

B·F·S

ENTERTAINMENT & MULTIMEDIA LIMITED

2002

ANNUAL REPORT



BFS VIDEO and AMERICAN HOME TREASURES are divisions of
BFS ENTERTAINMENT & MULTIMEDIA LIMITED





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CORPORATE PROFILE

Established in the early eighties, BFS is a recognised independent manufacturer and distributor of home video. With facilities in Toronto, Ontario, the Company markets and distributes videos throughout North America, with approximately 82% of the business in the United States.

Under exclusive North American license agreements, the Company sells its products through various channels, including retailers, distributors, mail order houses as well as its own specialised mail order catalogue.

The Company's products can be classified into several categories including classic dramas, mysteries, comedy, sports and factual programmes. Titles are sold under the BFS Video and American Home Treasures Video labels. Programmes are licensed from independent production companies as well as such companies as the BBC (British Broadcasting Corporation), Carlton International and Granada.

The Company strategy is to continue to acquire new programming for North America and to expand its distribution. The Company is also continuing to look for small companies that can be acquired and that fit the current business model.



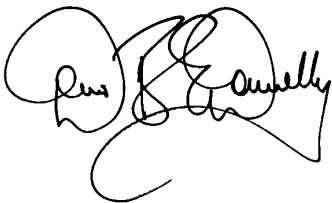
MESSAGE FROM THE CHAIRMAN

Fiscal 2002 met our expectations with sales of \$8.5 million an increase of 23% over the prior year and net earnings of \$542,000 a 78% increase over the prior year.

With EBITDA exceeding \$2 million (25 cents per share) and earnings before income taxes of \$813,000 we believe the company is solidly positioned and prepared for continued growth.

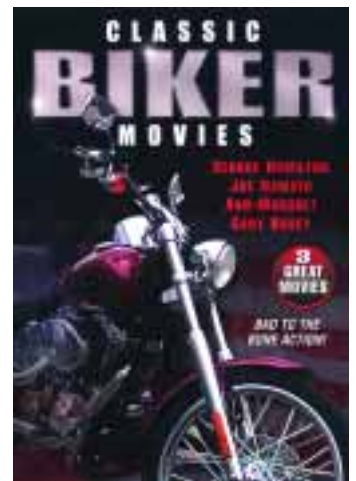
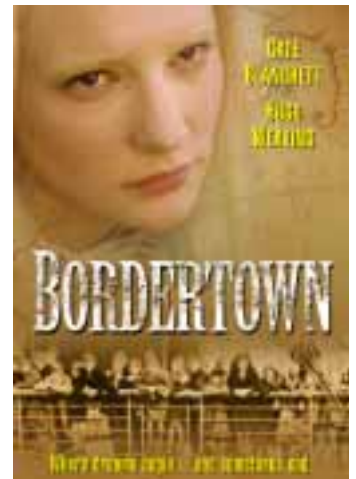
We will continue to focus and expand on our profitable, time proven core business, by broadening our range of titles and expect to see positive benefits in the coming year. At the same time we continue to search for small compatible companies that can be acquired and will fit our existing business model.

On behalf of the board of Directors I wish to thank our shareholders, employees and suppliers for their continued support and look forward to a successful fiscal 2003.



Denis B.E. Donnelly,

Chairman, President and Chief Executive Officer





FINANCIAL HIGHLIGHTS

	May 4, 2002	May 5, 2001
Sales	\$ 8,502,166	\$ 6,906,617
Operating earnings (EBITDA)	2,003,943	1,485,007
Net earnings	541,722	304,857
Shareholders' equity	3,145,614	2,601,932
Capital asset additions	547,142	328,640
Total assets	6,436,586	5,945,608
Operating earnings (EBITDA) per share	0.25	0.18
Earnings per share	0.07	0.04

COMMON SHARE AND PRICE INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Average number of shares outstanding	8,047,333	8,047,333	8,052,729	8,054,333
Trading volume	79,250	59,826	227,500	374,100
Share price (high)	\$ 0.41	0.40	0.37	0.79
Share price (low)	\$ 0.27	0.27	0.28	0.30



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion of the results of operations and financial condition for the years ended May 4, 2002 and May 5, 2001 should be read in conjunction with the consolidated financial statements and accompanying notes.

Overview

The consolidated financial results for the fifty-two week period ended May 4, 2002 include the operations of the corporation and its wholly-owned subsidiaries. The comparative results for the previous fiscal year ended May 5, 2001 are for fifty-two weeks of operations.

Sales

Sales for the year were \$8,502,166 a 23% increase of \$1,595,549 over the prior year. Sales to the United States represented 82% of sales, compared to 86% in the prior year.

Gross Profit

Gross profit for the year was \$5,310,178 (63% of sales) compared to \$4,358,479 (63% of sales) in the prior year.

Operating Expenses

Total operating expenses before interest, income taxes, amortization and non-recurring charges were \$3,306,235 (39% of sales) compared to \$2,873,472 (42% of sales) in the prior year.

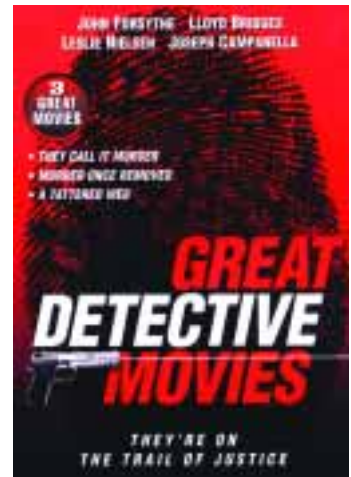
Amortization

Amortization of capital assets and deferred development costs was \$414,086 compared to \$299,934 in the prior year. Amortization of master tapes and deferred development costs increased this year by \$47,213, which reflects the Company's continued significant investment in the new DVD media format. Amortization of assets under capital leases has increased by \$55,585 this year, which reflects the increased investment by the Company in capital leases for computer software and hardware.

Amortization of the AHT Video Library was \$509,484 in both the current and previous year.

Net Earnings

Operating earnings before interest, income taxes and amortization (EBITDA) were \$2,003,943, or \$0.25 per share for the fiscal year, compared to \$1,485,007, or \$0.18 per share in the prior year. Operating earnings before income taxes were \$813,022 compared to \$306,495 in the prior year. Net earnings were \$541,722 or \$0.07 per share for the year, compared to \$304,857 or \$0.04 per share in the prior year. The weighted average number of shares outstanding for this year was 8,049,440.



MANAGEMENT'S DISCUSSION AND ANALYSIS

(Continued)

Balance Sheet

Total assets of the corporation this year amounted to \$6,436,586 compared with \$5,945,608 in the prior year.

Inventory increased to \$1,950,644 from \$1,513,060 in the prior year as a result of increased sales and new title additions. Prepaid royalties for video products increase to \$713,949 from \$563,568 in the prior year.

Net capital assets increased to \$957,347 from \$705,490 in the prior year. Continuing capital expenditures for DVD and videocassette master tapes of \$466,381 were made during the year. Capital expenditures of \$51,500 were made during the period to upgrade computer hardware and software. Warehouse expenditures of \$18,178 were made during the year to optimize the configuration of storage areas.

Deferred development costs of \$184,189 were incurred during the year related to the design and development of DVD and videocassette products.

Total liabilities decreased to \$3,290,972 from \$3,343,676 in the prior year and shareholders' equity increased to \$3,145,614 from \$2,601,932 in the prior year. On March 19, 2001, the corporation received approval from the Toronto Stock Exchange to purchase, pursuant to a normal course issuer bid expiring on March 18, 2002, a maximum of 464,123 common shares of the corporation for cancellation. Pursuant to the approval, the corporation purchased 3,000 common shares for cancellation for \$840.

On May 6, 2002, the corporation received approval from the Toronto Stock Exchange to purchase, pursuant to a normal course issuer bid expiring on May 14, 2003, a maximum of 446,023 common shares for cancellation.

Liquidity and Capital Resources

At year-end, the Company had an operating line of credit of \$2,500,000 of which \$1,064,000 was outstanding. A registered general agreement providing a first charge over all accounts receivable, inventories and equipment, other than leased assets, has been provided as security for this operating line of credit.

Risks and Opportunities

Foreign Currency

The Company's products are sold to Canadian customers in Canadian funds and to United States customers in United States funds. Increases in the value of the Canadian dollar relative to the United States dollar could adversely affect the Company's results of operations.



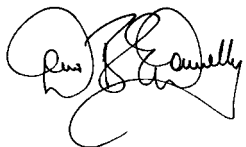
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying consolidated financial statements and all information contained in this annual report are the responsibility of management, who are satisfied with the integrity and objectivity of the information contained therein. The statements have been prepared in accordance with policies and procedures established by management and conform to Canadian generally accepted accounting principles, reflecting management's best estimates and judgements.

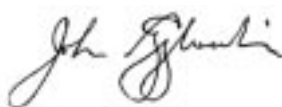
In management's opinion, these statements reflect fairly the financial position of the company, the results of its operations and the changes in cash flow. The company's procedures and related internal control systems are designed to provide reasonable assurance that the assets are safeguarded and reliable financial records are maintained.

Lipton, Wiseman, Altbaum & Partners LLP, Chartered Accountants, as the shareholders' auditors, have audited the consolidated financial statements and their report appears here. Their opinion is based on an examination conducted in accordance with Canadian generally accepted auditing standards and a review of the company's accounting policies and procedures and internal control systems. They obtain sufficient audit evidence to provide reasonable assurance that the consolidated financial statements are presented fairly, in all material respects, in accordance with Canadian generally accepted accounting principles.

The Audit Committee, which consists of non-executive directors, meets with management and the external auditors to review the company's consolidated financial statements before recommending the statements to the Board of Directors for approval.



Denis B.E. Donnelly
Chairman, President and
Chief Executive Officer



John P. Grzybowski, MBA, CA
Chief Financial Officer



Chartered Accountants
Toronto, Ontario
June 7, 2002

AUDITORS' REPORT

To the Shareholders of BFS Entertainment & Multimedia Limited

We have audited the consolidated balance sheets of BFS Entertainment & Multimedia Limited as at May 4, 2002 and May 5, 2001 and the consolidated statements of operations, retained earnings and cash flows for the fifty-two weeks ended May 4, 2002 and the fifty-two weeks ended May 5, 2001. These consolidated financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at May 4, 2002 and May 5, 2001 and the results of its operations and its cash flows for the fifty-two weeks ended May 4, 2002 and the fifty-two weeks ended May 5, 2001 in accordance with Canadian generally accepted accounting principles.

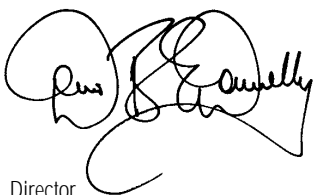


CONSOLIDATED BALANCE SHEETS

<i>as at</i>	May 4, 2002	May 5, 2001
Assets		
Current		
Accounts receivable	\$ 1,703,685	\$ 1,479,586
Inventories	1,950,644	1,513,060
Prepaid video royalties	713,949	563,568
Income taxes recoverable	-	31,944
Prepaid expenses and deposits	69,386	152,288
Deferred development costs	172,188	118,777
	4,609,852	3,859,223
AHT Video Library	636,858	1,146,342
Loan receivable (Note 3)	28,000	42,000
Deferred development costs	204,529	192,553
Capital assets (Note 4)	957,347	705,490
	\$ 6,436,586	\$ 5,945,608
Liabilities		
Current		
Bank indebtedness (Note 5)	\$ 1,011,941	\$ 625,256
Accounts payable and accrued liabilities	1,091,933	1,063,655
Income taxes payable	56,300	-
Long-term debt due within one year (Note 6)	383,334	708,333
Capital lease obligations due within one year (Note 7)	62,741	69,756
	2,606,249	2,467,000
Long-term debt (Note 6)	437,500	820,834
Capital lease obligations (Note 7)	32,223	55,842
Future income taxes	215,000	-
	3,290,972	3,343,676
Shareholders' Equity		
Capital stock (Note 8)	2,159,783	2,157,823
Retained earnings	985,831	444,109
	3,145,614	2,601,932
	\$ 6,436,586	\$ 5,945,608

See accompanying notes to consolidated financial statements

These consolidated financial statements are approved by and on behalf of the Board of Directors:


 Director


 Director



CONSOLIDATED STATEMENTS OF OPERATIONS

<i>For the period ended</i>	May 4, 2002	May 5, 2001
	<i>Fifty-two weeks</i>	<i>Fifty-two weeks</i>
Sales	\$ 8,502,166	\$ 6,906,617
Cost of goods sold	3,191,988	2,548,138
Gross profit	5,310,178	4,358,479
Selling expenses	1,497,252	1,059,062
Administrative expenses	1,808,983	1,814,410
	3,306,235	2,873,472
Operating earnings before interest, amortization and income taxes	2,003,943	1,485,007
Interest expense	267,351	369,094
Operating earnings before amortization and income taxes	1,736,592	1,115,913
Amortization of capital assets and deferred development costs	414,086	299,934
Operating earnings before amortization of AHT Video Library and income taxes	1,322,506	815,979
Amortization of AHT Video Library	509,484	509,484
Earnings before income taxes	813,022	306,495
Current Income taxes	56,300	–
Future Income taxes	215,000	1,638
Net earnings	\$ 541,722	\$ 304,857
Weighted average number of shares outstanding	8,049,440	8,044,045
Operating earnings per share before interest, amortization and income taxes	\$ 0.25	\$ 0.18
Earnings per share (Note 8)		
Basic	\$ 0.07	\$ 0.04
Diluted	\$ 0.07	\$ 0.04

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>For the period ended</i>	May 4, 2002	May 5, 2001
	<i>Fifty-two weeks</i>	<i>Fifty-two weeks</i>
Retained earnings – beginning of period	\$ 444,109	\$ 139,252
Net earnings	541,722	304,857
Retained earnings – end of period	\$ 985,831	\$ 444,109

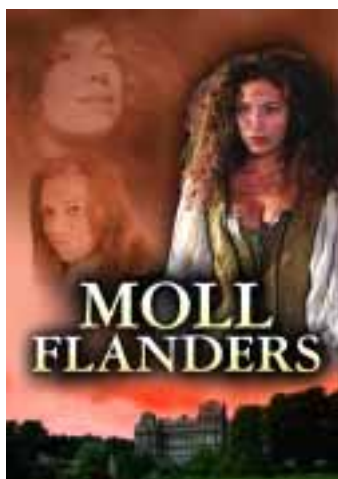
See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>For the period ended</i>	May 4, 2002	May 5, 2001
	<i>Fifty-two weeks</i>	<i>Fifty-two weeks</i>
Operating activities		
Net earnings	\$ 541,722	\$ 304,857
Items not affecting cash:		
Future income taxes	215,000	1,638
Net decrease (increase) in prepaid royalties	(150,381)	138,738
Forgiveness of loan receivable	14,000	14,000
Amortization of capital assets	295,284	210,608
Amortization of deferred development costs	118,802	89,326
Amortization of AHT Video Library	509,484	509,484
	1,543,911	1,268,651
Net changes in non-cash working capital balances (Note 10)	(462,259)	(276,511)
Cash flows provided by operating activities	1,081,652	992,140
Financing activities		
Increase (decrease) in bank borrowings	386,685	(56,113)
Proceeds from capital lease obligations	39,416	23,275
Repayment of capital lease obligations	(70,049)	(59,703)
Repayment of long-term debt	(708,333)	(438,677)
Proceeds from issue of common shares	2,800	-
Purchase of common shares for cancellation	(840)	-
Cash flows used in financing activities	(350,321)	(531,218)
Investing activities		
Additions to capital assets	(547,142)	(328,640)
Additions to deferred development costs	(184,189)	(132,282)
Cash flows used in investing activities	(731,331)	(460,922)
Net change in cash and cash equivalents	-	-
Cash and cash equivalents – beginning and end of period	\$ -	\$ -

See accompanying notes to consolidated financial statements



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fifty-Two Weeks Ended May 4, 2002

1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the corporation and its subsidiaries conform with generally accepted accounting principles in Canada and are summarized below:

(a) Basis of consolidation

The consolidated financial statements include the accounts of the corporation and its wholly-owned subsidiaries.

(b) Management estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts are not expected to materially vary from these estimates.

(c) Accounts receivable

Accounts receivable are carried at amounts due, net of a provision for amounts estimated to be uncollectible.

(d) Inventories

Inventories are valued at the lower of cost, determined on a first-in first-out basis and net realisable value.

(e) Royalties

The corporation makes advance royalty payments to secure its video license agreements. These payments are treated as prepaid video royalties and are expensed as part of cost of goods sold when sales are made.

(f) Deferred development costs

Deferred development costs relating to the design and development of video products are amortized as follows: first year - Nil; subsequent three years - straight-line.

(g) AHT Video Library

The AHT Video Library is stated at cost less accumulated amortization. Amortization is provided for on a straight-line basis over a four year period.

(h) Capital Assets

Capital assets are stated at cost less accumulated amortization. Amortization is provided for at the following annual rates and methods:

Office and warehouse equipment	20% - declining balance
Computer hardware	30% - declining balance
Computer software	2 years - straight-line
Leasehold improvements	Straight-line over the term of the lease plus the first renewal period (10 years)
Master tapes	First year - Nil; subsequent three years - straight-line
Equipment under capital leases:	
Warehouse equipment	20% - declining balance
Computer hardware and software	Straight-line over the term of the lease

(i) Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

(j) Revenue recognition

The corporation earns its revenue from the sale and delivery of products to its customers. Revenue is recorded when the products are shipped to customers.

(k) Income taxes

The corporation uses the liability method of tax allocation. Future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the future income tax assets or liabilities are expected to be settled or realized.

(l) Foreign currency translation

The temporal method is used to translate the transactions and balances of the corporation that are denominated in foreign currencies. Under this method, monetary assets and liabilities and non-monetary items carried at market values, are translated at the year-end exchange rate; other non-monetary items are translated at their historical exchange rate. Revenue and expenses are translated at weighted average exchange rates, except for amortization, which is translated at the historical exchange rate applicable to the related assets. Exchange gains and losses are recognized currently in earnings.

(m) Earnings per share

Earnings per share is calculated using the weighted average number of shares outstanding during the fiscal period amounting to 8,049,440 (2001 - 8,044,045). Diluted earnings per share is not materially dilutive as calculated in Note 8.

2 | COMPARATIVE FIGURES

Certain figures in the 2001 consolidated financial statements have been reclassified to conform with the basis of presentation used in 2002.

3 | LOAN RECEIVABLE

The loan receivable is due from an employee. The loan was made to enable the employee to purchase 200,000 common shares in the capital of the corporation. The shares purchased by the employee have been pledged as security for the loan. The loan will be forgiven as to one-fifth annually during the length of employment. In the event that employment is terminated at any time prior to five years, the corporation can repurchase the shares and cancel the unforgiven portion of the loan.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

4 | CAPITAL ASSETS

(in dollars)	Cost	Accumulated	2002	2001
		Amortization	Net	Net
Office and warehouse equipment	298,003	256,845	41,158	77,198
Computer hardware and software	258,526	180,378	78,148	67,248
Leasehold improvements	66,827	21,165	45,662	45,467
Master tapes	1,457,467	761,747	695,720	367,393
	2,080,823	1,220,135	860,688	557,306
Assets under capital leases:				
Warehouse equipment	29,276	17,285	11,991	14,990
Computer hardware and software	240,299	155,631	84,668	133,194
	269,575	172,916	96,659	148,184
	2,350,398	1,393,051	957,347	705,490

5 | BANK INDEBTEDNESS

As at May 4, 2002, the corporation had an operating line of credit in the amount of \$2,500,000 (May 5, 2001 - \$1,500,000) of which approximately \$1,064,000 (May 5, 2001 - \$760,000) was outstanding at that date. The outstanding portion of the line of credit bears interest at the bank prime rate plus 0.5% per annum payable monthly. A general security agreement providing a first charge over all accounts receivable, inventories and equipment, other than leased assets, has been pledged as security for this operating line of credit.

6 | LONG-TERM DEBT

	2002	2001
(a) Term loan	\$ 812,500	\$ 1,187,500
(b) Term loan	8,334	41,667
Term loan	—	300,000
	820,834	1,529,167
Less amounts due within one year	383,334	708,333
	\$ 437,500	\$ 820,834

(a) This term loan bears interest at the rate of 12% per annum and matures on July 31, 2004. The term loan is repayable in monthly principal instalments of \$31,250 commencing on July 31, 2000. Interest is calculated and payable monthly in arrears. In addition, twenty quarterly bonus interest payments are to be made in the amount of \$17,500 each during the term of the loan. A debenture in the amount of \$1,500,000 covering all the assets of the corporation, other than leased assets, has been pledged as security for the term loan. The debenture is subordinated to the bank indebtedness as referred to in Note 5.

(b) The term loan bears interest at the rate of prime plus 1.5% per annum. The term loan is repayable in monthly principal instalments of \$2,778 plus accrued interest. Security for the term loan is as provided in Note 5.

Principal repayments due in future fiscal years are as follows:

2003	\$ 383,334
2004	375,000
2005	62,500
	\$ 820,834

During the year, the corporation paid interest totalling \$198,181 (2001 - \$276,049) on the long-term debt.

7 | LEASE OBLIGATIONS

The following is a summary of the corporation's lease obligations due in future fiscal years:

	Capital Leases	Operating Leases
2003	\$ 67,662	\$ 118,490
2004	23,409	26,700
2005	10,647	—
	101,718	
Less interest portion	6,754	
Present value of minimum lease payments	94,964	
Less amounts due within one year	62,741	
	\$ 32,223	\$ 145,190



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

The capital leases bear interest at rates varying between 8.1% and 11.0% per annum. During the year, the corporation paid interest totalling \$8,493 (2001 - \$12,044) on its capital lease obligations.

The corporation is required to pay all realty taxes and certain other occupancy costs for the building operating lease.

8 | CAPITAL STOCK

Authorized

Unlimited Common shares

Issued

	2002	2001
8,054,333 Common shares (2001 - 8,047,333)	\$ 2,159,783	\$ 2,157,823

Common shares

	Shares	Amount
Balance – beginning of period	8,047,333	\$ 2,157,823
Cancelled pursuant to normal course issuer bid	(3,000)	(840)
Issued to employee	10,000	2,800
Balance – end of period	8,054,333	\$ 2,159,783

On March 19, 2001, the corporation received approval from the Toronto Stock Exchange to purchase, pursuant to a normal course issuer bid expiring on March 18, 2002, a maximum of 464,123 common shares of the corporation for cancellation. Pursuant to the approval, the corporation purchased 3,000 common shares for cancellation for \$840.

On May 6, 2002, the corporation received approval from the Toronto Stock Exchange to purchase, pursuant to a normal course issuer bid expiring on May 14, 2003, a maximum of 446,023 common shares for cancellation.

Stock option and bonus plan

The corporation has a stock option plan for directors, officers and employees, enabling them to purchase common shares of the corporation. A total of 1,175,000 common shares of the corporation have been reserved for options under this plan. As at May 4, 2002, there were 952,500 options outstanding expiring at various dates up to 2007 at exercise prices varying between \$0.43 and \$1.25. Each option entitles the holder to purchase one common share of the corporation.

The corporation has reserved 400,000 common shares under a stock bonus plan. The common shares will be issued from time to time as approved by the board of directors. As of May 4, 2002, 15,000 common shares have been issued under this plan.

The following table sets out the stock option plan as at May 4, 2002 and May 5, 2001 and changes during the years then ended:

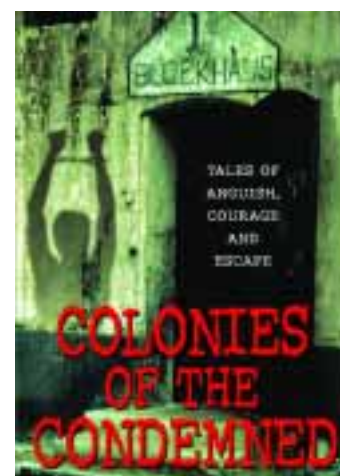
	2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding – beginning of year	815,000	\$ 0.66	695,000	\$ 0.64
Granted during year	395,000	0.71	260,000	0.75
Forfeited during year	(127,500)	(0.76)	(100,000)	0.55
Expired during year	(130,000)	(0.55)	(40,000)	1.07
Outstanding – end of year	952,500	\$ 0.68	815,000	\$ 0.66
Options exercisable	685,328	\$ 0.69	468,830	\$ 0.66

The following table provides further details of the options outstanding as at May 4, 2002:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual life (in years)	Exercise Price	Options Exercisable	Exercise Price
\$ 0.43 – 0.64	230,000	1.9	\$ 0.50	170,000	\$ 0.51
\$ 0.65 – 0.84	675,000	3.1	0.72	478,662	0.72
\$ 0.85 – 1.04	–	–	–	–	–
\$ 1.05 – 1.25	47,500	1.6	1.10	36,666	1.10
\$ 0.43 – 1.25	952,500	2.8	\$ 0.68	685,328	\$ 0.69

Earnings per share

The corporation has adopted the recommendations of The Canadian Institute of Chartered Accountants' Handbook Section 3500, Earnings per Share effective May 6, 2001. The revised section requires the presentation of both basic and diluted earnings per share on the face of the income statement regardless of the materiality of the difference between them and also requires the use of the treasury method to compute the dilutive effect of options as opposed to the former imputed earnings approach.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

For the fifty-two weeks ended May 4, 2002, the exercise of outstanding stock options and warrants does not have a dilutive effect on earnings per share.

The following table sets out the computation of basic and diluted earnings per share:

	2002	2001
Numerator		
Net earnings available to common shareholders	\$ 541,722	\$ 340,857
Denominator		
Weighted average shares for basic earnings per share	8,049,440	8,044,045
Effect of dilutive securities:		
Employee stock options	-	-
Warrants	-	-
	-	-
Adjusted weighted average shares and assumed conversions for diluted earnings per share	8,049,440	8,044,045
Basic earnings per share	\$ 0.07	\$ 0.04
Diluted earnings per share	\$ 0.07	\$ 0.04

Warrants

As at May 4, 2002, there were 460,000 warrants outstanding as part of the term loan described in Note 6a. Each warrant entitles the holder thereof to purchase one common share of the corporation. All the warrants expire on July 9, 2004 at exercise prices varying between \$0.65 and \$1.00 per common share.

	Warrants
Balance – beginning of period	550,000
Expired during the year	(90,000)
Balance – end of period	460,000

9 | INCOME TAXES

The following table reconciles the statutory Federal and Provincial income tax rates to the effective income tax rate on the income before income taxes.

	2002	2001
Net earnings before income taxes	\$ 813,022	\$ 306,495
Combined basic Federal and Provincial income tax provision at statutory rates	\$ 313,826	\$ 132,102
Realisation of prior years' losses	(275,856)	(139,403)
Adjustment to future income tax liability	215,000	-
Other	18,330	8,939
Income taxes	\$ 271,300	\$ 1,638
Effective income tax rate (percentage)	33.4	0.5

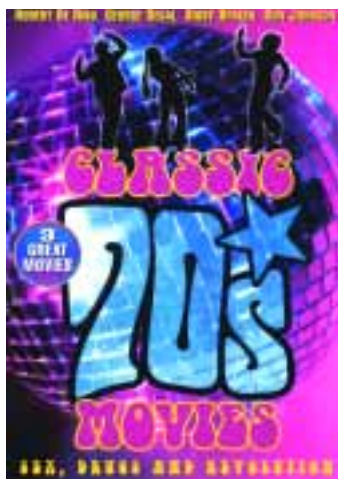
The corporation's future income tax liability is the result of differences in net book value and undepreciated capital costs. The corporation has non-capital losses carried-forward for income tax purposes amounting to Nil (2001 – \$910,000).

10 | NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES

	2002	2001
Decrease (increase) in accounts receivable	\$ (224,099)	\$ 62,876
Increase in inventories	(437,584)	(242,620)
Decrease in income taxes recoverable	31,944	26,055
Decrease in prepaid expenses and deposits	82,902	6,815
Increase (decrease) in accounts payable and accrued liabilities	28,278	(129,637)
Decrease in income taxes payable	56,300	-
	\$ (462,259)	\$ (276,511)

11 | SEGMENTED INFORMATION

The corporation operates in the home entertainment industry in North America and sells primarily to customers in the United States. Sales to customers in the United States amounted to \$6,967,000 (2001 - \$5,963,000) with the balance of sales to customers in Canada.



BOARD OF DIRECTORS

David E. Chapman, Partner
Bresver, Grossman, Scheininger & Chapman LLP

Denis B.E. Donnelly
Chairman of the Board
President and Chief Executive Officer
BFS Entertainment & Multimedia Limited

Warren Palitz ^{1,2}, Vice-President
Greentree Brokerage Services, Inc.
Philadelphia, PA, USA

Mark C. Shoniker ^{1,2}, Director
Bank of Montreal Capital Corporation
Toronto, Ontario

C. Mark Zeilstra ^{1,2}, Company Director
Winnipeg, Manitoba

¹ | Member of the Audit Committee

² | Member of the Compensation Committee

OFFICERS

Denis B.E. Donnelly
President and Chief Executive Officer

John P. Grzybowski, MBA, CA
Chief Financial Officer

David E. Chapman
Secretary

AUDITORS

Lipton, Wiseman, Altbaum & Partners LLP
Toronto, Ontario

LEGAL COUNSEL

Bresver, Grossman, Scheininger & Chapman LLP
Toronto, Ontario
Stikeman, Elliott, Toronto, Ontario
Lawrence Graham, London, England

STOCK EXCHANGE LISTING

The Toronto Stock Exchange
Trading Symbol: BFS

TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, Ontario

BANKERS

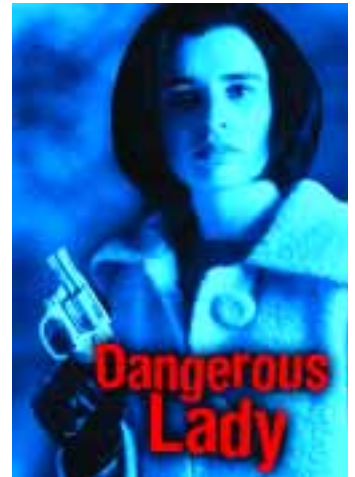
Bank of Montreal
Scarborough, Ontario

CORPORATE HEADQUARTERS

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Website: www.bfsent.com

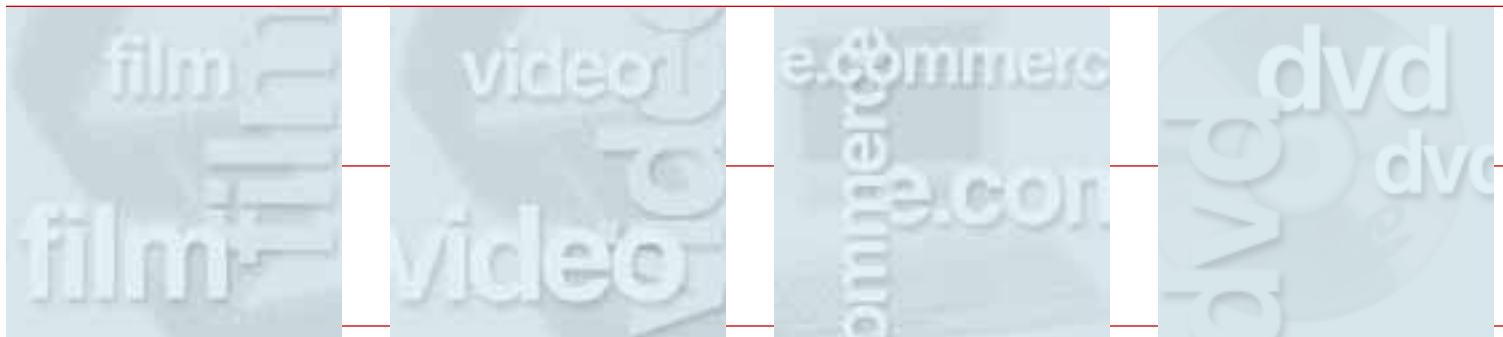
ANNUAL MEETING

The Annual Meeting of the Company's Shareholders will be held on Thursday, September 5, 2002 at 11:00 a.m. in the Simcoe Room at the Toronto Marriott Eaton Centre, 525 Bay Street, Toronto, Ontario, Canada



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