

Financial Statements of

CANADA MEDIA FUND

And Independent Auditors' Report thereon

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Canada Media Fund

Opinion

We have audited the financial statements of Canada Media Fund (the Entity), which comprise:

- the statement of financial position as at March 31, 2019
- the statement of operations for the year then ended
- the statement of changes in net assets for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at March 31, 2019, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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



Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Canada

June 18, 2019

CANADA MEDIA FUND

Statement of Financial Position
(In thousands of dollars)

March 31, 2019, with comparative information for 2018

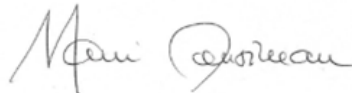
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,143	\$ 479
Investments (note 4)	259,045	254,133
Accounts receivable (note 3)	6,062	9,138
Due from Department of Canadian Heritage	1,175	1,710
Prepaid expenses	90	83
Receivable - Corus (note 7)	253	124
	<u>269,768</u>	<u>265,667</u>
Long-term investments (note 4)	5,011	20
Capital assets (note 5)	197	229
	<u>\$ 274,976</u>	<u>\$ 265,916</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 3,893	\$ 3,984
Program commitments payable	211,320	199,238
Program commitments payable - Corus	228	269
	<u>215,441</u>	<u>203,491</u>
Net assets:		
Invested in capital assets	197	229
Internally restricted net assets (note 8)	51,478	56,511
Unrestricted	7,860	5,685
	<u>59,535</u>	<u>62,425</u>
Commitments, guarantees and contingencies (note 11)		
	<u>\$ 274,976</u>	<u>\$ 265,916</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, 2019, with comparative information for 2018

	2019	2018
Revenue:		
Contributions from broadcasting distribution undertakings	\$ 193,037	\$ 199,604
Contributions from Department of Canadian Heritage (note 1)	151,106	134,146
Corus contributions - tangible benefits (note 7)	742	955
Recoupment of production investments	5,254	6,877
Repayments of advances	4,948	5,803
Interest	4,892	2,953
Other contributions - tangible benefits	1,309	1,427
	<u>361,288</u>	<u>351,765</u>
Expenses:		
Program commitments	341,409	338,748
Industry partnerships	1,205	1,147
General and administrative	7,072	6,653
Sector development	2,896	658
Program administration	10,800	10,088
Corus program and administration (note 7)	742	955
Amortization	54	49
	<u>364,178</u>	<u>358,298</u>
Deficiency of revenue over expenses	<u>\$ (2,890)</u>	<u>\$ (6,533)</u>

See accompanying notes to financial statements.

CANADA MEDIA FUND

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

Year ended March 31, 2019, with comparative information for 2018

				2019	2018
	Invested in capital assets	Internally restricted (note 8)	Unrestricted	Total	Total
Net assets, beginning of year	\$ 229	\$ 56,511	\$ 5,685	\$ 62,425	\$ 68,958
Deficiency of revenue over expenses	(54)	–	(2,836)	(2,890)	(6,533)
Investment in capital assets	22	–	(22)	–	–
Internally imposed restrictions (note 8)	–	(5,033)	5,033	–	–
Net assets, end of year	\$ 197	\$ 51,478	\$ 7,860	\$ 59,535	\$ 62,425

See accompanying notes to financial statements.

CANADA MEDIA FUND

Statement of Cash Flows
(In thousands of dollars)

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash flows from (used in) operating activities:		
Deficiency of revenue over expenses	\$ (2,890)	\$ (6,533)
Items not involving cash:		
Amortization	54	49
Loss on redemption of long-term investments	19	-
Change in non-cash operating working capital:		
Accounts receivable	3,076	4,794
Due from Department of Canadian Heritage	535	38
Prepaid expenses	(7)	51
Accounts payable and accrued liabilities	(91)	294
Program commitments payable	12,082	12,313
Program commitments payable - Corus	(41)	112
Receivable - Corus	(129)	(124)
Deferred contributions - Corus	-	(218)
	<u>12,608</u>	<u>10,776</u>
Cash flows from (used in) investing activities:		
Proceeds from redemption of long-term investments	1	1
Purchase of capital assets	(22)	(35)
Purchase of investments	(9,923)	(14,586)
	<u>(9,944)</u>	<u>(14,620)</u>
Increase (decrease) in cash and cash equivalents	2,664	(3,844)
Cash and cash equivalents, beginning of year	479	4,323
Cash and cash equivalents, end of year	<u>\$ 3,143</u>	<u>\$ 479</u>

See accompanying notes to financial statements.

CANADA MEDIA FUND

Notes to Financial Statements
(In thousands of dollars)

Year ended March 31, 2019

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 \$151,106 for the fiscal year ended March 31, 2019 (2018 - \$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, 2019

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 advances and recoupable advances.

CANADA MEDIA FUND

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

Year ended March 31, 2019

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 \$70 (2018 - \$751) of adjustments relating to the licence fee top-ups and an aggregate of \$4,650 (2018 - \$2,780) 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, 2019

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 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, 2019

3. Accounts receivable:

	2019	2018
Accounts receivable	\$ 6,252	\$ 9,328
Less allowance for doubtful accounts	190	190
	\$ 6,062	\$ 9,138

4. Investments:

	2019	2018
Provincial promissory notes	\$ 178,197	\$ 173,924
Term deposits	49,228	40,052
Guaranteed investment certificates	36,631	40,157
Asset-backed term notes	–	20
	264,056	254,153
Less short-term investments	259,045	254,133
Long-term investments	\$ 5,011	\$ 20

Financial investments include provincial promissory notes, term deposits and guaranteed investment certificates. Investments with term to maturity of one year or less of \$259,045 (2018 - \$254,133) are recorded as current assets. Investments with term to maturity of more than one year of \$5,011 (2018 - \$20) are recorded as long-term investments. Asset-backed term notes were recorded as long-term investments.

CMF held 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.

During the year, CMF received principal repayment of \$1 (2018 - \$1) and recorded a loss on disposition of \$19 (2018 - nil).

CANADA MEDIA FUND

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

Year ended March 31, 2019

5. Capital assets:

			2019	2018
	Cost	Accumulated amortization	Net book value	Net book value
Equipment	\$ 139	\$ 94	\$ 45	\$ 41
Office furniture and fixtures	21	16	5	7
Leasehold improvements	244	97	147	181
	\$ 404	\$ 207	\$ 197	\$ 229

6. Government remittances:

Included in accounts payable and accrued liabilities are government remittances payable of \$4 (2018 - \$4), which includes amounts payable for payroll-related taxes.

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 represents restricted funding that is related to revenue and expenses of future periods.

	2019	2018
Balance, beginning of year	\$ (124)	\$ 218
Amount received during the year	613	613
Amount recognized as revenue in the year	(742)	(955)
Receivable - Corus	\$ (253)	\$ (124)

During the year, CMF expensed \$725 (2018 - \$924) for the program commitments and \$17 (2018 - \$31) for the program administration.

CANADA MEDIA FUND

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

Year ended March 31, 2019

8. Internally restricted net assets:

	Balance, March 31, 2018	Transfers	Balance, March 31, 2019
Settlement of CMF operational expenses in the event of dissolution of its operations	\$ 4,971	\$ –	\$ 4,971
Program funding 2018 - 2019	19,540	(19,540)	–
Program funding 2019 - 2020	–	15,307	15,307
Program funding contingency reserve	32,000	(3,000)	29,000
Kids Digital Animated Series Program 2019-2020	–	2,200	2,200
	<u>\$ 56,511</u>	<u>\$ (5,033)</u>	<u>\$ 51,478</u>

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 \$15,307 (2018 - \$19,540) from unrestricted to restricted net assets to provide additional funding for program commitments for fiscal 2019 - 2020 (2018 - for fiscal 2018 - 2019).

The Board of Directors approved the reduction of \$3,000 to program funding contingency reserve (2018 - \$6,000).

The Board of Directors approved the transfer of \$2,200 from unrestricted to restricted net assets for the Kids Digital Animated Series Program 2019-2020 (2018 - nil).

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, 2019:

(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 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 2018.

CANADA MEDIA FUND

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

Year ended March 31, 2019

9. Financial instruments and risk management (continued):

(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	2019	2018
R-1 (high)	\$ 264,056	\$ 254,133
Not rated	–	20
	<u>\$ 264,056</u>	<u>\$ 254,153</u>

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

(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 1.05% to 2.52% (2018 - 0.40% to 2.12%) with maturity dates ranging from April 1, 2019 to June 26, 2020 (2018 - April 3, 2018 to February 25, 2019). 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 2018.

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.

CANADA MEDIA FUND

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

Year ended March 31, 2019

11. Commitments, guarantees and contingencies:

CMF is committed to rental payments of \$902 for its leased premises expiring on March 31, 2023.

2020	\$ 235
2021	217
2022	222
2023	228
	<hr/> \$ 902

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 \$10,418 for program administration services provided by Telefilm. The services agreement is expiring on March 31, 2020. 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)

Year ended March 31, 2019

12. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.