

financial statements

AUDITOR'S REPORT

To the directors of
FONDS RADIOSTAR

I have audited the balance sheet of Fonds RadioStar as at August 31, 2005 and the statements of earnings, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. These standards require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also involves assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at August 31, 2005 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Denis Thérien
Chartered Accountant
September 15th, 2005

STATEMENT OF EARNINGS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2005

	2005	2004
REVENUE		
Radio broadcaster contributions	\$ 3,961,205	\$ 2,285,722
Interest	102,704	54,155
	4,063,909	2,339,877
EXPENDITURES		
Management fees, rent and other charges	80,187	213,967
Salaries and benefits	82,456	
Professional fees	12,946	5,025
Communications	35,558	
Insurance	2,540	
Meeting expenses	4,328	
	218,015	218,992
SURPLUS AVAILABLE FOR ASSISTANCE		
CONTRIBUTIONS		
Assistance contributions	3,845,894	2,120,885
	2,331,725	1,268,077
EXCESS OF REVENUE OVER EXPENDITURES	1,514,169	852,808
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	2,677,312	1,824,504
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 4,191,481	\$ 2,677,312

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET

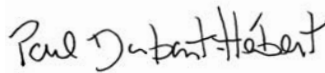
AUGUST 31, 2005

	2005	2004
ASSETS		
CURRENT		
Cash	\$ 749,374	\$ 1,363,104
Term and demand deposits (note 4)	3,400,000	1,250,000
Accounts receivable (note 5)	55,568	65,793
Prepaid expenses	1,629	1,315
	\$ 4,206,571	\$ 2,680,212
LIABILITIES		
CURRENT		
Accrued liabilities	\$ 15,090	\$ 2,900
NET ASSETS		
Unrestricted net assets	4,191,481	2,677,312
	\$ 4,206,571	\$ 2,680,212

APPROVED ON BEHALF OF THE BOARD



Denis Wolff
Chairman



Paul Dupont-Hébert
Treasurer

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2005

	2005	2004
OPERATING ACTIVITIES		
Contributions received from radio broadcaster	\$ 3,961,205	\$ 2,285,722
Interest received	122,315	53,247
Sales taxes paid	(9,390)	(14,430)
	4,074,130	2,324,539
Assistance contributions paid	(2,331,725)	(1,268,077)
Purchase of goods and services paid	(129,551)	(209,900)
Employee salaries paid	(76,584)	
	(2,537,860)	(1,477,977)
	1,536,270	846,562
INVESTING ACTIVITY		
Term deposit	750,000	
	750,000	
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,286,270	846,562
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,863,104	1,016,542
CASH AND CASH EQUIVALENTS AT END OF YEAR (note 6)	\$ 4,149,374	\$ 1,863,104

The accompanying notes are an integral part of the financial statements.



NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2005

1- ORGANIZATION'S PURPOSE AND STATUTES

Fonds RadioStar was incorporated on February 16, 2001 under Part II of the Canada Business Corporation Act.

Designed primarily for emerging artists, Fonds RadioStar provides significant funding for the marketing initiatives of Canadian record labels likely to have a discernible effect on the careers of Canadian French-language performers. The support it provides is complementary to existing assistance programs, and adds momentum to marketing efforts. Fonds RadioStar pays non-refundable contributions to eligible label companies.

2- FOUNDATION FINANCING

Fonds RadioStar revenue is generated by financial contributions made by broadcast companies to the Canadian Association of Broadcasters (CAB).

3- SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in accordance with Canadian generally accepted accounting principles and the following significant policies:

Revenue Recognition

Fonds RadioStar uses the deferral method for recording its contributions. Contributions to Fonds RadioStar and its Anglophone counterpart, Radio Starmaker Fund, originate from financial contributions required of broadcast companies by the Canadian Radio-television and Telecommunications Commission (CRTC) during transactions involving the acquisition of broadcast companies. A minimum of 3% of these transactions must be paid to the two new Canadian music marketing funds.

Generally speaking, in transactions involving Francophone stations, 80% of the 3% is paid to Fonds RadioStar; while in transactions involving Anglophone stations, 20% of the 3% is paid to Fonds RadioStar. The Canadian Association of Broadcasters (CAB) is responsible for collecting 3% of the transaction value, which it redistributes to the two funds in accordance with the payment terms accepted by the CRTC. These financial contributions are reported using a cash-based accounting system.

Income Taxes

Pursuant to the Income Tax Acts (Canada and Quebec), Fonds RadioStar is classified as a non-profit organization and is, therefore, not subject to income tax.

Contributed Services

Members of the organization's Board of Directors attend Board meetings without monetary compensation. The value of the time donated by these individuals is not recorded in the financial statements, as it would be difficult to measure its fair market value.

Cash and cash equivalents

For the purpose of cash flows, cash and cash equivalents include cash and cash equivalents that are not restricted as to their use. Cash includes cash. Cash equivalents include term deposits held for short-term cash requirements but not those held for investment purpose. More specifically, they include term deposits whose values are unlikely to incur significant changes, and which mature no later than three months after they are issued.

Use of estimates

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2005

4- TERM AND DEMAND DEPOSITS

	2005	2004
Term deposit, 3.85%, maturing November 22, 2004		\$ 750,000
Term deposit, 1.9%, maturing September 9, 2004		500,000
Demand deposit, 2.6%, maturing August 16, 2006	\$ 3,400,000	
	\$ 3,400,000	\$ 1,250,000

5- ACCOUNTS RECEIVABLE

Accrued interest	\$ 4,204	\$ 23,819
Sales taxes	51,364	41,974
	\$ 55,568	\$ 65,793

The treatment of these sales taxes is currently being reviewed by Revenu Québec, which is contesting the refund entitlement of 50% of sales taxes paid (GST and QST). As at August 31, 2005, a decision was still pending. If the decision is unfavourable, these sales taxes will have to be reported as operating expenses.

6- CASH AND CASH EQUIVALENTS AT END OF YEAR

	2005	2004
Cash	\$ 749,374	\$ 1,363,104
Term and demand deposits	3,400,000	500,000
	\$ 4,149,374	\$ 1,863,104

7- RELATED PARTY TRANSACTIONS

During the year, the organization disbursed contributions and/or grants totalling \$570,994. The parties are related due to the fact that their representatives are company directors. These related companies satisfy all the criteria established by Fonds RadioStar and as such, do not benefit from any one statute or privilege over another through their representation on the Board of Directors.

Management states that these transactions were executed under the same terms as transactions with non-related parties.

8- COMMITMENTS

Contributions

Fonds RadioStar is contractually committed to advance contributions totalling \$1,396,813 (2004, \$1,274,201). Of this amount, \$383,994 (2004, \$256,911) represents commitments to related companies.