

FINANCIAL STATEMENTS

COGECO PROGRAM DEVELOPMENT FUND

August 31, 2017

Cogeco Program Development Fund

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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, which comprise the statement of financial position as at August 31, 2017, and the statements of operations, fund balance 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 as at August 31, 2017, 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 13, 2017



Chartered Accountants
Licensed Public Accountants

Cogeco Program Development Fund
STATEMENTS OF OPERATIONS - OPERATING FUND

Years ended August 31	2017	2016
	\$	\$
Revenue		
Contribution of Cogeco Communications Inc.	1,904,333	2,487,565
Investment income	213,342	231,882
Other interest	7,929	13,645
Gain (loss) on disposal of investments	165,030	478,447
Recovery of development advances	68,786	27,530
Recoupments of equity investments	<u>717,145</u>	<u>439,100</u>
	<u>3,076,565</u>	<u>3,678,169</u>
Expenses		
Administration	74,755	78,506
Restricted Fund Program expenses	106,310	107,264
Investment management	61,133	66,319
Promotion and discoverability	36,000	36,000
Development advances [note 7]	87,051	139,406
Equity investments [note 7]	<u>3,863,826</u>	<u>3,358,210</u>
	<u>4,229,075</u>	<u>3,785,705</u>
Excess (deficiency) of revenue over expenses	(1,152,510)	(107,536)
Unrealized gain (loss) on investments	(6,003)	(87,291)
Increase (decrease) in net assets from operations for the year	<u>(1,158,513)</u>	<u>(194,827)</u>

see accompanying notes

Cogeco Program Development Fund
STATEMENTS OF FUND BALANCE - OPERATING FUND

Years ended August 31	2017	2016
	\$	\$
Balance, at beginning of year	6,034,245	6,229,072
Increase (decrease) in net assets from operations for the year	(1,158,513)	(194,827)
Balance, at end of year	4,875,732	6,034,245

see accompanying notes

Cogeco Program Development Fund
STATEMENTS OF CASH FLOWS - OPERATING FUND

Years ended August 31	2017 \$	2016 \$
Operating Activities		
Cash received from contributions and investments	3,095,905	3,693,185
Cash paid to suppliers	(304,823)	(270,016)
Cash paid for funding distributions	<u>(3,950,877)</u>	<u>(3,497,616)</u>
Cash provided by (used in) operating activities	<u>(1,159,795)</u>	<u>(74,447)</u>
Investing Activities		
Proceeds on sale of investments	3,821,047	2,227,853
Purchase of investments	<u>(2,281,461)</u>	<u>(2,120,912)</u>
Cash provided by (used in) investing activities	<u>1,539,586</u>	<u>106,941</u>
Increase (decrease) in cash during the year	379,791	32,494
Cash, beginning of year	154,289	121,795
Cash, end of year	534,080	154,289

see accompanying notes

Cogeco Program Development Fund
STATEMENTS OF FUND BALANCE - RESTRICTED FUND

Years ended August 31	2017	2016
	\$	\$
Balance, at beginning and end of year	5,000,000	5,000,000


see accompanying notes

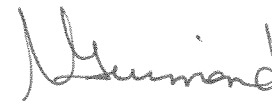
Cogeco Program Development Fund
STATEMENTS OF FINANCIAL POSITION

August 31	2017 \$	2016 \$
ASSETS		
OPERATING FUND		
Cash	534,080	154,289
Receivable from Cogeco Communications Inc.	304,526	396,326
Other receivables [note 4]	201,201	128,741
Term deposit	-	1,899,924
Investments [note 5]	<u>3,859,038</u>	<u>3,504,703</u>
	4,898,845	6,083,983
RESTRICTED FUND		
Investments [note 5]	5,000,000	5,000,000
Total assets	9,898,845	11,083,983
LIABILITIES AND FUND BALANCES		
OPERATING FUND		
LIABILITIES		
Accounts payable	23,113	49,738
Fund balance	<u>4,875,732</u>	<u>6,034,245</u>
	4,898,845	6,083,983
RESTRICTED FUND		
Fund balance	5,000,000	5,000,000
Total liabilities and fund balances	9,898,845	11,083,983

see accompanying notes

On behalf of the Board of Directors:


Director


Director

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

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. The second objective, by means of the Fund's Production Program, is to encourage the production of 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 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, recoupment of equity investments and expenses for administration, investment management, equity investments and development advances of the Fund.

Income earned on the assets related to the Restricted Fund is used 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 Communications Inc. ("formerly known as 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, recovery of advances to producers are recognized when received and contributions from Cogeco Communications are recognized based on that company's monthly commitment.

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

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, International equity funds and 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.

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.

Funding to producers - 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 such advances as an expense in the Statement of Operations - Operating Fund 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
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

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 were material in cost, 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. OTHER RECEIVABLES

The other receivables consist primarily of accrued interest income on investments and HST/QST recoveries.

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

5. INVESTMENTS

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

	2017		2016	
	Market Value		Market Value	
	\$	%	\$	%
Money Market and other	628,023	6	514,098	8
Bonds	3,076,644	35	3,018,077	37
Shares	3,580,743	43	3,602,182	47
International equity fund	1,573,628	16	1,370,346	8
	8,859,038	100	8,504,703	100

6. RELATED PARTY TRANSACTIONS

During the year, the Fund recorded director and officer insurance expense from Cogeco Communications of \$4,520 (2016 - \$4,320) as part of Administration expense in the Statement of Operations - Operating Fund.

During the year, the Fund paid honoraria of \$6,500 (2016 - \$8,000) to Directors who are not Officers of Cogeco Communications.

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

7. COMMITMENTS FOR ADVANCES TO PRODUCERS

The advances made during the year for advances under development production loan agreements bear no interest and are repayable on the first day of principal photography of the production while advances under equity agreements with producers may result in recoupments from completed and broadcast productions. Such non-interest bearing recoupments depend on the ultimate profitability of production. During the year, the Fund authorized funding for ongoing projects which were not completed by year-end and, accordingly, as at August 31, 2017, there were commitments to pay certain amounts as follows:

	Commitment \$	Paid \$	Net \$
Funding authorized in 2016/2017	2,864,340	(1,116,840)	1,747,500
Funding authorized in 2015/2016	2,940,000	(2,277,500)	662,500
Funding authorized in 2014/2015	607,326	(367,326)	240,000
Funding authorized in 2013/2014	156,500	(131,500)	25,000
Funding authorized in 2012/2013	47,500	(47,500)	-
Funding authorized in 2011/2012	211	(211)	-
Funding authorized in 2010/2011	10,000	(10,000)	-
	6,625,877	(3,950,877)	2,675,000

8. 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 CPA Canada 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.

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

8. 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.

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.

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 37% (2016 - 31%) of investments denominated in foreign currencies (primarily U.S dollars), which are converted to their Canadian dollar equivalent at the year-end exchange rate.

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 3.0% (2016 - 3.5%). At the end of the year, the Fund's portfolio of investments included 35% (2016 - 29%) of bonds.

Cogeco Program Development Fund
NOTES TO FINANCIAL STATEMENTS

Years ended August 31, 2017 and 2016

8. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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 included 7% (2016 - 23%) of money market securities.

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 8d and 8e 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 8b 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 58% (2016 - 48%) of the investment portfolio.

9. SUBSEQUENT EVENT

Effective January 1, 2018, the Cogeco Program Development Fund will cease to operate and will be renamed the Cogeco Fund which will be operated by Cogeco Communications.

Effective January 1, 2018, the Independent Production Fund (IPF) will assume responsibility for the Cogeco Production Program. The Cogeco Program Development Fund will transfer to the IPF an amount equal to the unpaid equity investment commitments to producers at December 31, 2017 which at August 31, 2017 is \$2,675,000. Starting January 1, 2018, the IPF will receive any recoupment revenue and recovery of development advances on existing and future programs. The IPF will also receive all Cogeco Communications Inc. contributions as mandated by the CRTC.