

FINANCIAL STATEMENTS

**COGECO PROGRAM DEVELOPMENT FUND
DEVELOPMENT PROGRAM**

August 31, 2012

Cogeco Program Development Fund
Development Program
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August 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Cogeco Program Development Fund

We have audited the accompanying financial statements of Cogeco Program Development Fund - Development Program, which comprise the statement of financial position as at August 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then, and 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.

Auditor's 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Cogeco Program Development Fund - Development Program as at August 31, 2012, and the results of its operations and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

Toronto, Ontario
November 20, 2012



Chartered Accountants
Licensed Public Accountants

Cogeco Program Development Fund
Development Program
STATEMENTS OF OPERATIONS - OPERATING FUND

Years ended August 31	2012 \$	2011 \$
Revenue		
Interests and dividends	185,942	178,980
Gain (loss) on disposal of investments	83,737	83,059
Recovery of development advances	74,725	32,459
Transfer from Production Program [note 4]	<u>40,000</u>	<u>15,000</u>
	<u>384,404</u>	<u>309,498</u>
Expenses		
Administration	92,480	90,655
Investment management	47,467	46,528
Development advances [note 7]	<u>291,222</u>	<u>261,375</u>
	<u>431,169</u>	<u>398,558</u>
Excess (deficiency) of revenue over expenses	(46,765)	(89,060)
Unrealized gain (loss) on investments	201,112	65,596
Increase (decrease) in net assets from operations for the year	<u>154,347</u>	<u>(23,464)</u>

see accompanying notes

Cogeco Program Development Fund
Development Program
STATEMENTS OF FUND BALANCE - OPERATING FUND

Years ended August 31	2012	2011
	\$	\$
Balance , at beginning of year	858,281	881,745
Increase (decrease) in net assets from operations for the year	154,347	(23,464)
Balance , at end of year	1,012,628	858,281

see accompanying notes

Cogeco Program Development Fund
Development Program
STATEMENTS OF CASH FLOWS - OPERATING FUND

Years ended August 31	2012 \$	2011 \$
Operating Activities		
Cash received from contributions and investments	184,883	248,372
Cash paid to suppliers	(132,947)	(134,943)
Cash paid for funding distributions	<u>(291,222)</u>	<u>(261,375)</u>
Cash provided by (used in) operating activities	<u>(239,286)</u>	<u>(147,946)</u>
Investing Activities		
Proceeds on sale of investments	2,152,460	1,376,576
Purchase of investments	<u>(1,804,005)</u>	<u>(1,262,931)</u>
Cash provided by (used in) investing activities	<u>348,455</u>	<u>113,645</u>
Increase (decrease) in cash during the year	109,169	(34,301)
Cash, beginning of year	70,972	105,273
Cash, end of year	180,141	70,972

see accompanying notes

Cogeco Program Development Fund
Development Program
STATEMENTS OF FUND BALANCE - RESTRICTED FUND

Years ended August 31	2012	2011
	\$	\$
Balance , at beginning and end of year	5,000,000	5,000,000

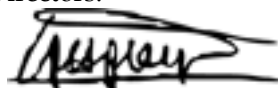
see accompanying notes

Cogeco Program Development Fund
Development Program
STATEMENTS OF FINANCIAL POSITION

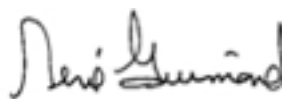
August 31	2012	2011
	\$	\$
ASSETS		
OPERATING FUND		
Cash	180,141	70,972
Receivables [note 6]	26,490	28,081
Investments [note 5]	<u>829,719</u>	<u>775,950</u>
	1,036,350	875,003
RESTRICTED FUND		
Investments [note 5]	5,000,000	5,000,000
Total assets	6,036,350	5,875,003
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
LIABILITIES		
Accounts payable	23,722	16,722
Fund balance	<u>1,012,628</u>	<u>858,281</u>
	1,036,350	875,003
RESTRICTED FUND		
Fund balance	5,000,000	5,000,000
Total liabilities and fund balances	6,036,350	5,875,003

see accompanying notes

On behalf of the Board of Directors:



Yves Mayrand,
Director



René Guimond,
Director

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

1. DESCRIPTION OF OPERATIONS

The Cogeco Program Development Fund (the "Fund") was incorporated July 26, 1991 under the provisions of Part II of Canada Corporations Act as a non-profit organization.

The Fund has two objectives: the first, by means of its Development Program, is to encourage the development of new Canadian drama, produced by independent Canadian producers, for broadcast by Canadian broadcasters. The second objective, by means of the Fund's Production Program, is to encourage the production of pilot programs for dramatic series, as well as television movies-of-the-week and mini-series, produced by Canadian independent producers for broadcast by private and public sector broadcasters. The financial results of these two programs are the subject of separate financial statements.

The Fund is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the following significant accounting policies:

Financial statement presentation

The financial statements have been prepared on a restricted fund basis. The fund balances are described as follows:

Operating Fund

The Operating Fund includes interest and dividend revenue, gain (loss) on disposal of investments, recovery of development advances, transfer from Production Program and expenses for administration, investment management and development advances of the Fund.

Income earned on the assets related to the Restricted Fund is used to make development advances and to finance the Operating Fund's activities and consequently, is included in the Operating Fund.

Restricted Fund

The Restricted Fund represents an endowment received from Cogeco Cable Inc. ("Cogeco Cable") of \$5,000,000 and is restricted in perpetuity.

Revenue recognition - Operating Fund

The Fund uses accrual accounting whereby interest revenue is recognized as earned, dividend revenue and capital gains (losses) on the disposal of investments are recorded when the transaction occurs and recovery of development advances are recognized when received.

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash - Operating Fund

Cash is defined as cash in bank less outstanding cheques.

Investments - Operating Fund

Investment transactions are recorded on the settlement date and the investments are recorded at fair value. The investments are comprised of Canadian shares, fixed income securities including treasury bills, bonds, debentures, notes and International equity funds.

Valuation of investments

The fair value of investments as at the financial reporting period end is determined as follows:

- a) Securities listed upon a recognized public stock exchange are valued at their bid prices for investments owned.
- b) Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.

Transaction costs

Transaction costs are incremental costs other than portfolio fees that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The Organization does not incur such transaction costs.

Investments representing the initial investment of \$5,000,000 are allocated to the Restricted Fund and the balance of the investments are allocated to the Operating Fund.

In the Statement of Cash Flows for the Operating Fund, the proceeds on sale of investments and the purchase of investments have been shown net of short-term investment transactions consisting of bank term-deposits, Canadian treasury bills and Government of Canada bonds with maturities under 365 days.

Development advances - Operating Fund

The financing agreements entered into by the Fund with independent production companies and professional development organizations contain specific milestones that must be achieved by the companies and organizations in order for them to be entitled to funds. The Fund recognizes, as development advances in the Statement of Operations - Operating Fund its obligations under those agreements when the specific milestones have been achieved. Funding commitments for projects with unachieved milestones are reflected in the commitments note to the financial statements.

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation

At the transaction date, each account denominated in foreign currency, primarily investments in U.S. dollars, is translated into Canadian dollars using the exchange rate in effect at that date. At the year-end date, the accounts are translated into Canadian dollars using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in operations in the current period as part of the unrealized gain (loss) on investments.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include the ultimate realization of the fair value of the investments. Actual results could differ from the estimates.

Capital Assets

The Fund expenses all capital assets that are immaterial in cost. Such capital assets would generally be office furniture and equipment and computer equipment of a replacement nature for existing capital assets. If, in any year, capital asset additions exceed the above noted limit, they would be capitalized and amortized over their estimated useful life of three to five years on a straight line basis.

3. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL

The Fund's capital is comprised of the net assets invested in unrestricted funds represented by the Operating Fund and externally restricted funds represented by the Restricted Fund.

The Fund invests the unrestricted funds to ensure that the organization has administrative facilities suitable for management to administer its various programs on an annual basis while maintaining the investments in the Restricted Fund as required by the external restriction.

Management prepares budgets which are reviewed, approved and monitored by the Board of Directors. Investments are made based upon the estimated timing of funding requirements and material investment decisions are approved by the Board of Directors.

4. TRANSFER FROM PRODUCTION PROGRAM

As permitted by the Canadian Radio-television and Telecommunications Commission's regulations, the Development Program receives funds from the Production Program to support the funding of the Development Program's project commitments.

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

5. INVESTMENTS

Investments are recorded at fair value. Investments are intended to optimize fund performance with a view to ensuring the Fund's operations.

	2012		2011	
	Market Value		Market Value	
	\$	%	\$	%
Money Market and other	205,726	3	397,097	7
Bonds	2,593,881	45	2,493,281	43
Shares	2,572,078	44	2,461,026	43
International equity fund	458,034	8	424,546	7
	5,829,719	100	5,775,950	100

6. RECEIVABLES

The receivables consist primarily of accrued interest income on investments.

7. COMMITMENTS FOR DEVELOPMENT ADVANCES

The advances made during the year bear no interest and are repayable on the first day of principal photography of the production. During the year, the Fund authorized funding for ongoing projects which were not completed by year-end and, accordingly, as at August 31, 2012, there were commitments to pay certain amounts as follows:

	\$
Funding authorized in 2011/2012	
Development projects	90,000
Feature film loans	105,000
	195,000
Paid during 2011/2012	(75,250)
Funding authorized in 2011/2012 not yet paid	119,750
Funding authorized in 2010/2011 not yet paid	7,250
Funding authorized in 2009/2010 not yet paid	10,500
Funding authorized in 2008/2009 not yet paid	2,000
Funding authorized in 2007/2008 not yet paid	8,480
Funding authorized in 2006/2007 not yet paid	2,500
	150,480

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

8. RELATED PARTY TRANSACTIONS

During the year, the Fund recorded director and officer insurance expense from Cogeco Cable of \$2,160 (2011 - \$2,401) as part of Administration expense in the Statement of Operations - Operating Fund.

During the year, the Fund paid honoraria of \$3,000 (2011 - \$2,500) to Directors who are not Officers of Cogeco Cable.

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

a) Risk exposure and management

The Fund's investment activities expose it to a variety of financial risks, as defined in section 3856 of the CICA's Handbook. The Fund's exposure to financial risks is concentrated primarily in its investment portfolio and the significant relevant risks are discussed below.

b) Concentration of investment risk for investment portfolio

Concentration risk arises when the Fund invests in a limited number of individual securities or in securities within a limited number of industry sectors.

The Fund's portfolio of investments includes a number of individual investments including money market securities, government and corporate bonds and shares of Canadian and foreign corporations. The Fund engages an independent investment manager to manage the portfolio and has provided the manager with specific investment guidelines against which the performance of the portfolio is monitored.

Over the longer term, the Fund is satisfied that there is no significant exposure from loss on the realization of its investment portfolio due to concentration of the investments either in a limited number of individual investments or in a particular industry sector.

c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund including the trading of securities and the collection of receivables.

All investment transactions are in securities listed on a recognised Canadian stock exchange and are executed with an approved broker. To minimize the possibility of settlement default, securities are exchanged for payment simultaneously through the facilities of a central depository and/or clearing agency.

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

c) Credit risk (continued)

The Fund is satisfied that there is no significant exposure to losses from credit risk for the investment portfolio.

Other financial assets include the receivables, which represent accrued interest on bonds held in the investment portfolio and accordingly, the Fund does not have significant exposure from the collection of the receivables.

d) Currency risk

Currency risk arises when the fair value of financial instruments denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, fluctuate due to changes in exchange rates.

The Fund's portfolio of investments at fair value includes approximately 29% (2011 - 26%) of investments denominated in foreign currencies (primarily U.S dollars), which are converted to their Canadian dollar equivalent at the year-end exchange rate.

The Fund is satisfied that there is no significant exposure to losses from currency risk for the investment portfolio.

e) Interest rate risk

Interest rate risk arises when the fair value of interest-bearing financial instruments fluctuates due to changes in the prevailing levels of market interest rates. Cash, accounts receivable and accounts payable do not expose the Fund to significant amounts of interest rate risk.

For long-term government and corporate bonds included in the portfolio of investments, the effective interest rate realized during the year was 3.6% (2011 - 4.3%). As the bonds are issued by a number of government and corporate entities and are for different maturity dates, the Fund is satisfied there is no significant exposure from interest rate fluctuations.

f) Liquidity risk

Liquidity risk arises when the Fund encounters difficulty in meeting its financial obligations as they come due.

At the end of the year, the Fund's portfolio of investments includes 3.5% (2011 - 7.0%) of money market securities.

The Fund is satisfied that there is no significant exposure from liquidity risk.

Cogeco Program Development Fund
Development Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

g) Other price risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk (the first two of which have been discussed in 9d and 9e above).

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual investment, its issuers, or other factors affecting all instruments traded in a market or market segment. All investments present a risk of loss of capital. This risk is managed through the careful selection of investments and other financial instruments within the parameters of the Fund's investment strategy and is monitored as set out in 9b above. The Fund does not invest in options, futures or other derivative contracts. The Fund's most significant exposure to price risk arises from its investments in equity securities which at year-end represented 52.0% (2011 - 50.0%) of the investment portfolio.

As set out in 9b above, the Fund employs a professional investment manager and reviews the performance of the manager against specific investment criteria. The investment portfolio is represented by securities traded on a recognized stock exchange and, by its long-term nature and diversity, does not include any material dollar amount of securities with significant terms or conditions that would materially affect the amount, timing or certainty of future cash flows.

FINANCIAL STATEMENTS

**COGECO PROGRAM DEVELOPMENT FUND
PRODUCTION PROGRAM**

August 31, 2012

Cogeco Program Development Fund
Production Program
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INDEPENDENT AUDITOR'S REPORT

To the Directors of
Cogeco Program Development Fund

We have audited the accompanying financial statements of Cogeco Program Development Fund - Production Program, which comprise the statement of financial position as at August 31, 2012, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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.

Auditor's 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial positions of Cogeco Program Development Fund - Production Program as at August 31, 2012, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.



Toronto, Ontario
November 20, 2012

Chartered Accountants
Licensed Public Accountants

Cogeco Program Development Fund
Production Program
STATEMENTS OF OPERATIONS

Years ended August 31	2012	2011
	\$	\$
Revenue		
Contribution of Cogeco Cable Inc.	3,176,871	5,020,617
Interests and other	40,999	31,511
Recoupments of equity advances	<u>81,134</u>	<u>169,543</u>
	<u>3,299,004</u>	<u>5,221,671</u>
Expenses		
Administration	81,493	79,707
Promotion of the Fund and related activities	23,500	36,500
Transfer to Development Program [note 6]	40,000	15,000
Equity advances [note 5]	<u>4,007,500</u>	<u>2,216,289</u>
	<u>4,152,493</u>	<u>2,347,496</u>
Excess (deficiency) of revenue over expenses	(853,489)	2,874,175

see accompanying notes

Cogeco Program Development Fund
Production Program
STATEMENTS OF OPERATING FUND BALANCE

Years ended August 31	2012	2011
	\$	\$
Balance , at beginning of year	5,635,134	2,760,959
Excess (deficiency) of revenue over expenses	(853,489)	2,874,175
Balance , at end of year	4,781,645	5,635,134

see accompanying notes

Cogeco Program Development Fund
Production Program
STATEMENTS OF CASH FLOWS

Years ended August 31	2012	2011
	\$	\$
Operating Activities		
Cash received from contributions and investments	3,268,212	5,161,741
Cash paid to suppliers	(143,349)	(129,727)
Cash paid for funding distributions	<u>(4,007,500)</u>	<u>(2,216,289)</u>
Cash provided by (used in) operating activities	<u>(882,637)</u>	<u>2,815,725</u>
Investing Activities		
Proceeds on sale of investments	999,340	-
Purchase of investments	<u>-</u>	<u>(2,898,394)</u>
Cash provided by (used in) investing activities	<u>999,340</u>	<u>(2,898,394)</u>
Increase (decrease) in cash during the year	116,703	(82,669)
Cash, beginning of year	52,217	134,886
Cash, end of year	168,920	52,217

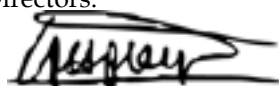
see accompanying notes

Cogeco Program Development Fund
Production Program
STATEMENTS OF FINANCIAL POSITION

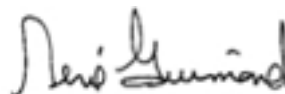
As at August 31	2012	2011
	\$	\$
ASSETS		
Cash	168,920	52,217
Receivable from Cogeco Cable Inc.	528,650	531,107
Other receivables	108,921	75,672
Investments [note 7]	3,998,760	4,998,100
	4,805,251	5,657,096
LIABILITIES		
Accounts payable	23,606	21,962
OPERATING FUND		
	4,781,645	5,635,134
	4,805,251	5,657,096

see accompanying notes

On behalf of the Board of Directors:



Yves Mayrand,
Director



René Guimond,
Director

Cogeco Program Development Fund
Production Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

1. STATUS AND NATURE OF BUSINESS

The Cogeco Program Development Fund (the "Fund") was incorporated July 26, 1991 under the provisions of Part II of Canada Corporations Act as a non-profit organization.

The fund is dependent upon financial contributions from Cogeco Cable Inc. ("Cogeco Cable") and was established with two objectives: the first, by means of its Development Program, is to encourage the development of new Canadian drama, produced by independent Canadian producers, for broadcast by Canadian broadcasters. The second objective, by means of the Fund's Production Program, is to encourage the production of pilot programs for dramatic series, as well as television movies-of-the-week and mini-series, produced by Canadian independent producers for broadcast by private and public sector broadcasters. The financial results of these two programs are the subject of separate financial statements.

The Fund is exempt from income taxes under Section 149(1) of the Income Tax Act (Canada).

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the following significant accounting policies:

Revenue recognition

The Fund uses accrual accounting whereby interest revenue is recognized as earned, contributions from Cogeco Cable are recognized based on that company's monthly commitment and recoupments of equity advances to producers are recognized when received.

Measurement Uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates include the ultimate realization of the fair value of the receivables and of the investments. Actual results could differ from the estimates.

Cash - Operating Fund

Cash is defined as cash in bank less outstanding cheques.

Cogeco Program Development Fund
Production Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investment transactions are recorded on the settlement date and the investments are recorded at fair value. The investments are comprised of term-deposits.

Valuation of investments

The fair value of investments as at the financial reporting period end is determined as follows:

- a) Securities listed upon a recognized public stock exchange are valued at their bid prices for investments owned.
- b) Short-term notes, treasury bills and bonds are valued at the average bid quotations from recognized investment dealers.

Transaction costs

Transaction costs are incremental costs other than portfolio fees that are directly attributable to the acquisition, issue or disposal of an investment, which include fees and commission paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. The Organization does not incur such transaction costs.

In the Statement of Cash Flows for the Operating Fund, the proceeds on sale of investments and the purchase of investments have been shown net of short-term investment transactions consisting of bank term-deposits with maturities under 365 days.

Equity Advances

The financing agreements entered into by the Fund with independent production companies and professional development organizations contain specific milestones that must be achieved by the companies and organizations in order for them to be entitled to funds. The Fund recognizes equity advances as an expense in the Statement of Operations, its funding of its obligations under those agreements when the specific milestones have been achieved. Funding commitments for projects with unachieved milestones are reflected in note 6 the commitments for equity advances.

Capital Assets

The Fund expenses all capital assets that are immaterial in cost. Such capital assets would generally be office furniture and equipment and computer equipment of a replacement nature for existing capital assets. If, in any year, capital asset additions exceed the above noted limit, they would be capitalized and amortized over their estimated useful life of three to five years on a straight line basis.

Cogeco Program Development Fund
Production Program
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2012 and 2011

3. OBJECTIVES, POLICIES AND PROCESSES FOR MANAGING CAPITAL

The Fund's capital is comprised of the net assets invested in unrestricted funds represented by the Operating Fund.

The Fund invests the unrestricted funds to ensure that the organization has administrative facilities suitable for management to administer its various programs on an annual basis.

Management prepares budgets which are reviewed, approved and monitored by the Board of Directors. Investments are made based upon the estimated timing of funding requirements and material investment decisions are approved by the Board of Directors.

4. OTHER RECEIVABLES

The receivables consist primarily of accrued interest income on investments and Harmonized Sales Tax recoverable.

5. COMMITMENTS FOR EQUITY ADVANCES

As part of the financing agreements entered into with independent production companies, the Fund may receive recoupments from completed and broadcast productions. Such non-interest bearing recoupments depend on the ultimate profitability of a production. During the fiscal year ended August 31, 2012, the Fund authorized funding for ongoing projects that were not completed. As a result, at August 31, 2012, there existed commitments to pay certain amounts as follows:

\$

Funding authorized in 2011/2012	4,235,000
Paid during 2011/2012	<u>(990,000)</u>
Funding authorized in 2011/2012 not yet paid	3,245,000
Funding authorized in 2010/2011 not yet paid	886,500
Funding authorized in 2009/2010 not yet paid	95,000
Funding authorized in 2008/2009 not yet paid	97,500
	<hr/> <u>4,324,000</u> <hr/>

Cogeco Program Development Fund
Production Program
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6. TRANSFER TO DEVELOPMENT PROGRAM

As permitted by the Canadian Radio-television and Telecommunications Commission's regulations, the Production Program transfers funds to the Development Program to support the Development Program's project commitments.

7. INVESTMENTS

Investments are recorded at fair value. The term deposit bears interest at 1.02% and matures September 11, 2012. Investments are intended to optimize fund performance with a view to ensuring the Fund's operations.

8. RELATED PARTY TRANSACTIONS

Cogeco Cable is a related party. Revenue contributions and related receivables from Cogeco Cable are reported as separate line entries in the financial statements. The Fund recorded director and officer insurance expense from Cogeco Cable of \$2,160 (2011- \$2,401) as part of Administration expense in the Statement of Operations.

During the year, the Fund paid honoraria of \$3,750 (2011 - \$2,500) to Directors who are not Officers of Cogeco Cable.

9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

a) Risk exposure and management

The Fund's investment activities expose it to a variety of financial risks, as defined in section 3856 of the CICA's Handbook. The Fund's exposure to financial risks is concentrated primarily in its investment portfolio and the significant relevant risks are discussed below.

b) Concentration of investment risk for investment portfolio

Concentration risk arises when the Fund invests in a limited number of individual securities or in securities within a limited number of industry sectors.

The Fund's investments include short-term deposits with a Canadian bank. The Fund is satisfied that there is no significant exposure from loss on realization of its investment.

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9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund including the trading of securities and the collection of receivables.

The Fund is satisfied that there is no significant exposure to losses from credit risk for the investment portfolio.

Other financial assets include certain receivables, which represent accrued interest on the short-term deposits, Harmonized Sales Tax recoverable and contributions due from Cogeco Cable, and accordingly, the Fund does not have significant exposure from their collection.

d) Currency risk

Currency risk arises when the fair value of financial instruments denominated in a currency other than the Canadian dollar, which is the Fund's reporting currency, fluctuate due to changes in exchange rates.

The Fund has no assets or liabilities denominated in foreign currencies.

e) Interest rate risk

Interest rate risk arises when the fair value of interest-bearing financial instruments fluctuates due to changes in the prevailing levels of market interest rates. Cash, accounts receivable, investments (consisting of short-term deposits) and accounts payable do not expose the Fund to significant amounts of interest rate risk.

The Fund is satisfied there is no significant exposure to losses from interest rate fluctuations.

f) Liquidity risk

Liquidity risk arises when the Fund encounters difficulty in meeting its financial obligations as they come due.

As the Fund's primary outflows of cash relate to equity advances, including the funding authorized but not yet paid, the Fund is satisfied that it can manage its funding commitments within its anticipated cash inflows.

The Fund is satisfied that there is no significant exposure from liquidity risk.

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9. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

g) Other price risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk (the first two of which have been discussed in 9d and 9e above).

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices whether caused by factors specific to an individual investment, its issuers, or other factors affecting all instruments traded in a market or market segment.

As the investments are short-term in nature with a fixed interest rate, the Fund is satisfied there is no significant exposure from market fluctuations.