (9,345)</u>

See accompanying notes to financial statements.

CANADA MEDIA FUND

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

Year ended March 31, 2018, with comparative information for 2017

				2018	2017
	Invested in capital assets	Internally restricted (note 8)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 243	\$ 60,989	\$ 7,726	\$ 68,958	\$ 78,303
Deficiency of revenue over expenses	(49)	–	(6,484)	(6,533)	(9,345)
Investment in capital assets	35	–	(35)	–	–
Internally imposed restrictions (note 8)	–	(4,478)	4,478	–	–
Net assets, end of year	\$ 229	\$ 56,511	\$ 5,685	\$ 62,425	\$ 68,958

See accompanying notes to financial statements.

CANADA MEDIA FUND

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash flows from (used in) operating activities:		
Deficiency of revenue over expenses	\$ (6,533)	\$ (9,345)
Items not involving cash:		
Amortization	49	44
Gain on redemption of long-term investment	–	(395)
Loss on disposal of capital assets	–	10
Change in non-cash operating working capital:		
Accounts receivable	4,794	10,640
Due from Department of Canadian Heritage	38	(123)
Prepaid expenses	51	112
Accounts payable and accrued liabilities	294	(295)
Program commitments payable	12,313	(209)
Program commitments payable - Corus	112	32
Receivable - Corus	(124)	–
Deferred contributions - Corus	(218)	(450)
	10,776	21
Cash flows from (used in) investing activities:		
Proceeds from redemption of long-term investments	1	3,445
Purchase of capital assets	(35)	(250)
Purchase of investments	(14,586)	(3,049)
	(14,620)	146
Increase (decrease) in cash and cash equivalents	(3,844)	167
Cash and cash equivalents, beginning of year	4,323	4,156
Cash and cash equivalents, end of year	\$ 479	\$ 4,323

See accompanying notes to financial statements.

CANADA MEDIA FUND

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2018

Canada Media Fund ("CMF") is incorporated as a corporation without share capital under the Canada Not-For-Profit Corporations Act and 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, satellite and internet protocol television distributors, which nominates five directors; and (ii) the Government of Canada, through the Department of Canadian Heritage (the "Department"), which nominates two directors.

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 supports the development of innovative, interactive digital media content and software applications. Program administration is contracted to Telefilm Canada ("Telefilm").

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, 2018 (2017 - \$134,146).

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.

CRTC monitors and enforces BDUs compliance with the contribution requirements of the Broadcasting Distribution Regulations ("Regulations").

CANADA MEDIA FUND

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

Year ended March 31, 2018

2. Significant accounting policies:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants of Canada Handbook. Significant accounting policies are summarized below:

(a) Revenue recognition:

CMF follows the deferral method of accounting for restricted contributions. 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 and Corus Entertainment Inc. ("Corus") 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. No amount was deferred.

Interest income is recognized when it is earned.

Recoupment of production investments and repayments of advances are recorded as revenue in the year in which the amounts are received or receivable.

Other tangible benefits contributions are recognized as revenue in the year in which they are received or receivable.

(b) Program commitments:

Program 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, non-interest bearing advance and non-repayable contribution.

Forms of funding in the Experimental Stream include: recoupable investment, repayable advance and recoupable advance.

CANADA MEDIA FUND

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

Year ended March 31, 2018

2. Significant accounting policies (continued):

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, non-interest bearing advances, repayable advances, recoupable investments and recoupable advances, 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 \$751 (2017 - \$91) of adjustments relating to the licence fee top-ups and an aggregate of \$2,780 (2017 - \$3,506) 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.

CANADA MEDIA FUND

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

Year ended March 31, 2018

2. Significant accounting policies (continued):

(e) 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 that are measured at fair value. Changes in fair value are recognized in the statement of operations. CMF has irrevocably elected to carry all of its financial investments at fair value.

Financial assets subsequently measured at amortized cost include accounts receivable and due from the Department. Financial liabilities subsequently measured at amortized cost include accounts payable and accrued liabilities and program 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 year 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.

(f) Allocation of general and administrative expenses:

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.

CANADA MEDIA FUND

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

Year ended March 31, 2018

3. Accounts receivable:

	2018	2017
Accounts receivable	\$ 9,328	\$ 14,023
Less allowance for doubtful accounts	190	91
	<u>\$ 9,138</u>	<u>\$ 13,932</u>

4. Investments:

	2018	2017
Promissory notes	\$ 173,924	\$ 137,789
Term deposits	40,052	59,211
Guaranteed investment certificates	40,157	42,547
Asset-backed term notes	20	21
	<u>254,153</u>	<u>239,568</u>
Less short-term investments	254,133	227,137
Long-term investments	<u>\$ 20</u>	<u>\$ 12,431</u>

Financial investments include provincial promissory notes, term deposits, guaranteed investment certificates and asset-backed term notes. Investments with term to maturity of one year or less of \$254,133 (2017 - \$227,137) are recorded as current assets. Investments with term to maturity of more than one year of \$20 (2017 - \$12,410) are recorded as long-term investments. Asset-backed term notes are recorded as long-term investments.

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.

CANADA MEDIA FUND

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

Year ended March 31, 2018

4. Investments (continued):

Since quoted market values of such investments are not 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, 2018 was equal to \$20 (2017 - \$21). During the year, CMF received principal repayment of \$1 (2017 - \$3,445), recognized a gain of nil (2017 - \$395) included in interest revenue and received interest of nil (2017 - \$17).

5. Capital assets:

			2018	2017
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 165	\$ 124	\$ 41	\$ 31
Office furniture and fixtures	21	14	7	—
Leasehold improvements	244	63	181	212
	\$ 430	\$ 201	\$ 229	\$ 243

6. Government remittances:

Included in accounts payable and accrued liabilities are government remittances payable of \$4 (2017 - \$4), which includes amounts payable for payroll-related taxes.

CANADA MEDIA FUND

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

Year ended March 31, 2018

7. Administration agreement:

CMF entered into a long-term agreement with Corus on April 10, 2014 to administer the Export Fund and the Script and Development Initiative funded by Corus. The receivable/deferred contribution represents restricted funding that is related to revenue and expenses of future periods.

	2018	2017
Balance, beginning of year	\$ 218	\$ 668
Amount received during the year	613	612
Amount recognized as revenue in the year	(955)	(1,062)
(Receivable)/deferred contribution - Corus	\$ (124)	\$ 218

During the year, CMF expensed \$924 (2017 - \$1,012) for the program commitments and \$31 (2017 - \$50) for the program administration.

8. Internally restricted net assets:

	Balance, March 31, 2017	Transfers	Balance, March 31, 2018
Settlement of CMF operational expenses in the event of dissolution of its operations	\$ 4,971	\$ –	\$ 4,971
Program funding 2017 - 2018	18,018	(18,018)	–
Program funding 2018 - 2019	–	19,540	19,540
Program funding contingency reserve	38,000	(6,000)	32,000
	\$ 60,989	\$ (4,478)	\$ 56,511

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

The Board of Directors approved the transfer of \$19,540 (2017 - \$18,018) from unrestricted to restricted net assets to provide additional funding for program commitments for fiscal 2018 - 2019 (2017 - for fiscal 2017 - 2018).

The Board of Directors approved the reduction of \$6,000 to program funding contingency reserve (2017 - \$9,411).

CANADA MEDIA FUND

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

Year ended March 31, 2018

9. 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, 2018:

(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 ABTNs, 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 2017.

(b) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss and when a financial instrument is affected by a credit rating or other measure of credit quality. 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. CMF is also exposed to credit risk with respect to its investments. CMF's concentration of credit risk by credit rating is as follows:

Credit rating	2018	2017
R-1 (high)	\$ 254,133	\$ 239,547
Not rated	20	21
	<u>\$ 254,153</u>	<u>\$ 239,568</u>

Credit ratings are obtained from Dominion Bond Rating Service credit rating agency.

CANADA MEDIA FUND

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

Year ended March 31, 2018

9. Financial instruments and risk management (continued):

(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 0.40% to 2.12% (2017 - 0.54% to 1.53%) with maturity dates ranging from April 3, 2018 to February 25, 2019 (2017 - April 3, 2017 to November 27, 2018). 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 2017.

10. Related party transactions and balances:

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

11. Commitments, guarantees and contingencies:

CMF is committed to rental payments of \$1,097 for its leased premises expiring on March 31, 2023.

2019	\$	227
2020		203
2021		217
2022		222
2023		228
	\$	1,097

CANADA MEDIA FUND

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

Year ended March 31, 2018

11. Commitments, guarantees and contingencies (continued):

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 \$10,570 for program administration services provided by Telefilm. The services agreement is expiring on March 31, 2019. 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.