

FONDS RADIOSTAR

2002-2003 ANNUAL REPORT



www.fondsradiostar.com

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FONDS RADIOSTAR 2002-2003 ANNUAL REPORT

PARTNERS

ASTRAL RADIO

BLACKBURN GROUP

CHUM

CKMW RADIO

CORUS ENTERTAINMENT

CRAIG BROADCAST SYSTEMS

GOLDEN WEST BROADCASTING

HALIBURTON BROADCASTING GROUP

JIM PATTISON BROADCAST GROUP

MARITIME BROADCASTING SYSTEM

NEWCAP

RAWLCO COMMUNICATIONS

ROGERS BROADCASTING

STANDARD RADIO

Remaining true to its fundamental nature, over the first two years of its existence the Fonds RadioStar supported the marketing projects of emerging artists. The fund enabled these artists to be heard, seen and often to flourish.

In order to foster wider access to the fund, the Directors approved this year the practice of allocating part of the funds to up-and-coming recording companies, as well as to French-speaking communities across Canada.

The Board also carried on with the review of the program's application procedures and eligibility requirements initiated in 2001-2002. Like the Radio Starmaker Fund, it adopted the idea of the Significant Investment referring to the applicant's own financial commitment to the project. Funding is now given based on that amount in offering the record company double their Significant Investment for new marketing related expenses serving to strengthen the applicant's project development efforts.

Finally, the fund's patent letters and rules of governance were revised in order to ensure the proper business practices of the fund.

In 2003-2004 and for the coming years, the Fonds RadioStar's resources will make it possible to double the total funding approved annually for marketing initiatives. This will certainly render independent record labels more competitive and enable emerging artists to reach their audiences.



André Lallier
President
Fonds RadioStar

PRESIDENT'S MESSAGE



FONDS RADIOSTAR



The Canadian Association of Broadcasters (CAB) and the Association québécoise de l'industrie du disque, du spectacle et de la vidéo (ADISQ) officially launched the Fonds RadioStar program on August 13, 2001. The fund supports the marketing and promotion of French-language music in Canada.

The Fonds RadioStar results from the application of the Canadian Radio- Television and Telecommunications Commission's (CRTC) 1998 Policy on Commercial Radio regarding concrete benefits. The CAB recommended this new initiative during the CRTC's 1997 Commercial Radio Policy Hearing. The structure and procedures of the Fonds RadioStar, as approved by the CRTC on November 9, 2000, were established as a result of a joint initiative developed by the CAB and ADISQ.

BOARD OF DIRECTORS

President

André Lallier
Astral Music Director
Astral Media Group

Vice-President

Denis Wolff
Vice-President
Artistic Development
Disques Audiogramme

Treasurer

Sylvain Langlois
Managing Vice-President
Cité Rock Détente

Secretary

Serge Sasseville
Vice-President
Strategy, Legal and
Corporate Affairs
Quebecor Media

Director

Yves-François Blanchet
President
Diffusion YFB

Director

Michel J. Carter
Vice-President and CEO
Cogeco Radio-Télévision

Director

Jean-Jacques Dugas
President
Gestion Albert Dugas

Director

Mark Lazare
President
Productions Benannah

Director

Martyne Prévost
President
Disques MPV Inc./Kafka
Records

Director

André Saint-Amand
Program Director
Rythme FM and
105.7 FM

FUND MANAGEMENT

MUSICACTION is responsible for managing the fund, under the direction of the Fonds RadioStar Board of Directors.

General Management

Andrée Ménard

Analysis

Louise Chenail

Administration

Nicole Rouabah

GOALS

Designed primarily for emerging artists, the Fonds RadioStar grants significant funding to the marketing initiatives of Canadian record labels likely to have a discernible effect on the careers of Canadian performers. It provides additional support, thus complementing existing funding programs.

The fund's ultimate goal is to supply private radio broadcasters with quality, playable francophone music.

The Fonds RadioStar receives and considers applications for French-language sound recordings, referring requests for projects in a language other than French as well as instrumental music projects to the Radio Starmaker Fund.

PROGRAM RECEIVES EXTENSIVE REVAMPING

The fund's application procedures have undergone a thorough review, and the resulting changes have been in effect since the round of applications that began on April 15, 2003. The new program is open strictly to sound recordings whose release dates are after April 15, 2002. Sound recording projects that have already received or are pending Fonds RadioStar marketing funding are not eligible.

The minimum budget requirement for projects approved for funding is now \$36,000. As for the remaining program rules, these remain unchanged.

FUNDING FOR THE 2003-2004 FINANCIAL YEAR

The Fonds RadioStar has \$2.4 million in available funding for the financial year currently in progress. The budget is allocated to two rounds of applications as follows: 60% for the first round, 40% for the second.

PROGRAM



Applying for funding



In addition to filling out the Application and Budget & Financials tabs of the Excel form, the Applicant must also supply the following information:

- Detailed marketing plan
- Applicant's sales (MAPL) for the previous three years (cumulative) as well as the year preceding the application, along with distributor reports
- List of applicant's Top 100 BDS spins for the previous two years
- List of Top 100 BDS spins for the artist's latest album
- Distribution agreement
- Production related agreements (artist's contract, licensing)
- Artist's discography (title, producer, label, release date, copies sold)
- Agent/Manager sign-off letter, unless the applicant is self-managed

Record companies must also provide the following documents:

- Constitutive documents
- Reports submitted to the *Inspecteur général des institutions financières*
- Audited financial statements or review engagement report for the label and their related companies in the last 12 months

ROUNDS OF APPLICATION

Two rounds of application are established each year in March and September.

Project approval is scheduled for June and December of each year.

The purpose of the Fonds RadioStar is to support Canadian record companies in their promotion and marketing of French-speaking sound recordings from across Canada. The artists must be Canadian citizens (as defined in the Citizenship Act) or permanent residents (within the meaning assigned by the Immigration Act).

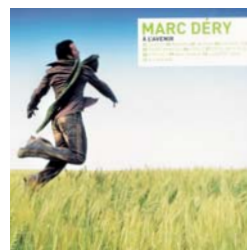
RECORD LABEL

A record label must comply with the following conditions:

- Be Canadian*.
- Be in business for at least two years.
- Have an active distribution agreement with a distributor recognized by MUSICACTION for the project cited on the application.

- Have marketed, in the regular retail circuit, a minimum of three new albums in the 36 months preceding the application's submission, including re-recordings, but excluding re-releases and compilations. The distribution of the said albums must have had to have been carried out by a MUSICACTION-recognized distributor.
- Invest at least \$15,000 in the marketing of the project cited on the application. If a video is included in the initial marketing phase, the required minimum marketing investment increases to \$25,000. These minimum amounts necessary to access Fonds RadioStar funding represent the Significant Investment (SI) required from record labels. See pages 7 and 8 for explanation of how an SI is determined, and its impact on funding entitlements.

Eligibility requirements

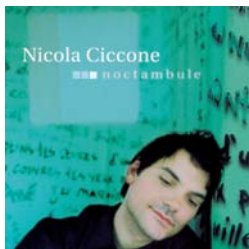
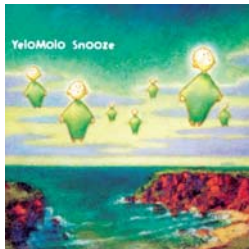


*Being Canadian means:

1. A "citizen" as defined in the Citizenship Act
2. A "permanent resident" within the meaning assigned by the Immigration Act
3. An eligible corporation:
 - incorporated under the Canada Business Corporations Act, or under the business corporation act of one of its provinces or territories;
 - whose principal place of business is Canada;
 - whose chairperson or equivalent is a citizen or permanent resident of Canada;
 - where, at all times, more than half of its directors or equivalent are citizens or permanent residents of Canada;
 - where, at all times, more than half of its directors or equivalent – according to the number of members required for the board to achieve quorum – are citizens or permanent residents of Canada;
 - for stock companies, where Canadians directly or indirectly constitute 50% plus one of voting shareholders or beneficial owners with a controlling interest other than stocks (majority control);
 - for privately-owned corporations, where at least 51% of the total monetary value of the company's assets is directly or indirectly held by Canadian beneficial owners or Canadians with a controlling interest (majority control).

4. A partnership, trust or co-ownership in which an individual or a group of individual previously referred to in 1, 2 or 3 holds, directly or indirectly, as either a beneficial or controlling owner, 51% of the total monetary value of the assets of the partnership, trust or co-ownership, depending on the case, and for which the chairperson or equivalent and more than half of the directors or equivalent are individuals as defined in 1 and 2.
5. A non-profit organization, where more than half its members and directors are individuals as defined in 1 and 2.

Note: An eligible person or corporation who/that is controlled in any manner by another person or entity that is not Canadian, and where this results in control in fact, whether directly through the ownership of securities or indirectly through a trust, an agreement, an arrangement or otherwise, is deemed not to be Canadian for the purposes of this program.



ALBUM

- Only albums with release dates after April 15, 2002 are eligible.
- Sound recording projects that have already received or are pending Fonds RadioStar marketing funding are not eligible under the new program for the round of applications that began on April 15, 2003.
- Re-releases and compilations are ineligible. Re-recordings are, however, eligible.
- Over 50% of the tracks on the album must be designated as Canadian content, as per the CRTC's MAPL system. To qualify as Canadian content, a musical selection must fulfill at least two of the following conditions:

M (music):

the music is composed entirely by a Canadian.

A (artist):

the music is, or the lyrics are, performed principally by a Canadian.

P (production):

the musical selection consists of a live performance that is either recorded wholly in Canada, or performed entirely in Canada and broadcast live in Canada.

L (lyrics):

the lyrics are written entirely by a Canadian.

- 70% of the master recording's content must be in the French language (either 70% of the tracks or 70% of the total album time).
- The original master recording of the album being marketed must be owned by a Canadian company.

SIGNIFICANT INVESTMENT

"Significant Investment" (SI) refers to the marketing budget a record label earmarks for a recording. It represents strictly the portion invested by the label.

It does not include funding from Fonds RadioStar, MUSICACTION, Vidéofact and Promofact.

The SI is crucial to the application process. It ascertains the Applicant's eligibility and determines the level of funding the Applicant is entitled to for additional marketing related expenses.

The following factors are considered when establishing the SI amount:

- Live shows: maximum 20% of eligible expenses
- Un-recoupable expenses
- Internal media relation budget set at \$3,500
- Internal radio tracking budget set at \$2,500
- Video production costs capped at \$35,000
- Refunds carried out under MUSICACTION's marketing equity loan program are excluded.

Until a record label's solvency can be established, the Applicant is required to produce the minimum Significant Investment, i.e. \$15,000 or \$25,000 if a video is included, before a first payment can be made toward new marketing expenses.

NATURE AND PURPOSE OF THE FINANCIAL AID

Record companies receive support in the form of grants for the purpose of promoting and marketing a specific album.

DETERMINING THE LEVEL OF FUNDING

Once the Significant Investment budget has been completed, the Applicant must present a new and separate budget for upcoming marketing expenses, for which the fund has been created.

In relation to these new expenses, funding may be matched to a maximum of 200% of the label's Significant Investment. Example: if the Significant Investment is \$25,000, the fund can potentially grant up to \$50,000.

There are other factors other than the Significant Investment to be considered when determining the level of funding:

- the quality of the marketing plan
- the record company's solvency
- the availability of funds.

Since the Fonds RadioStar is primarily intended for emerging artists, funding is reduced by 50% and capped at \$30,000 if the artist who is the subject of the request has already earned a platinum record (sales of 100,000 copies of an album) during the course of his or her career.

ELIGIBLE EXPENSES

- Expenses incurred from the date the application is submitted
- Expenses carried out in Canada only
- Album launch, promotional tour, showcases
- Media relations
- Promotional material (press kit, photographs, album giveaways, posters, radio clip, CD-ROM presentation of the artist, merchandising)
- Contests
- Advertising (media buying, retail posters and shelf placement)

These expenses are eligible but carry the following restrictions:

- Live shows: maximum 20% of eligible expenses
- Internal media relations: \$5,000
- Website: \$5,000
- Video: \$10,000

It should be noted that one budget item (see form) cannot represent more than 50% of eligible expenses, with the exception of radio placement.

INELIGIBLE EXPENSES

- Radio promotion staff
- Equipment purchases
- Expenses incurred prior to the application's submission
- All expenses paid for in cash
- Auditing fees, legal fees, fines
- Recoupable taxes, income taxes, contributions or similar fees of any kind
- Interest charges on late/overdue payments

It should be noted that the same expense cannot be eligible for Fonds RadioStar and MUSICACTION funding.

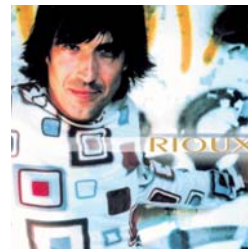
REQUESTS FOR FINANCIAL ASSISTANCE AND MARKETING PHASES

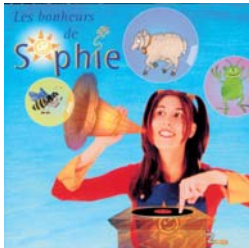
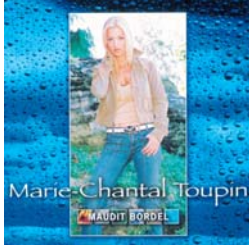
A record label is entitled to Fonds RadioStar funding three times for the same project over a two-year period following the album's release. To obtain new Fonds RadioStar funding, a record label must first submit a completion report on the preceding marketing phase.

The initial request must be made no later than the round of application deadline. Second and third requests for the same project can be submitted at any time.

Upon signing a binding agreement with the Fonds RadioStar, the Applicant has nine months to submit a marketing phase completion report.

Funding





DISBURSEMENT

Once the record company's solvency has been established, the funding is disbursed as follows:

- 50% of approved funding is released once the agreements have been signed.
- A second payment representing 25% of funding is released upon presentation of the receipts and cleared cheques substantiating 75% of the approved funding.
- A final 25% payment is released upon completion of the project, including confirmation of the label's Significant Investment. Receipts and cleared cheques must be submitted as proof of the Significant Investment and the latest expenses related to Fonds RadioStar funding.

When the record company's solvency has not been established, the following procedure applies:

- Proof of minimum Significant Investment (\$15,000 or \$25,000, depending on the case) a prerequisite to signing the funding agreements. Related receipts and cleared cheques must be submitted within four months following funding approval or the record's release.
- 50% of approved funding is released once the agreements have been signed.
- A second payment representing 25% of funding is released upon presentation of the receipts and cancelled cheques substantiating 75% of the approved funding and Significant Investment.
- A final 25% payment is released upon completion of the project. Receipts and cleared cheques must be submitted to substantiate the remaining 25% balance of the Significant Investment as well as the latest expenses related to approved Fonds RadioStar funding.

RECOGNIZED DISTRIBUTORS

- BMG
- DEP Distribution
- Distribution Fusion III
- Distribution APCM
- Distribution Bros
- Distribution Plages
- Distribution S.R.I.
- Distribution Sélect
- EMI Music Canada
- Festival Distribution
- Interdisc
- Local Distribution
- Outside Music
- Sony Canada
- Unidisc Music
- Universal Music Group
- Warner Music Canada

Applications are approved by the Board of Directors, on the recommendation of the General Manager and the Analyst assigned to evaluating the requests.

An evaluation chart is used to rate eligible projects by priority. Three factors are considered: the track record of the Applicant, the track record of the artist – priority is given to emerging artists at the start of their career – and the marketing plan.

The following information is required for evaluation purposes:

RECORD LABEL

- Annual sales over the last three years (MAPL) along with distributor reports.
- Top 100 BDS spins in the previous two years.

ARTIST

- Artist's career sales along with proofs of sale.
- Agent/Manager sign-off letter.
- Top 100 BDS spins from the artist's latest album.

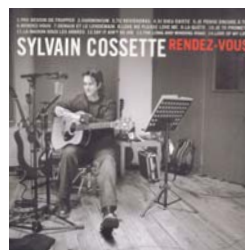
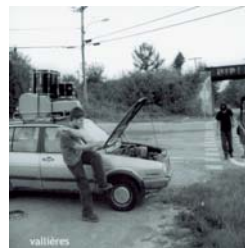
The artist's latest album refers to his or her latest new releases. The following special releases cannot be deemed as the artist's latest album for evaluation purposes: Christmas album, compilation, live album, children's album, double or triple album, album on which the artist for whom the request is being made is not the principal performer.

Artists previously belonging in a band and applying for funding as solo artists for the first time cannot use their previous track record as part of their evaluation requirements.

MARKETING PLAN

- Presentation of artist and exposure acquired to date (if applicable).
- Presentation of album and target market.
- Description of project, conditions proper to its rollout based on musical genre and its capacity to be redirected on the basis on the success it achieves.
- Definition of marketing strategy and orientation:
 - Promotional campaign (launch, media presence, contests, video)
 - Radio strategy plan and schedule (radio format and tracking)
 - Advertising campaign
 - Retailer exposure
 - Concert tour plan and schedule
- Stages of production schedule (specific objectives, activities, duration).
- Description of work to be undertaken by promotion and media relation staff (towns/regions approach, media approach, etc.).
- Demonstrate that Fonds RadioStar funding constitutes a complementary investment that would allow for a more significant marketing endeavour.

Project evaluation process



FONDS RADIOSTAR

2002-2003 ANNUAL REPORT

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PRESENTATION

Established in February 2001, the Fonds RadioStar, a non-profit organization, resulted from the application of the Canadian Radio-Television and Telecommunications Commission's (CRTC) 1998 Policy on Commercial Radio (Public Notice CRTC 1998-41). The policy allows for 3% of the value of transactions involving radio undertakings to be allocated to a Canadian music marketing fund.

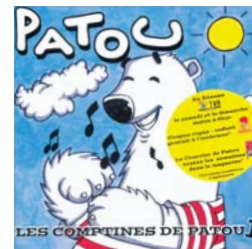
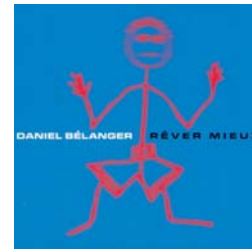
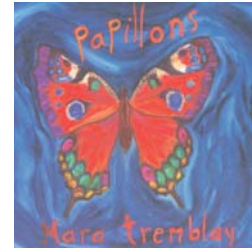
As requested by the CRTC, the Canadian Association of Broadcasters (CAB) tabled, in September 2000, a proposal developed jointly with ADISQ outlining the structure and procedures of such a marketing fund, i.e. Fonds RadioStar, which was approved on November 9 of the same year. The CAB, in conjunction with representatives of Canadian industry, also presented a similar proposal for the English-speaking market, giving rise, in March 2001, to the Radio Starmaker Fund.

Since August 2001, the Fonds RadioStar has been supporting by way of financial contributions the marketing of French-language sound recordings in Canada. Designed primarily for emerging artists, the Fonds RadioStar grants significant funding to the marketing initiatives of Canadian record labels likely to have a discernible effect on the careers of Canadian performers. Monies invested by the fund are to be incremental to existing funding from labels as well as public and private financial assistance intended for the initial marketing phases. The fund's ultimate goal is to supply private radio broadcasters with quality, playable francophone music.

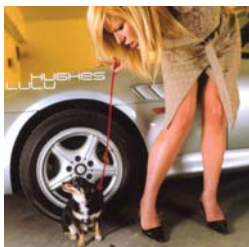
This annual report of activities is a detailed rendering of how the Fonds RadioStar marketing program allocates contributions resulting from profitable radio undertakings. The Fonds RadioStar's projected budget through 2009 is evaluated at over \$19M.

For a second consecutive year, the management of the fund for 2002-2003 was assumed by MUSICACTION, under the direction of the Fonds RadioStar Board of Directors. MUSICACTION also operates in the sound recording industry. The program and the rules that govern it, which are completely separate from those of MUSICACTION, are managed independently.

ANNUAL REPORT



Reshaping of governing principles and program



The Board of Directors' main preoccupations for the 2001-2002 financial year revolved around amending the program's criteria as well as the project evaluation process. In 2002-2003, the fund's second year of operations, the Board continued to fine-tune the program in order to render it more accessible. Aiming to simplify and clarify the way the fund conducts business, the Board also proceeded to revise the fund's patent letters and rules of governance.

CHANGES TO GOVERNING PRINCIPLES

The Board appointed a governance committee for the purpose of reviewing the patent letters and Bylaw 1, which addresses the fund's governance structure. In addition to formulation-related changes, the committee also agreed on the necessity to make the following amendments:

- The fund's objectives have been amended to reflect the widening of access to marketing funding to organizations representing companies operating in the sound recording industry and radio broadcasting sector.
- Board representation is limited to members of the CAB and ADISQ and their successors.
- Without making any major changes to the Board's representation, the following clarifications have been brought:
 - Four (4) representatives who are employees, managers or directors of a company that is a radio member of the CAB, or who either hold or control the majority of stocks with voting privileges;
 - Four (4) representatives who are employees, managers or directors of a company that is a member of ADISQ, or who either hold or control the majority of stocks with voting privileges;
 - Two (2) representatives, jointly recommended by the CAB and ADISQ, who have an understanding of the radio and music recording sectors.

- The Bylaw now also includes the status of Board Observers appointed by the CAB and ADISQ.
- A Director's term has been extended to two years, instead of one. A term can only be renewed once.
- The practice of alternating the Chair's rotation between a CAB broadcaster and an ADISQ representative is now permanently established, and no longer applicable strictly to the first two terms following the creation of the fund.
- When the Chair is a CAB broadcaster, the Vice-Chair is an ADISQ representative. Conversely, when an ADISQ representative is appointed Chair, the position of Vice-Chair is assigned to a CAB broadcaster.
- Six (6) directors, instead of seven (7), are now required for quorum at Board meetings.
- Executive Committee representation has been clarified (one CAB representative and one ADISQ representative, both nominated by the majority of directors).
- In the event of the fund's dissolution or liquidation, it is now agreed that all non-realized assets remaining after all debts have been paid will be distributed among one or several non-profit organizations whose objectives are similar to those of the fund.

These changes have been accepted by qualified majority by the Board of Directors and by the General Assembly, and ultimately ratified by the Minister of Industry.

CHANGES TO ELIGIBILITY REQUIREMENTS

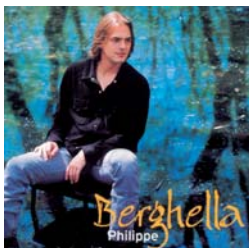
During the 2001-2002 financial year, the difficulties experienced by record labels due to a sharp drop in record sales meant that several applicants were unable to meet the \$45,000 marketing investment required for eligibility to Fonds RadioStar funding. And under this same initial version of the program, the process of substantiating the label's mandatory minimum investment of 25% of the project's marketing budget carried a very demanding administrative burden.

In 2002-2003, two measures were implemented to alleviate these problems. The Fonds RadioStar replaced the \$45,000 minimum requirement with the Significant Investment principle used by the Radio Starmaker Fund. The minimum requirement was lowered to \$36,000 for projects approved prior to April 15, 2003. This new measure has made it easier to identify an applicant's own financial commitment to a project.

During this financial year, in an effort to increasingly widen the program's accessibility, the Board of Directors also approved the earmarking of certain funds for applicants that do not meet current record label requirements. This will benefit new artists and record companies, as well as Canada's francophone communities.



Financial results



FUNDING SOURCES

Monies for the Fonds RadioStar and Radio Starmaker Fund come primarily, but not exclusively, from broadcaster contributions resulting from radio acquisition transactions, as required by the CRTC. A minimum of 3 % of the value of such transactions must be disbursed to both of these two Canadian music marketing funds. For francophone market transactions, 80% of the 3% is directed to the Fonds RadioStar. In the case of transactions affecting the English-language market, the Fonds RadioStar receives 20% of benefits.

The CAB collects the 3% of the value of the transactions, and then redistributes these monies to both funds as per CRTC-approved payment methods. Hence, each year, the CAB pays out to the Fonds RadioStar an amount representing the share financial contributions allocated to the development of French-language music.

In 2002-2003, the CAB contributed \$2,208,431 to the Fonds RadioStar, compared to \$1,510,939 in the previous year. Since the start of the program, the CAB has disbursed \$3,719,370. That amount reflects contributions received from radio broadcasters since the 1998-1999 financial year, plus any interest these generated. Broadcaster contributions collected during the 2002-2003 financial period are committed for 2003-2004.

COMMITMENTS AND DISBURSEMENTS

The Fonds RadioStar's funding **commitments** for 2002-2003 rose to \$1,506,415, compared to \$1,236,314 in the previous year, for a combined total of \$2,742,729.

In the 2002-2003, the Fonds RadioStar **disbursed** \$1,038,105, which when combined with the \$501,276 from the previous year, brings total disbursements for the first two financial years of the fund to \$1,539,381.

Expense reports from files completed in 2002-2003 show that \$71,279 was paid out for radio advertising activity.

Disbursements carried out during a financial year generally represent initial funding for projects approved during the year and final rounds of funding for projects approved in the past. Given the time required to market sound recordings, much like the approval period required by RadioStar, few projects are begun and finalized in the same financial year. This results in a residual balance of funding commitments at the end of each financial year.

RESIDUAL BALANCE OF FUNDING COMMITMENTS

As at August 31, 2003, the Fonds RadioStar was carrying a residual balance of funding commitments of 961 105 \$. In addition to the usual time required to carry out a marketing initiative, this residual balance is also due to the difficulty labels have been experiencing in attaining the required \$45,000 in expenses, a factor that has led them to delay their project completion report. The relaxing of the requirement to \$36,000 for projects approved prior to the round of applications that began on April 15, 2003 should encourage them to submit their final report.

Project cancellations for 2002-2003 totaled \$161,320, to which were added \$80,923 in sums unused by applicants as projects were nearing completion.

FUND MANAGEMENT

In June 2001, the Fonds RadioStar Board of Directors agreed to entrust the day-to-day management of the fund to MUSICACTION for one year, with an option year. This agreement was renewed for 2002-2003.

The administration fee for this second year was set at 9%, compared to 13% in the first year. As outlined in the document the CRTC approved in November 2000, by the end of the fund's existence, administration fees will not exceed more than 10% of broadcaster contributions.



Funding program



CHANGES TO THE CAB-ADISQ JOINT PROPOSAL APPROVED BY THE CRTC

1. ELIGIBILITY REQUIREMENTS

According to the 2001-2002 version of the program, record companies had to comply with the following five conditions:

1. be in business for at least two years;
2. have an active distribution agreement with a distributor recognized by MUSICACTION;
3. have marketed, in the regular retail circuit, a minimum of three new albums (excluding compilations and re-releases) in the 36 months preceding the application's submission;
4. submit a marketing plan with a minimum \$45,000 budget;
5. invest at least 25% of said budget.

The third condition, i.e. the marketing of three albums in the 36 months preceding the application's submission, replaced the following two requirements outlined in the document approved by the CRTC in November 2000. The new requirement is easier to apply, while maintaining the spirit of the earlier requirements, which were:

- have at least three sound recordings on the market during the taxation year in progress or in the 365 days prior to the start of said year (i.e. the previous taxation year);
- have marketed a minimum of three new sound recordings in the taxation year in progress or in the 730 days prior to the start of said year (i.e. the previous two taxation years).

During the 2002-2003 financial period, the fourth condition, featured in the CAB-ADISQ proposal, as well as the fifth were substituted in favour of a new requirement, which is:

- invest at least \$15,000 in the marketing of the project cited on the application. If a video is included in the initial marketing phase, the required minimum marketing investment increases to \$25,000. These minimum amounts necessary to access Fonds RadioStar funding represent the Significant Investment (SI) required from record labels.

Significant Investment refers to the applicant's financial commitment and excludes any funding received from other programs for the same project. It ascertains the applicant's eligibility and determines the level of funding the applicant is entitled to for additional marketing related expenses – funding which can total up to 200% of the applicant's Significant Investment. This method of establishing funding entitlements ensures that the applicant's investment represents at least 25% of the total marketing budget.

The introduction of this new requirement facilitates access to the program and simplifies its management. It continues to ensure, as stipulated in the proposal adopted by the CRTC, that any Fonds RadioStar funding constitutes incremental financial support over and above any assistance received from other funding programs. It also ensures, always in compliance with the original CAB-ADISQ proposal, that eligibility is limited to projects for which the applicant has already invested or is preparing to invest a substantial sum.

2. DETERMINING THE LEVEL OF FUNDING

In the 2001-2002 program, extended until the September 2002 round of applications, funding was granted in the form of a non-refundable contribution. As such, the amount could not exceed 50% of eligible expenses. As per the proposal adopted by the CRTC, disbursement levels were determined based on the following criteria:

- For a first album or for a project related to a performer whose previous album sold fewer than 50,000 copies, funding entitlement of minimum \$22,500 and maximum \$60,000.
- For a performer who sold from 50,000 to 100,000 copies of his latest album, access to 50% of eligible funding, while for an artist who sold over 100,000 copies of his latest album, entitlement of 25% of said funding.

Under the new program, effective from the start of the April 2003 round of applications, funding is in the form of subsidies and is based on the investment commitment of the applicant. Funding is now granted as per the following in order to respect the priority conferred to emerging artists:

- Funding is reduced by 50% and capped at \$30,000 if the artist who is the subject of the request has already earned a platinum record (sales of 100,000 copies of an album) during the course of his or her career.

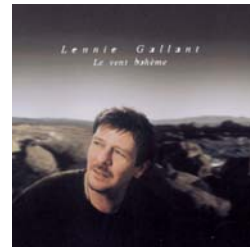
The adoption of this new requirement ensures the program does not penalize emerging artists for whom the sale of 50,000 album copies is by no means a guarantee of a lasting career.

3. PROJECT EVALUATION PROCESS

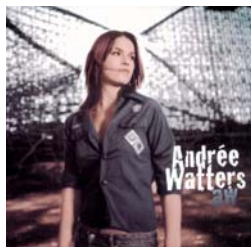
According to the initial proposal submitted to the CRTC, applications were to be reviewed by a jury, based on a detailed evaluation chart developed by the Board of Directors. Given the decision to adopt a chart based on objectively- and clearly-defined criteria to be rated according to a point system, the Board decided from the program's very outset to assign the task of evaluating projects to the employees of the Fonds RadioStar, with final approval resting with the Board, as provided for in the document approved by the CRTC.

The evaluation chart makes it possible to rate eligible projects by priority. It features factors grouped into three categories: the track record of the applicant, the track record of the artist – priority is given to emerging artists at the start of their career – and the marketing plan.

Marketing plan scores carry the highest weighing. A sample evaluation chart follows, complete with details of the elements considered in each of the three categories and their respective point scales.



Evaluation chart



1. APPLICANT TRACK RECORD 20

1.1 Sales for the previous three years (MAPL)

200,000 copies and over	7.5
150,000 to 199,999 copies	4.5
100,000 to 149,999 copies	3
50,000 to 99,999 copies	1.5
Total	7.5

1.2 Sales in the year preceding the application (MAPL)

100,000 copies and over	5
50,000 to 99,999 copies	3
25,000 to 49,999 copies	2
Under 25,000 copies	1
Total	5

1.3 Positions on radio charts over the previous two years (Top 100 BDS)

100 points and over	7.5
70-99 points	4.5
40-69 points	3
3-39 points	1.5
Total	7.5

2. ARTIST TRACK RECORD 30

2.1 Artist's career sales

50,000 and over	5
20,000 to 49,999	4
10,000 to 19,999	3
5,000 to 9,999	2
3,000 to 4,999	1
Total	5

2.2 Number of albums by the artist

1 st album	15
2 nd album	10
3 rd album	6
More than 3 albums	3
Total	15

2.3 Chart position of the artist's previous album

70 points and over	5
55-69 points	4
40-54 points	3
25-39 points	2
3-24 points	1
Total	5

2.4 Supporting structure

Agent/Manager	2
Producer	1
Publisher	1
Touring	1
Total	5

3. MARKETING PLAN 50

3.1 Artist and project presentation

Artist presentation	1
Exposure acquired to date	1
Album presentation	1
Target market/audience	1
Project's intrinsic difficulties and their solutioning	1
Total	5

3.2 Elements of the marketing plan

Promotional campaign*	6
Radioplay tracking*	6
Advertising campaign*	6
Retail shelfspace/exposure*	6
Live show tour plan and schedule	6
Total	30

3.3 Adaptability of promotional plan and reorientation measures 5

3.4 Step-by-step production/rollout schedule 5

3.5 Radio promotion team (city centres/regions, strategy) 2.5

3.6 Media relations team (city centres/regions, media strategy) 2.5

MUSIC CATEGORY

In 2002-2003, the Fonds RadioStar re-categorized musical genres to better reflect the current diversity in music:

Alternatif

Used here in the sense of an emerging genre

Country

Genre that groups together country and western music styles

Hip Hop

Musical genre derived from new music trends that include rap and hip hop

Children's

Musical genre mostly geared toward kids

Urban

Musical genre derived from new music trends namely rooted in techno, house/ dance, drum'n bass, jungle, tribal, ambient/trance/chill, trip hop, acid jazz and all electronica related genres

Worldbeat

Musical genre that groups together styles derived from, but not limited to, South America, Central America, Asia, Africa, the Middle East and Caribbean as well as aboriginal music

Pop rock

Musical genre that covers a wide range of styles, including acoustic rock, contemporary folk and folk rock

Pop

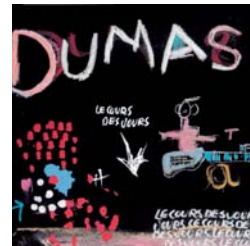
Over and above vocal performances, mainstream musical genre that covers easy listening to adult pop

Rock

Musical genre that covers music with a heavier, more accentuated beat

Traditional

Musical genre that houses roots music



Activity results

APPLICATIONS AND APPROVALS

The number of applications received and approved during the 2002-2003 financial year was roughly the same as that of the previous year. During the first two years of operations, the Fonds RadioStar received a total of 99 applications, having accepted 69 for an approval rate of 70%.

Total funding for 2002-2003 rose by 22% over the previous year. Average funding entitlement per project was \$45,649, compared to \$34,342 in 2001-2002.

APPLICATIONS AND APPROVALS			
	2002-2003	2001-2002	Total
Applications Submitted	46	53	99
Amount Requested	2,158,990	2,153,585	4,312,575
Applications Approved	33	36	69
Amount Offered	1,506,415	1,236,314	2,742,729
Amount Disbursed	1,038,105	501,276	1,539,381

FUNDING BY MUSIC CATEGORY

The table below shows that pop rock and pop accounted for the lion's share of support, receiving 40% and 35%, respectively, of total of approved funding. Rock ranked third with 10%. In 2001-2002, third place went to alternative music.

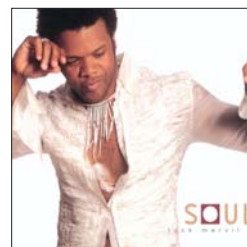
FUNDING BY MUSIC CATEGORY										
	2002-2003					2001-2002				
	Applications Submitted	Amount Requested	Applications approved	Amount offered	As a %	Applications Submitted	Amount Requested	Applications Approved	Amount Offered	As a %
Alternative	4	168,996	2	90,410	6.0	3	132,151	3	116,263	9.4
Country	0	0	0	0	0	1	59,000	0	0	0
Children's	2	80,000	2	80,000	5.3	4	141,747	2	55,471	4.5
Hip Hop	1	35,362	0	0	0	3	94,978	1	23,411	1.9
Worlbeat	3	146,893	2	97,245	6.5	1	30,838	1	29,938	2.4
Urban	1	40,000	0	0	0	0	0	0	0	0
Pop rock	15	751,224	12	574,346	38.1	18	766,503	13	493,574	39.9
Pop	13	616,040	11	520,888	34.6	16	660,150	12	423,806	34.3
Rock	5	230,475	4	143,526	9.5	3	124,796	2	60,000	4.9
Traditional	2	90,000	0	0	0	4	143,422	2	33,851	2.7
	46	2,158,990	33	1,506,415	100%	53	2,153,585	36	1,236,314	100%

REGIONAL ALLOCATION

Access to funding is reserved for record companies, the majority of which are based in Montreal. This situation inevitably impacts where the requests stem from, but should have no bearing on the origin of the artists involved in the projects. The following table shows their place of origin or residence. In future,

the establishment of a budget reserved for applicants who do not meet existing record label requirements will open the door to wider access for Francophone communities across Canada.

PROJECTS APPROVED IN 2002-2003			
Applicant	Artist	Region	Amount \$
Cie Larivée Cabot Champagne	Cowboys Fringants	Montreal	16,525
Cie Larivée Cabot Champagne	Léon Martin	Laurentians	67,833
Consult'Art	Deschamps Martin	Lanaudière	62,216
Diffusion YFB	Lapointe Éric	Lanaudière	10,610
Diffusion YFB	Néron Caroline	Montréal	117,068
Diffusion YFB	Papillon	Quebec City	99,169
Diffusion YFB	Renaud Mélanie	Montréal	11,968
Diffusion YFB	Vénus 3	Quebec City	73,885
Disques Artic	Charest Geneviève	Gaspé	60,000
Disques Artiste	Perreault Marie-Pier	Lanaudière	60,000
Disques Atlantis	Longue distance	Bas-St-Laurent and Mauricie	49,899
Disques Atlantis	Yelo Molo	Lanaudière	30,000
Disques Audiogramme	Chango Family	Several Regions	31,240
Disques Audiogramme	Leloup Jean	Montreal	15,000
Disques MPV	Laganière Sophie	Montreal	30,000
Disques MPV	Patou	NA	50,000
Disques Passeport	Roy Gildor	Montréal	66,005
Disques Tox	Toupin Marie-Chantal	Montreal	40,700
DKD Disques	Bédar Dany	Abitibi-Témiscamingue	20,312
DKD Disques	Chicane	Abitibi-Témiscamingue	15,000
DKD Disques	Pelland Richard	Montreal	60,000
Gestion Son Image	Montcalm Terez	Montreal	43,724
Guy Cloutier Communications	Destroimaisons Gabrielle	Lanaudière	13,285
Guy Cloutier Communications	Major-Matte Annie	Laval	116,089
Guy Cloutier Communications	Quilico Gino	Montreal	46,918
Guy Cloutier Communications	SoWatt	Quebec City	44,565
Isba Music Entertainment	Leblanc Stéphanie	Lanaudière	33,000
Musicomptoir	Hugues Lulu	Montreal	26,000
Tacca Musique	Dumas	Central Quebec	29,750
Tacca Musique	Gratton Antoine	Montreal	29,750
Zone 3	Mervil Luck	Montreal	27,060
Zone 3	Mix Mania	Several Regions	58,844
Zone 3	Pied de poule	Several Regions	50,000





PROJECTS APPROVED 2001-2002

Applicant	Artist	Region	Amount \$
Agence Top-Là	Simard Alain	Saguenay - Lac-Saint-Jean	22,500
Cie Larivé Cabot Campagne	Charlebois Robert	Montreal	43,900
Cie Larivé Cabot Campagne	Cowboys Fringants	Montreal	43,475
Diffusion YFB	Renaud Mélanie	Montreal	48,032
Disques Artic	Vollé Yvan	Ontario	38,000
Disques Artiste	Berghella Philippe	Saguenay - Lac-Saint-Jean	41,560
Disques Artiste	Pelletier Bruno	Quebec City	30,000
Disques Atlantis	Painchaud	Gaspé - Magdalen Islands	30,000
Disques Atlantis	Raby Christiane	Montreal	29,500
Disques Atlantis	Rioux	Montreal	36,615
Disques Atlantis	Yelo Molo	Lanaudière	30,000
Disques Audiogramme	Bélanger Daniel	Montreal	60,000
Disques Audiogramme	Déry Marc	Montreal	48,087
Disques Audiogramme	Desrosiers Yves	Montreal	29,938
Disques Audiogramme	Jalbert Laurence	Gaspé	35,288
Disques Audiogramme	Moffatt Ariane	Quebec City	48,988
Disques Audiogramme	Tremblay Mara	Saguenay - Lac-Saint-Jean	23,800
Disques MPV	Laganière Sophie	Montreal	30,000
Disques Passeport	Respectables	Quebec City	39,768
Disques Tox	Daniel Cindy	Montreal	30,000
DKD Disques	Bédar Dany	Abitibi-Témiscamingue	39,688
Gestion Son Image	Bocan Joe	Montreal	25,471
Gestion Son Image	Lévesque Manon	Gaspé	30,000
Guy Cloutier Communications	Miron Benoît	Montreal	30,000
Guy Cloutier Communications	Shaka	Montreal	23,411
Konfit Music	Elle	Montreal	33,779
Konfit Music	Hépatite B	Montreal	30,000
Musicomptoir	Hughes Lulu	Montreal	34,000
Prodat	Cossette Sylvain	Mauricie	24,320
Prodat	Mes Aieux	Several Regions	3,710
Prodat	Mes Aieux	Several Regions	30,141
Productions Byc	Vallières Vincent	Estrie	60,000
Productions Pierre Tremblay	Petit Richard	Quebec City	30,000
Tacca Musique	Ciccone Nicola	Montreal	30,000
Tacca Musique	Gallant Lennie	Prince Edward Island	60,000
Tacca Musique	Parent Kevin	Gaspé	12,343

SUPPORTING NEW ARTISTS

In keeping with its objectives in the first two year of its existence, the Fonds RadioStar has been funding primarily emerging artists. Over half of the artists received support for a first album, and 23% for their second album.

CERTIFICATIONS AND AWARDS

The Fonds RadioStar funded several of the Félix-winning projects honoured at the 2002 Gala de l'ADISQ, the annual French-language music award ceremony sponsored by the *Association québécoise de l'industrie du disque, du spectacle et de la vidéo*:

AWARDS		
Bélanger Daniel	Rêver mieux	Best Selling Album of the Year
Bélanger Daniel	Rêver mieux	Album of the Year Pop rock
Bélanger Daniel	Rêver mieux	Male Performer of the Year
Charlebois Robert	Doux Sauvage	Album of the Year Contemporary Folk
Cossette Sylvain	Rendez-vous	Album of the Year Pop
Les Cowboys Fringants	Break syndical	Album of the Year Alternative
Lapointe Éric	Adrénaline	Album of the Year Rock
Lapointe Éric	Adrénaline	Album Cover of the Year
Renaud Mélanie	Ma liberté	Best New Artist

The following productions were certified by the Canadian Recording Industry Association (CRIA):

CERTIFICATIONS			
Bélanger Daniel	Rêver mieux	Platinum	2002
Les Cowboys Fringants	Break syndical	Gold	2002
Cossette Sylvain	Rendez-vous	Platinum	2002
Lapointe Éric	Adrénaline	Platinum	2002
Leloup Jean	La vallée des réputations	Gold	2002
Mix Mania	Mix Mania	Double Platinum	2003
Parent Kevin	Les vents ont changé	Platinum	2002
Quillico Gino	Noël	Gold	2003

FONDS RADIOSTAR

2002-2003 FINANCIAL STATEMENTS

www.fondsradiostar.com

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Statement of cash flows	30
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Contents

Auditor's report

To the directors of Fonds RadioStar

I have audited the balance sheet of Fonds Radiostar as at August 31, 2003 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, 2003 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 16th, 2003

**STATEMENT OF EARNINGS AND
CHANGES IN NET ASSETS**
FOR THE YEAR ENDED AUGUST 31, 2003

	2003	2002
REVENUE		
Radio broadcaster contributions	\$2,208,431	\$1,510,939
Interest	41,155	5,207
	2,249,586	1,516,146
EXPENDITURES (exhibit 1)	205,380	196,467
SURPLUS AVAILABLE FOR ASSISTANCE CONTRIBUTIONS	2,044,206	1,319,679
Assistance contributions	1,038,105	501,276
EXCESS OF REVENUE OVER EXPENDITURES	1,006,101	818,403
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	818,403	
UNRESTRICTED NET ASSETS, END OF YEAR	\$1,824,504	\$ 818,403

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

BALANCE SHEET

AUGUST 31, 2003

ASSETS

CURRENT

Cash
Term deposit, 3.85%,
maturing November 22nd, 2004
Receivable
Prepaid expenses

LIABILITIES

CURRENT

Accrued liabilities

NET ASSETS

Unrestricted net assets

	2003	2002
\$1,016,542	\$ 426,283	
750,000	500,000	
50,451	15,036	
10,511		
\$1,827,504	\$ 941,319	
\$ 3,000	\$ 122,916	
1,824,504	818,403	
\$1,827,504	\$ 941,319	

Approved on behalf of the board



André Lallier
Director



Sylvain Langlois
Director

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2003

	2003	2002
OPERATING ACTIVITIES		
Contributions received from radio broadcaster	\$2,208,431	\$ 1,510,939
Interest received	41,155	5,207
	2,249,586	1,516,146
Assistance contributions paid	(1,038,105)	(501,276)
Purchase of goods and services paid	(371,222)	(88,587)
	(1,409,327)	(589,863)
	840,259	926,283
INVESTING ACTIVITIES		
Term deposit	(250,000)	(500,000)
	(250,000)	(500,000)
NET INCREASE IN CASH	590,259	426,283
CASH, BEGINNING OF YEAR	426,283	
CASH, END OF YEAR	\$ 1,016,542	\$ 426,283

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

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2003

1 - ORGANIZATION'S PURPOSE AND STATUTES

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

The primary mandate of Fonds RadioStar, a non-profit organization, is to assist promising new talent by providing significant financial support for projects involving the promotion of label companies that are likely to have a considerable impact on the careers of French-Canadian artists. 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 products are 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) collects 3% of the value of the transactions, 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 investments held for short-term cash requirements but not those held for investment purpose, more precisely they include investments, the value of which will not change significantly and the maturity does not exceed three months from the date of acquisition. The cash equivalents do not include investments held in shares.

**NOTES TO
FINANCIAL STATEMENTS**
AUGUST 31, 2003

**COMPLEMENTARY
FINANCIAL INFORMATION**
FOR THE YEAR ENDED AUGUST 31, 2003

**3 - SIGNIFICANT ACCOUNTING
POLICIES** (cont'd)

Use of estimates

The presentation of financial statements in accordance with generally accepted accounting principles of Canada 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.

4 - RELATED PARTY TRANSACTIONS

During the year, the organization disbursed contributions and/or grants totalling \$234,041 (2002, \$210,710). The parties are related due to the fact that their representatives are company directors. These related companies satisfy all the criteria established by the organization 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.

5 - COMMITMENTS

Contributions

Fonds RadioStar is contractually committed to advance contributions totalling \$961,105 (2002, \$735,038). Of this amount, \$375,612 (2002, \$215,755) represent commitments to related companies.

Management agreement

Fonds RadioStar signed a management agreement with La Fondation MUSICTION for an annual amount representing 10% of financial contributions to a maximum of \$150,000, before sales taxes. This agreement is annually renewable.

**EXHIBIT 1 –
EXPENDITURES**

	2003	2002
Management fees - La Fondation MUSICTION	\$161,269	\$161,269
Professional fees	12,383	4,992
Advertising	13,839	17,316
Telephone	17,889	12,890
	\$ 205,380	\$ 196,467

Fonds RadioStar

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