

2003-2004 ANNUAL REPORT



FONDS RADIOSTAR



Chloé Ste-Marie, Crïla and Polly-Esther

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FONDS RADIOSTAR 2003-2004 ANNUAL REPORT

PARTNERS

ASTRAL MEDIA RADIO
BLACKBURN GROUP
CHUM
CKMW RADIO
CORUS ENTERTAINMENT
GOLDEN WEST BROADCASTING
HALIBURTON BROADCASTING GROUP
HDL INVESTMENTS
H.F. DOUGALL COMPAGNY
JIM PATTISON BROADCAST GROUP
LABBE MEDIA
MARITIME BROADCASTING SYSTEM
NEWCAP
RADIO EXPRESS
RADIO GAÉ-RIT
RAWLCO COMMUNICATIONS
ROGERS BROADCASTING
STANDARD RADIO
WESTMAN MEDIA COOPERATIVES

PRESIDENT'S MESSAGE



A handwritten signature in black ink, which appears to read 'D. Wolff', is positioned below the portrait.

Striving to reach the widest possible number of young artists, the Fonds RadioStar, in its third year of operation, extended access to funding to emerging record labels. When combined with the activity originating from established record labels, no less than 75% of funding went to projects involving first or second albums.

We took another major step this year that bodes well for the future. To offset the lack of industry resources outside Quebec, we opened our doors to French-language artists from the rest of Canada. Artists with a distribution contract and having secured the required significant investment are now entitled to apply for Fonds RadioStar funding.

These changes were triggered by the fund's defining goal, i.e. to provide emerging artists the opportunity, via their record companies, to achieve notoriety, and making this possible by allocating them financial aid aimed at advancing their careers. Supplying radio broadcasters with quality French-language music was another motivating factor behind the changes.

Ours is a sizable challenge. The Board must be vigilant, proactive and imaginative in its efforts to maintain the Fonds RadioStar in lockstep with the technological changes that have a profound impact on our industry. Having modernized the fund's rules, we are confident that these now reflect current trends.

Denis Wolff
President
Fonds RadioStar

FONDS RADIOSTAR

BACKGROUNDER

À l'occasion de l'audience sur la politique en During the CRTC's 1997 Commercial Radio Policy Hearing, the Canadian Association of Broadcasters (CAB) recommended, as part of their proposal regarding concrete benefits resulting from transfers of ownership or control of radio undertakings, the establishment of a new Canadian music marketing and promotion fund. The proposal was entrenched in the CRTC's 1998 Policy on Commercial Radio (Public Notice CRTC 1998-41), allowing for 3% of the transaction value to be allocated to that fund when such transfers occur.

As requested by the CRTC, the 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. From the outset, the fund has been managed by the Fondation MUSICACTION, under the direction of the Fonds RadioStar Board of Directors. The fund's program and rules, which are completely separate from those of MUSICACTION, are managed independently.

OBJECTIVES

The program's objectives are as follows:

- The purpose of the fund is to promote Canadian French-language music, referring requests for projects in a language other than French as well as instrumental music projects to the Radio Starmaker Fund.
- Funding is reserved for national marketing endeavours, i.e. aimed at the Canadian market.
- Designed primarily for emerging artists, the fund is intended "to advance the careers of Canada's rising stars producing popular Canadian content."
- Funding is allocated to artists through their record labels, provided these are Canadian owned and controlled.
- Fonds RadioStar funding must constitute additional support, designed to complement existing funding from record labels as well as various public and private sources earmarked for the initial marketing phases.
- The fund's goal is to supply private radio broadcasters with quality, diversified francophone music.

BOARD OF DIRECTORS

<i>President</i>	Denis Wolff	Vice-President, Artistic Development Disques Audiogramme
<i>Vice-President</i>	Jacques Papin	CKOI General Manager CORUS
<i>Treasurer</i>	Sylvain Langlois	Vice-President of Programming Radio Rock Détente
<i>Secretary</i>	Serge Sasseville	Vice-President Strategy, Legal and Corporate Affairs Quebecor Media
<i>Director</i>	Paul Dupont-Hébert	Vice-President Zone 3
<i>Director</i>	André Lallier	General Manager, Astral Music Astral Media Group
<i>Director</i>	Claude Larivée	CEO Compagnie Larivée Cabot Champagne
<i>Director</i>	Martyne Prévost	President Disques MPV/Kafka Records
<i>Director</i>	Jacques Primeau	President Productions Jacques K. Primeau
<i>Director</i>	Lilianne Randall	Music Director Rythme FM and 105.7 FM

FUND MANAGEMENT

General Management	Andrée Ménard
Program Coordination	Louise Chenail
Information	Jérôme Tremblay
Administration	Nicole Rouabah
External Auditor	Denis Thérien, CA

(From left to right) Lilianne Randall, André Lallier, Serge Sasseville, Paul Dupont-Hébert, Sylvain Langlois, Denis Wolff, Jacques Papin, Martyne Prévost and Jacques Primeau.





CHANGES TO THE FUND AND RESULTS

Emerging record labels

EMERGING RECORD LABELS

In the 2003-2004 financial year, the program welcomed a new applicant category. In fact, in October 2003, the Fonds RadioStar relaxed its eligibility requirements to include projects from emerging record labels. This enables labels unable to comply with the eligibility requirements governing established record labels to also benefit from Fonds RadioStar funding.

Twenty percent (20%) of the fund's annual budget is allocated to this new category. To be eligible, an emerging record label must have an organizational structure that is operational, and the sole artist it represents cannot hold half (50%) or more of the company's voting and participatory shares. Proof of Significant Investment is required prior to the request's approval. Applicants in the emerging record label category are also required comply with the remaining eligibility requirements.

ALBUM ELIGIBILITY REQUIREMENTS

Since the April 15, 2003 application round, a new criteria related to the album's release date has been added in order to the focus funding on albums in the process of being marketed. Hence, an album is eligible provided its initial release is within a predetermined period. For the September 23, 2003 round of applications, an album for which funding was being requested had to be released after January 15, 2002 and before February 15, 2004. For the March 24, 2004 round, the release date had to be after September 15, 2002 and before July 15, 2004.

Upon completing its annual review, the Board of Directors adopted the following measures pertaining to album eligibility:

- Albums related to musicals are ineligible.
- Albums for which the artists cannot be identified are ineligible.
- Neither albums associated with television shows nor theme compilations are eligible. By theme compilations, we mean two or more artists who are not generally recognized or reputed as a duo or group reuniting for the purpose of a theme, concept or cause.

These measures are intended to adequately serve the fund's main objective, which is to support artists in the early stages of their career. The Board of Directors has ruled that Fonds RadioStar funding must represent a source of support for emerging artists who are not entitled to musicals or TV show related funding.

Also, the limited amount of available monies forces the fund to limit the projects eligible for funding. Consequently, caps were set in October 2003 for both projects and applicants. As a result, financial aid to emerging record labels is limited to \$100,000 per year for their combined projects, the cap rises to \$200,000 for established record labels, and the limit per project is \$100,000 for both emerging and established record labels.

PROJECT EVALUATION PROCESS

The following project evaluation measures have also been ratified by the Board of Directors. They are effective since October 2003:

- Projects that fail to obtain a score of 50% are immediately rejected and not submitted to the Board. This ensures the quality of approved projects.
- Projects that obtain the minimal score of 50% or above, and that involve a radio ad placement expense of \$5,000 or more, receive an additional five grade points. This measure, which serves as a modest incentive, is based on the CRTC approved document, which states that radio publicity rates among the most effective ways to promote Canadian talent.

Financial Results

FINANCIAL RESOURCES

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. Each year, the CAB contributes funds earmarked for the advancement of French-language music to the Fonds RadioStar.

These contributions totaled \$2,285,722 in 2003-2004. The combined total since 2001-2002 is \$6,005,092. Contributions to the Fonds RadioStar are expected to top \$19M by 2009.

FUND MANAGEMENT

The administration fees for this third financial year have been set at 9.4%. The administration fees for the fund's initial three years were 10.2% on average. 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. The rate will diminish over the course of the coming years given the relative stability of expenses combined with rising revenues. Annual revenues of some \$2.8M are expected for the next two years.

COMMITMENTS AND DISBURSEMENTS

Since the program's inception, 152 projects have been received and 112 projects have been accepted, for a approval rate of 74%. With regard to applications received, the percentage of approved applications is higher this year, at 81%, compared with 72% the previous year and 68% the first year. Since August 2001, 64% amounts requested have been approved.

In 2003-2004, the Fonds RadioStar's financial commitments amounted to \$2,013,175, compared with \$1,506,415 the previous year and \$1,236,314 in 2001-2002, for an overall total of \$4,755,904. This constitutes an increase of 34% over the previous year and 63% in comparison to 2001-2002. Average funding per project was \$46,818, as opposed to \$45,649 in 2002-2003 and \$34,342 in 2001-2002.

In 2003-2004, the Fonds RadioStar disbursed \$1,311,619. When added to the \$1,038,105 paid out the previous year and the \$501,276 in 2001-2002, overall disbursements since the program's inception total \$2,851,000 \$. Applicants refunded \$43,542 in 2003-2004.

APPLICATIONS AND APPROVALS

	2003-2004	2002-2003	2001-2002	Total
Applications Submitted	53	46	53	152
Amount Requested	3,171,982	2,158,990	2,153,585	7,484,557
Applications Approved	43	33	36	112
Amount Offered	2,013,175	1,506,415	1,236,314	4,755,904
Amount Disbursed	1,311,619	1,038,105	501,276	2,851,000

RESIDUAL BALANCE OF FUNDING COMMITMENTS

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. For the 2003-2004 financial year, that balance is \$1,274,201.

Project cancellations totalled \$156,973, to which were added \$277,712 in sums unused by applicants as projects were nearing completion.

RADIO PUBLICITY ALLOCATIONS

The proposal accepted by the CRTC stated that since Fonds Radiostar funds are strictly sourced from radio broadcasters, and since these broadcasters are actively involved in promoting the value of Canadian talent, a portion of sums received by the fund could be used to buy air-time on Canadian radio stations. Consequently, a modest incentive was rolled out this year in relation to radio ad placements. The evaluation chart calls for projects that obtain the minimal score of 50% or above, and that involve a radio placement expense of \$5,000 or more, receive an additional five grade points.

The expense report for files closed in 2003-2004 shows radio advertising expenses totaling \$31,420, compared with \$71,279 in the previous year. Service swapping agreements are common currency in this area, but do not constitute eligible expenses, ultimately impacting the interpretation of the above figures.



Dumas, Hugo Lapointe and Wilfred Le Bouthillier



Théodore Fontaine, Pistolets Roses and Kain

Evaluation of results

SUPPORTING NEW ARTISTS

In keeping with its objectives in the first three years of existence, the Fonds RadioStar has been primarily funding emerging artists. Fifty-three percent (53%) of funding approved was for first albums from Canadian francophone artists, and 22% of funding was allocated to second releases, adding up to a total of 75% of monies earmarked for young artists.

Making the program accessible to emerging record labels in 2003-2004 yielded compelling results. In fact, 8 of the 43 projects approved this year originated from emerging record labels, representing 19% of approved projects. Five of these projects are related to first releases, i.e. 63% of applications approved in this category.

Measures have been rolled out since the program's inception favouring access to emerging artists:

- A project is eligible the moment the album is released. The album is not required to sell a predetermined number of copies to have access to funding.
- An evaluation chart based on objective-driven criteria enables projects to be ranked by priority. Higher scores are awarded for first or second releases.

	2003-2004		2002-2003		2001-2002			
	Applications approved	Amount offered	Applications approved	Amount offered	Applications approved	Amount offered	Total	%
1 st album	23	1 094,726	17	865,326	16	568,896	2,528,948	53.2
2 nd album	9	405,775	6	291,309	11	362,621	1,059,705	22.3
3 albums and up	11	512,674	10	349,780	9	304,797	1,167,251	24.5
Total	43	2,013,175	33	1,506,415	36	1,236,314	4,755,904	100

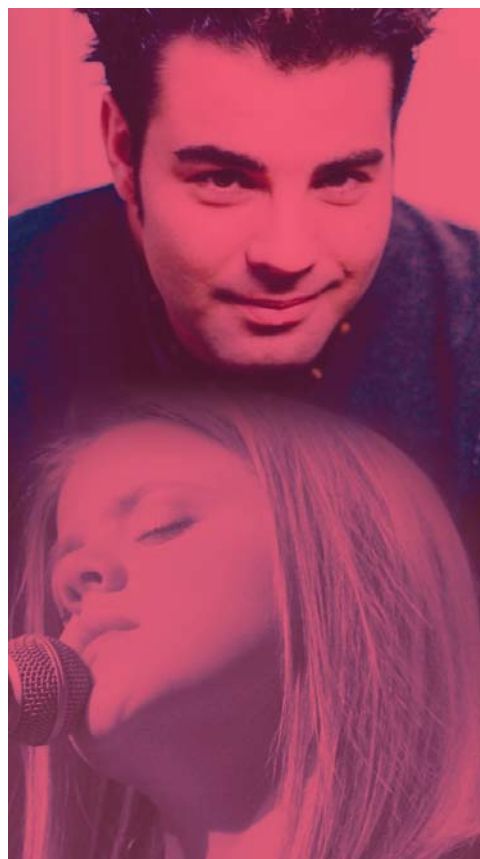
RESULTS 2003-2004

Applicant	Artist	Region	Amount \$
Cie Larivée Cabot Champagne	Ahier Ginette	New Brunswick	50,000
Cie Larivée Cabot Champagne	Cowboys fringants	Lanaudière	67,859
C-Show Productions	Polly-Esther	Saskatchewan	90,000
Diffusion YFB	Funkafones	Several Regions	50,000
Diffusion YFB	Lapointe Hugo	Lanaudière	50,000
Disques Artiste	Perreault Marie-Pier	Lanaudière	50,000
Disques Atlantis	Shock Stefie	Montreal	65,000
Disques Audiogramme	Bélanger Daniel	Montreal	16,125
Disques Indica	Capitaine Révolte	Montréal	31,500
Disques Kappa	Butler Édith	New Brunswick	30,000
Disques Musicor	Le Bouthillier Wilfred	New Brunswick	50,000
Disques Musicor	Le Bouthillier Wilfred	New Brunswick	50,000
Disques New Rock	Pistolets roses	Several Regions	50,000
Disques Passeport	Kaïn	Central Quebec	50,000
Disques Passeport	Veille Amélie	Chaudière-Appalaches	50,000
Disques Star	In Motion	Montreal	70,704
Disques Tox	Philosonic	Chaudière-Appalaches	50,000
DKD Disques	Corneille	Montreal	41,600
Foulespin Musique	Perreau Yann	Lanaudière	51,368
Gestion Son Image	Lavoie Daniel	Manitoba	50,000
Guy Cloutier Communications	Don Juan	Several Regions	30,000
Konfit Music	Thomson	Lanaudière	48,533
Let Artists Be	Karlof Orchestra	Montreal	33,040
Octant Musique	Dumais Nancy	Saguenay-Lac-Saint-Jean	35,690
Octant Musique	Guimont Nicolas	Chaudière-Appalaches	43,906
Octant Musique	Ste-Marie Chloé	Central Quebec	78,368
Orange Music	Krevé Yvon	Manitoba	38,297
Produt	Archambault Benoit	Montreal	29,764
Productions Bennanah	Brocoli Annie	Montréal	50,000
Productions Byc	Vallières Vincent	Estrie	50,000
Productions Divine Angel	Ima	Montreal	50,000
Productions Jacques K. Primeau	Les Denis Drolet	Laurentians	67,061
Productions Mille-Pattes	Bottine souriante	Several Regions	30,000
Productions Mille-Pattes	Théodore Fontaine	Outaouais	32,671
Productions Pierre Tremblay	Chorales du Québec	Several Regions	50,000
Productions Pierre Tremblay	Drouin Marc	Montreal	43,000
Productions Pierre Tremblay	Crila	Montreal	50,000
Tacca Musique	Dumas	Central Quebec	29,570
Tacca Musique	Gratton Antoine	Montreal	29,119
Zone 3	François Alain	Central Quebec	50,000
Zone 3	Mix Mania Live	Several Regions	30,000
Zone 3	Pied de Poule	Several Regions	50,000
Zone 3	Quilico Gino	Montreal	50,000

REGIONAL ALLOCATIONS

This year saw a significant rise in the number of applications from artists from francophone communities outside Quebec, totaling 7, as opposed to 3 for the first two years of the program. The applications originate from a majority of regions throughout Canada. The source of this increase: extending the program to emerging record labels. More relaxed eligibility requirements enabled two record labels to access funding. Although located in Trois-Rivières and Gatineau, respectively, they strictly represent artists from Canadian French-speaking communities.

To give artists from outside Quebec even greater access to the program, the Board approved, on June 16, 2004, new rules to offset the lack of independent record companies in the rest of Canada. Several artists outside Quebec produce and market the albums themselves. Changes will be brought to the program in the coming year to address the issue of self-production.



Nikolas Guimont and Marie-Pier Perreault



Daniel Lavoie, Yvon Krevé, Karlof Orchestra and Les Denis Drolet

RESULTS 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	Gaspésie	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	Montréal	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 Tézé	Montreal	43,724
Guy Cloutier Communications	Destroimaçons Gabrielle	Lanaudière	13,285
Guy Cloutier Communications	Major-Matte Annie	Laval	116,089
Guy Cloutier Communications	Quilico Gino	Montreal	46,918
Guy Cloutier Communications	So Watt	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

FUNDING BY MUSIC CATEGORY

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

Alternative

Used here in the sense of an emerging genre

Country

Genre that groups together country and western music styles

Contemporary Folk

Musical genre covering the full range of new trends in folk music

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

In the last two years, pop music and pop rock dominated in terms of applications received and approved. Nevertheless, over 25% of funding was granted to categories reflecting the current musical diversity, such as contemporary folk, alternative, rock, hip hop, traditional music, worldbeat and children's music.

FUNDING BY MUSIC CATEGORY										
	2003-2004					2002-2003				
	Applications Submitted	Amount Requested	Applications Approved	Amount Offered	%	Applications Submitted	Amount Requested	Applications Approved	Amount Offered	%
Alternative	3	180,040	2	117,859	5.8	4	168,996	2	90,410	6.0
Contemporary Folk	3	198,002	3	161,039	8.0	0	0	0	0	0
Hip Hop	3	129,936	1	38,297	1.9	1	35,362	0	0	0
Children's	3	186,349	2	79,764	4.0	2	80,000	2	80,000	5.3
Worldbeat	0	0	0	0	0	3	146,893	2	97,245	6.5
Urban	0	0	0	0	0	1	40,000	0	0	0
Pop rock	13	707,766	11	496,690	24.7	15	751,224	12	574,346	38.1
Pop	23	1,564,811	20	976,486	48.5	13	616,040	11	520,888	34.6
Rock	2	83,040	2	83,040	4.1	5	230,475	4	143,526	9.5
Traditional	3	122,038	2	60,000	3.0	2	90,000	0	0	0
	53	3,171,982	43	2,013,175	100	46	2,158,990	33	1,506,415	100

SUCCESS STORIES

The Fonds RadioStar funded several artists who earned Félix awards presented at the Gala annuel de l'ADISQ over the past three years: Mélanie Renaud, Ariane Moffatt, Cowboys Fringants and Respectacles.

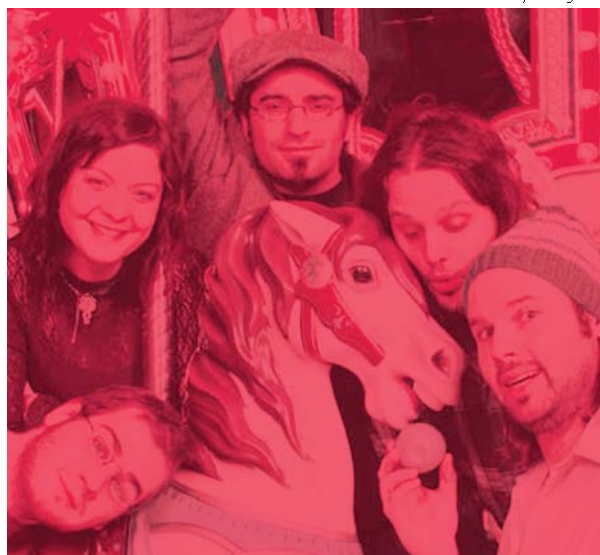
AWARDS		
Cowboys Fringants	Break syndical	Group of the Year
Cowboys Fringants	Break syndical	Live Show of the Year – Singer-songwriter
Leloup Jean	La vallée des réputations	Rock Album of the Year
Les Denis Drolet	Les Denis Drolet	Website of the Year
Moffatt Ariane	Aquanaute	Pop Rock Album of the Year
Moffatt Ariane	Aquanaute	Best New Artist
Sainte-Marie Chloé	Je marche à toi	Contemporary Folk Album of the Year

Some of these artists were also certified by the Canadian Recording Industry Association (CRIA), many for their first releases, such as Dany Bédar, Wilfred Le Bouthillier, Ariane Moffatt, Corneille and Mix Mania, while others like Marie-Chantale Toupin and Cowboys Fringants, who were beginning to make a name for themselves, achieved star status.

Gold	50,000
Platinum	100,000
Double Platinum	200,000
Triple Platinum	300,000
Diamond	1,000,000

CERTIFICATIONS			
Bédar Dany	Fruits de ma récente nuit blanche	Gold	2003
Bélanger Daniel	Rêver mieux	Platinum	2002
Chicane	Ent'nous autres	Gold	2003
Corneille	Parce qu'on vient de loin	Gold	2004
Cossette Sylvain	Rendez-vous	Platinum	2002
Cowboys Fringants	Break syndical	Gold	2002
Don Juan	Don Juan	Double Platinum	2004
Lapointe Éric	Adrénaline	Platinum	2002
Le Bouthillier Wilfred	Wilfred Le Bouthillier	Double Platinum	2004
Leloup Jean	La vallée des réputations	Gold	2002
Moffatt Ariane	Aquanaute	Gold	2004
Mix Mania	Mix Mania	Double Platinum	2003
Parent Kevin	Les vents ont changé	Platinum	2002
Quilico Gino	Noël	Gold	2003
Toupin Marie-Chantal	Maudit bordel	Platinum	2004

Cowboys Fringants





FINANCIAL STATEMENTS

AUDITOR'S REPORT

To the directors of FONDS RADIOSTAR

I have audited the balance sheet of Fonds Radiostar as at August 31, 2004 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, 2004 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, 2004

STATEMENT OF EARNINGS AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED AUGUST 31, 2004

REVENUE

Radio broadcaster contributions
Interest

EXPENDITURES

Management fees and other charges
Professional fees

SURPLUS AVAILABLE FOR ASSISTANCE CONTRIBUTIONS

Assistance contributions

EXCESS OF REVENUE OVER EXPENDITURES

UNRESTRICTED NET ASSETS, BEGINNING OF YEAR

UNRESTRICTED NET ASSETS, END OF YEAR

2004	2003
\$2,285,722	\$2,208,431
54,155	41,155
2,339,877	2,249,586
213,967	193,147
5,025	12,233
218,992	205,380
2,120,885	2,044,206
1,268,077	1,038,105
852,808	1,006,101
1,824,504	818,403
\$2,677,312	\$1,824,504

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

BALANCE SHEET

AUGUST 31, 2004

	2004	2003
ASSETS		
CURRENT		
Cash	\$1,363,104	\$1,016,542
Term deposits (note 4)	1,250,000	750,000
Receivable	65,793	50,451
Prepaid expenses	1,315	10,511
	\$2,680,212	\$1,827,504
LIABILITIES		
CURRENT		
Accrued liabilities	\$ 2,900	\$ 3,000
NET ASSETS		
Unrestricted net assets	2,677,312	1,824,504
	\$2,680,212	\$1,827,504

APPROVED ON BEHALF OF THE BOARD



Denis Wolff
President



Sylvain Langlois
Treasurer

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED AUGUST 31, 2004

OPERATING ACTIVITIES

Contributions received from radio broadcaster
Interest received
Sales taxes paid

Assistance contributions paid
Purchase of goods and services paid

INVESTING ACTIVITIES

Term deposit

NET INCREASE IN CASH

LIQUIDITY AT THE BEGINNING OF THE YEAR

LIQUIDITY AT THE END OF THE YEAR (note 5)

2004	2003
\$2,285,722	\$2,208,431
53,247	18,248
(14,430)	(12,508)
2,324,539	2,214,171
(1,268,077)	(1,038,105)
(209,900)	(335,807)
(1,477,977)	(1,373,912)
846,562	840,259
	(250,000)
	(250,000)
846,562	590,259
1,016,542	426,283
\$1,863,104	\$1,016,542

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

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2004

1 – ORGANIZATION'S PURPOSE AND STATUTES

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

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 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 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) 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 precisely, they include term deposits whose values are unlikely to incur significant changes and which mature no later than three months after they are issued.

NOTES TO FINANCIAL STATEMENTS

31 AOÛT 2004

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 – TERM DEPOSIT

	2004	2003
Term deposit, 3,85 %, maturing November 22, 2004	\$ 750,000	\$ 750,000
Term deposit, 1,9 %, maturing September 9, 2004	500,000	
	\$1,250,000	\$ 750,000

5 – LIQUIDITY AT THE END OF THE YEAR

	2004	2003
Cash	\$ 1,363,104	\$1,016,542
Term deposit	500,000	
	\$ 1,863,104	\$1,016,542

6 – RELATED PARTY TRANSACTIONS

During the year, the organization disbursed contributions and/or grants totalling \$279,353. 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.

7 – COMMITMENTS

Contributions

Fonds RadioStar is contractually committed to advance contributions totalling \$1,274,201 (2003, \$961,105). Of this amount, \$256,911 (2003, \$375,612) represent commitments to related companies.

Management agreement

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

8 – COMPARATIVE FIGURES

The presentation of certain positions for the previous year has been altered to comply with that of the current year.



2004-2005 PROGRAM

Eligibility requirements

The purpose of the Fonds RadioStar is to support Canadian record companies in their promotion and marketing of French-speaking sound recordings. Funding is earmarked for initiatives subsequent to an album's initial marketing phase. The artists must be Canadian citizens (as defined in the Citizenship Act) or permanent residents (within the meaning assigned by the Immigration Act).

GENERAL ELIGIBILITY REQUIREMENTS

A record label must comply with the following conditions:

- Be Canadian
- Have an active distribution agreement for the project cited on the application with a distributor recognized by MUSICACTION (see page 25)
- Have an active recording contract with the artist in question
- Invest at least \$15,000 (\$25,000 if a video clip is involved) in the opening phase of the marketing of the project. These minimum amounts represent the Significant Investment required from record labels. See the appropriate section for an explanation of how a Significant Investment is determined, and its impact on funding entitlements.
- Comply with the record label related requirements outlined in the Specific Eligibility Requirements section
- Comply with the album related requirements outlined in the Specific Eligibility Requirements section

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:
 - a) incorporated under the Canada Business Corporations Act, or under the business corporation act of one of its provinces or territories;
 - b) whose principal place of business is Canada;
 - c) whose chairperson or equivalent is a citizen or permanent resident of Canada;
 - d) where, at all times, more than half of its directors or equivalent are citizens or permanent residents of Canada;
 - e) 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;
 - f) 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);
 - g) 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 individuals 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.

SPECIFIC ELIGIBILITY REQUIREMENTS

Recognized record labels

A recognized record label must also meet the following conditions:

- Be in business for at least two years
- 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.

Emerging record labels

An emerging record label must also meet the following conditions:

- A record label is ineligible if the sole artist it represents also holds half (50%) or more of the company's voting and participatory shares
- When a record label represents an artist holding half (50%) or more of the company's voting and participatory shares, it may be entitled for funding if it also represents a second artist with whom/which it has a recording contract, and whose album is a new release, having been marketed no more than 18 months from the time of the application's submission
- Have an organizational structure that is operational, i.e. have at least one full-time employee or a team under contract (radio promotion, media relations, artist management, publishing, etc.)
- Demonstrate its Significant Investment by providing receipts and proofs of payment for expenses related to the project

Album eligibility requirements

- An album is eligible provided its initial release is within the predetermined period, i.e. 18 months prior to the application round deadline and up to 4 months thereafter
- 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

The following projects are ineligible:

- Re-releases and compilations. Re-recordings, however, are eligible.
- Albums associated with television shows
- Albums related to musicals
- Theme compilations, such as two or more artists who are not generally recognized or reputed as a duo or group reuniting for the purpose of a theme, concept or cause
- Albums for which the artists cannot be identified

SIGNIFICANT INVESTMENT

"Significant Investment" refers to the marketing budget a record label earmarks for a recording. It does not include funding from Fonds RadioStar, MUSICTION, MaxFACT, VideoFACT and PromoFACT.

The Significant Investment is the prevailing factor in the application process, as it ascertains the Applicant's eligibility and determines the level of funding the Applicant is entitled to for additional marketing related expenses. The following is considered when establishing the Significant Investment amount:

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

A recognized record label can show proof of its Significant Investment after the agreement is signed. In this case, a maximum initial commitment of \$50,000 is authorized, and the first disbursement constitutes a maximum of \$25,000.

For an emerging record label, proof of Significant Investment is required prior to the agreement's signature, and the initial disbursement is 50% of the funding approved.

DISTRIBUTORS RECOGNIZED BY MUSICTION

- BMG
- DEP Distribution
- Distribution Fusion III
- Distribution APCM
- Distribution Bros
- Distribution Plages
- Distribution S.R.I.
- Distribution Sélect
- EMI Music Canada
- Festival Distribution
- Interdisc Distribution (2003)
- Local Distribution
- Outside Music
- Sony Canada
- Unidisc Music
- Universal Music Group
- Warner Music Canada

Applying for funding

All applications must include the following documents:

- Application, Significant Investment & Financials, as well as Funding & Financials tabs of the Excel form
- Detailed marketing plan (see the Evaluating Applications section)
- Production related agreements (artist's contract, licensing)
- List of Top 100 BDS spins for the artist's latest album, if applicable
- Artist's discography (title, producer, label, release date, copies sold), if applicable
- Agent/Manager sign-off letter, unless the applicant is self-managed
- If applicable, copy of radio placement agreement if the cost is \$5,000 or more

Recognized record labels must also provide the following information:

- MAPL sales for the previous three years, per year, along with distributor reports
- List of Top 100 BDS spins for the previous two years

Emerging record labels must also provide the following information:

- MAPL sales for the year preceding the submission of the application along with distributor reports, if applicable
- Complete list of Top 100 BDS spins for the year preceding the submission of the application, if applicable
- List of Canadian artists under contract, if applicable
- Résumés of shareholders

Fonds RadioStar opens a master of file on the companies that receive funding. For the purpose of reviewing and evaluating projects, the following documents are required:

- Constitutive documents
- Reports submitted to the *Inspecteur général des institutions financières*
- Audited financial statements or review engagement report for the label and related companies involved in the application in the last 12 months
- Distribution agreement
- Proof of citizenship for the shareholders

Annie Brocoli, Nancy Dumais and Benoît Archambault



Funding

NATURE AND PURPOSE OF FUNDING

Fonds RadioStar funding constitutes a grant for the purpose of promoting and marketing a specific album.

DETERMINING THE LEVEL OF FUNDING

In addition to the Significant Investment budget, the record label must also present a separate budget for the new marketing expenses the funding would help cover, and for which the Fonds RadioStar has been created. Also considered when determining the level of funding are the quality of the marketing plan, the record company's solvency, and the availability of funds.

- Funding may be matched to a maximum of 200% of the Significant Investment. Example: if the Significant Investment is \$25,000, the fund can potentially grant up to \$50,000.
- Financial aid to a recognized record label is limited to \$100,000 per project and \$200,000 per year for the combined projects
- Financial aid to an emerging record label is limited to \$100,000 per project and \$100,000 per year for the combined projects
- Since the Fonds RadioStar is primarily intended for emerging artists, funding is capped at \$30,000 if the artist who is the subject of the request has already earned a platinum record (100 000 copies of the same album sold in Canada) 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:

- Internal media relations: \$5,000
- Video clip: \$10,000
- Website: \$5,000
- Live shows: maximum 20% of eligible expenses
- A budget item 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
- The same expense cannot be submitted for Fonds RadioStar and MUSICACTION funding

APPLICATIONS FOR FUNDING AND MARKETING PHASES

No more than \$100,000 in funding can be approved per marketing project. This financial aid can be issued in three separate phases over a maximum two-year period following the album's release and upon presentation of the supporting documentation required for the immediately preceding phase. Upon signing a binding agreement with the Fonds RadioStar, the label has nine months to complete the project.

DISBURSEMENT OF FUNDS

- If the label has demonstrated having made a Significant Investment, 50% of approved funding is released once the agreement is signed
- If the label cannot demonstrate having made a Significant Investment, funding cannot exceed \$50,000, and the initial disbursement cannot be more than \$25,000
- With proof of Significant Investment, a second disbursement representing 25% of funding is released upon presentation of receipts and proofs of payment for expenses related to the amount previously disbursed
- A final disbursement is made after a review of a user report that includes the following elements:
 - Duly completed Application, Significant Investment & Financials, and Funding & Financials tabs of the Excel form
 - Detailed chart of expenses must be provided (see Phase Completion Report tab)
 - Receipts and proofs of payment substantiating the Significant Investment, if applicable
 - Receipts and proofs of payment related to the approved funding

The applicant is required to send us 20 copies of the album having received Fonds RadioStar funding, either at the time the application is approved or once the album is released.

ELIGIBLE PROOFS OF PAYMENT

Below are the payment methods accepted and supporting documentation that can be used to substantiate a payment:

- Cleared cheque
- Credit card: monthly statement and cleared cheque
- Debit card: transaction stub and monthly bank statement
- Expenses paid by the distributor: distributor monthly statement on which appears the transaction
- Internet: transaction confirmation and bank statement

LOGO

The Recipient agrees to recognize the financial support obtained by the Fonds RadioStar by including the fund's logo on the CD cover, video clip opening credits, and any advertising related to the project's funded marketing efforts. The logo can be downloaded from the Fonds RadioStar website.



Failure to comply with this condition carries a 7.5% penalty or the cancellation of the project's administrative fees.

Evaluating applications

Applications are approved by the Board of Directors, on the recommendation of the program's General Manager and Coordinator. An evaluation chart is used to rate eligible projects by priority. It is available upon request. Three factors are considered: the track record of the Applicant, the track record of the artist, and the marketing plan.

- Projects that fail to obtain a score of 50% are immediately rejected and not submitted to the board
- A project's approval is based on its ranking and the availability of funds
- Projects that obtain the minimal score of 50% or above, and that involve a radio placement expense of \$5,000 or more, receive an additional five grade points

APPLICANT TRACK RECORD

Recognized record labels are evaluated on the basis of their MAPL sales over the last three years and the number of Top 100 BDS spins in the previous two years.

Emerging record labels are evaluated on the basis of their MAPL sales over the previous year and the number of Top 100 BDS spins in the previous year. Also factored in are the Applicant's years of experience in the sound recording industry as a producer, manager, publisher or distributor, as well as the number of Canadian artists it represents.

Said Canadian artist(s) is one who is legally bound to the Applicant by way of a recording contract that is in effect (exclusive recording contract, joint production agreement, license). For a contract to be deemed in effect, or active, the deadlines for completing the main project and any resulting subsequent options must be complied with. This contract must be submitted along with the application.

ARTIST TRACK RECORD

The artist's track record is evaluated on the basis of his combined career sales and the number of Top 100 BDS spins from his latest album. Emerging artists are given priority.

The artist's latest album refers to his latest new release, not including the following: 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

All of the following elements are factored into the evaluation of a project:

- Presentation of artist and exposure acquired, 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 of the success it achieves
- Definition of marketing strategy and orientation:
 - Promotional campaign (launch, media presence, contests, video clip)
 - Radio strategy plan and schedule (radio format and tracking)
 - Advertising campaign
 - Retailer exposure and shelf placement
 - Concert tour plan and schedule
- Production schedule per stage (specific objectives, activities, duration)
- Description of work to be undertaken by promotion and media relation staff (approaching towns/regions, approaching media, etc.)
- Demonstrate that Fonds RadioStar funding constitutes a complementary investment that would allow for a more significant marketing endeavour

Evaluation chart

ESTABLISHED RECORD LABEL

1. Applicant track record	20
1.1 Sales for the previous three years (MAPL)	7.5
Over 200,000 copies	7.5
150,000 to 200,000 copies	4.5
100,000 to 150,000 copies	3
50,000 to 100,000 copies	1.5
1.2 Sales in the year preceding the application (MAPL)	5
Over 100,000 copies	5
50,000 to 100,000 copies	3
25,000 to 50,000 copies	2
Under 25,000 copies	1
1.3 Top 100 BDS spins in the previous two years	7.5
100 points and over	7.5
70 to 99 points	4.5
40 to 69 points	3
Under 40 points	1.5
2. Artist track record	30
2.1 Artist's career sales	5
Over 50,000	5
20,000 to 50,000	4
10,000 to 20,000	3
5,000 to 10,000	2
3,000 to 5,000	1
2.2 Number of albums by the artist	15
1 st album	15
2 nd album	10
3 rd album	6
More than 3 albums	3
2.3 Chart position of the artist's previous album	5
70 points and over	5
55 to 69 points	4
40 to 54 points	3
25 to 39 points	2
3 to 24 points	1
2.4 Supporting structure	5
Agent/Manager	2
Producer	1
Publisher	1
Touring	1

EMERGING RECORD LABEL

1. Applicant track record	20
1.1 Sales in the year preceding the application (MAPL)	5
Over 40,000 copies	5
20,000 to 40,000 copies	4
10,000 to 19,999 copies	3
4,000 to 9,999 copies	2
Under 3,999 copies	1
1.2 Top 100 BDS spins in the previous year	5
50 points and over	5
35 to 49 points	4
20 to 34 points	3
Under 20 points	2
1.3 Number of Canadian artists represented	5
5 and over	5
4	4
3	3
2	2
1	1
1.4 Applicant's years of experience	5
15 years and over	5
12 to 14 years	4
8 to 13 years	3
5 to 7 years	2
2 to 4 years	1
3. Marketing plan	50
3.1 Artist and project presentation	5
Artist presentation	1
Exposure acquired to date	1
Album presentation	1
Target market/audience	1
Project's intrinsic difficulties and their solutioning	1
3.2 Elements of the marketing plan	30
Promotional campaign	6
Radioplay tracking	6
Advertising campaign	6
Retail shelfspace/exposure	6
Live show tour plan and schedule	6
3.3 Adaptability of promotional plan and reorientation	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

Fonds RadioStar

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