





**COLLECTABLES**  
*Direct Inc.*

**B·F·S**  
FILM & TELEVISION  
PRODUCTIONS INC.

**ops a daisy..**  
TELEVISION PRODUCTIONS INC.



Subsidiaries and Divisions of  
BFS Entertainment & Multimedia Limited

## 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 76% of its 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.

## MESSAGE FROM THE CHAIRMAN

Fiscal 2005 continued to be a year of transition impacted by a continuing lower U.S. dollar, changing technology, management of costs and by a renewed focus on higher margin products.

Our continued focus and investment in our direct to consumer business has this year resulted in an 86% increase over the prior year and a 550% increase over the past two fiscal years.

The popularity and rapid acceptance of the DVD format by consumers continues unabated and our sales are now substantially in this format. We have further added to our allowance for the expected obsolescence of our investment in the remaining VHS formatted product and are now experiencing savings in maintaining lower inventory levels of DVD only formatted product.

Our production company continues to develop various projects and we look forward to our initial sales during the upcoming year.

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 2006.

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

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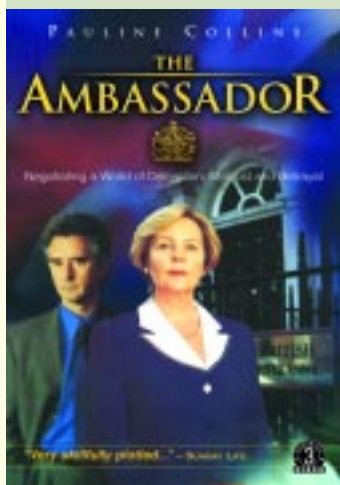
## FINANCIAL HIGHLIGHTS

	May 7, 2005 <i>(Restated)</i>	May 1, 2004 <i>(Restated)</i>
Sales	\$ 8,578,269	\$ 8,684,128
Net earnings (loss)	(58,280)	140,495
Shareholders' equity	2,909,283	2,978,986
Capital asset additions	241,870	358,530
Total assets	3,949,919	5,177,400
Earnings (loss) per share	(0.01)	0.02



## COMMON SHARE AND PRICE INFORMATION

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Average number of shares outstanding	7,970,833	7,970,833	7,927,111	7,898,333
Trading volume	47,400	64,400	100,700	96,400
Share price (high)	\$ 0.22	0.195	0.155	0.16
Share price (low)	\$ 0.15	0.15	0.105	0.105



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of the financial results of BFS Entertainment & Multimedia Limited ("BFS" or the "Company") for the year ended May 7, 2005 should be read in conjunction with, and is qualified by, the consolidated financial statements and related notes for the year ended May 7, 2005 ("the Financial Statements"), which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All of the information presented herein is expressed in Canadian dollars.

This report contains forward-looking statements, including statements regarding the future success of our business strategies and future market opportunities. These statements are neither promises nor guarantees, but involve known and unknown risks and uncertainties that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed in or implied by these forward-looking statements. These risks include risks related to our sales growth, operating results, industry and products as well as other factors discussed below and elsewhere in this report. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they were made. We disclaim any obligation to publicly update or revise such statements to reflect any change in our expectations or in events, conditions or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those set forth in the forward-looking statements.

Additional information relating to BFS is filed at [www.sedar.com](http://www.sedar.com). This management discussion and analysis was originally dated August 19, 2005 and restated on January 19, 2006.

### OVERVIEW

BFS is an independent manufacturer and distributor of home video to the North American marketplace. With facilities in Toronto, Ontario, the Company markets and distributes videos throughout North America, with approximately 76% of its 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's strategies include:

- To achieve significant increases in sales and cash flows.
- To continue to seek and acquire new programming content.
- To expand current distribution channels.

### RESULTS FROM OPERATIONS

As a result of an Ontario Securities Commission continuous disclosure review, the Company has restated its 2004 and 2005 consolidated financial statements. See Note 3 in the Notes to Consolidated Financial Statements.

In accordance with Canadian general accepted accounting principles and following the guidance of EIC-141 issued on December 17, 2003, an allowance has been provided for the eventuality that customers may return a portion of their previous purchases for exchanges and therefore credited towards their future purchases. Prior to this, no allowances had been made for stock exchanges and stock balancing. For the restated 2004 and 2005, actual returns for overstock exchanges and stock balancing received were recorded as an allowance at the end of each fiscal year rather than the use of estimates as stated in Note 2(i).

The amortization for master tapes and development costs have been restated for 2004 and 2005. The amortization method has been changed to a four year straight line (25% per year) from the previous method of a four year period with annual amortization of zero in the first year and 33 1/3 % in the following three years.

Selected Annual Information of Operations Data	Fiscal Years Ending	
	May 7, 2005 (Restated)	May 1, 2004 (Restated)
Sales	\$ 8,578,269	\$ 8,684,128
Cost of goods sold	3,233,944	3,316,475
Gross profit	5,344,325	5,367,653
Gross profit %	62%	62%
Selling and administrative expenses	4,757,813	4,243,774
Interest expense	49,345	197,139
Amortization of capital assets and deferred development costs	592,912	610,291
Amortization of AHT Video Library	-	127,374
Net earnings (loss)	(58,280)	140,495
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ 0.02
Weighted average number of shares	7,941,208	7,970,833

**Sales** for the year were \$8,578,269 compared to \$8,684,128 in the prior year. Sales to the United States represented 76% of sales, compared to 83% in the prior year.

**Gross profit** for the year was \$5,344,325 (62% of sales) compared to \$5,367,653 (62% of sales) in the prior year.

**Selling and administrative expenses** for the year were \$4,757,813 (55% of sales) compared to \$4,243,774 (49% of sales) in the prior year. The mail order subsidiary's selling and administrative expenses increased in the fiscal year by \$508,000 over the previous year due to an increased investment and commitment to catalogue distribution, which resulted in a 86% increase in direct to consumer sales in the year compared to last year (catalogue printing and mailing costs increased by \$249,000, shipping costs increased by \$121,000 and other expenses increased by \$138,000 over the previous year).

**Amortization** of capital assets and deferred development costs was \$592,912 compared to \$610,291 in the prior year. Amortization of the AHT Video Library was nil compared to \$127,374 in the previous year. The AHT Video Library was fully amortized in the prior year.

**Net loss** was \$58,280 or \$0.01 per share for the year, compared to net earnings of \$140,495 or \$0.02 per share in the prior year. The weighted average number of shares outstanding for this year was 7,941,208.

#### REVIEW OF FOURTH QUARTER ENDING MAY 7, 2005

	Sales (Restated)	Net earnings (loss) (Restated)	Basic & diluted earnings per share (Restated)
<b>2005</b>			
First quarter	\$ 1,719,470	\$ (62,944)	\$ (0.01)
Second quarter	2,543,674	82,030	0.01
Third quarter	2,108,163	60,841	0.01
Fourth quarter	2,206,962	(138,207)	(0.02)
Full year	\$ 8,578,269	\$ (58,280)	\$ (0.01)
<b>2004</b>			
First quarter	\$ 1,533,688	\$ (2,878)	\$ 0.00
Second quarter	2,370,768	161,560	0.02
Third quarter	2,229,706	9,687	0.00
Fourth quarter	2,549,966	(27,874)	(0.00)
Full year	\$ 8,684,128	\$ 140,495	\$ 0.02

Sales for the fourth quarter were \$2,206,962 compared to \$2,549,966 during the same quarter last year. Net loss was \$138,207 (\$0.02 per share) compared to a \$27,874 net loss (\$0.00 per share) for the same period last year. The reserve for the obsolescence inventory was increased by approximately \$235,000 in the quarter compared to approximately \$202,000 in the prior period.

#### FINANCIAL CONDITION AT MAY 7, 2005

Selected data on financial position	Fiscal Years Ending	
	May 7, 2005 (Restated)	May 1, 2004 (Restated)
Bank indebtedness	\$ 118,633	\$ 1,083,583
Net working capital	1,684,316	1,609,932
Total assets	3,949,919	5,177,400
Total long-term liabilities	36,401	15,790
Total liabilities	1,040,636	2,198,414
Shareholders' equity	2,909,283	2,978,986

**Total assets** of the corporation this year amount to \$3,949,919 compared to \$5,177,400 in the prior year, primarily due to a decrease in accounts receivable and inventory.

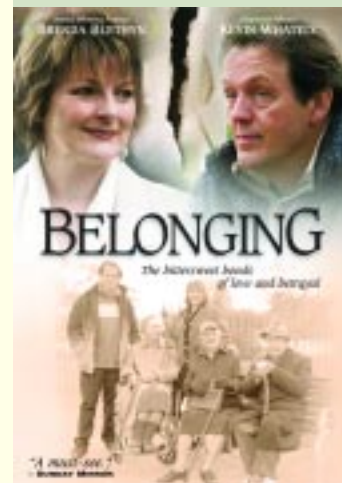
**Accounts receivable** decreased to \$658,898 from \$1,478,437 in the prior year, resulting from continuing increase in direct to consumer sales (86% increase from the prior year). Direct to consumer sales require payment prior to shipment and only in the form of credit card charge or cheque.

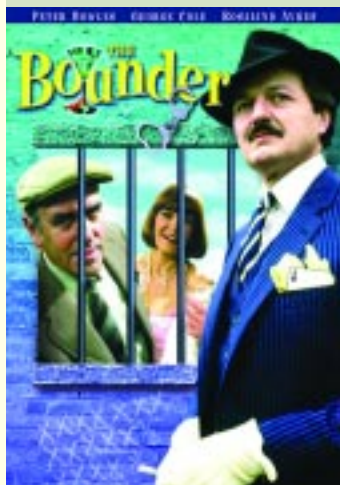
**Inventory** decreased to \$1,025,646 from \$1,361,778 in the prior year as a result of a further additional allowance for the anticipated obsolescence of remaining VHS formatted product and lower inventory levels consisting of DVD only formatted product.

**Prepaid royalties** for video products decreased to \$851,774 from \$868,572 in the prior year.

**Investment in productions** was \$241,840 this year compared to \$148,344 in the prior year. BFS has increased its commitment to develop its own content and has successfully co-produced several of its own programmes in the past several years. BFS is confident that this increased focus is a very necessary and positive step for the future of BFS.

**Capital assets** decreased to \$598,282 from \$788,171 in the prior year. Continuing capital expenditures for DVD master tapes of \$106,412 were made this year compared to \$320,198 in the prior year. The corporation has increased its focus on the acquisition of titles that will generate higher sales.





**Deferred development costs** of \$120,618, compared to \$153,809 in the prior year were incurred during the year, related to the design and development of DVD products.

**Total liabilities** decreased to \$1,040,636 from \$2,198,414 in the prior year primarily from the reduction of bank indebtedness and long-term debt of approximately \$1,027,000.

**Shareholders' equity** decreased to \$2,909,283 from \$2,978,986 in the prior year. The capital stock as at May 7, 2005 was \$2,119,624 with 7,898,333 shares outstanding compared to \$2,131,047 with 7,970,833 shares outstanding in the prior year.

On August 27, 2004, the corporation received approval from the TSX Venture Exchange to purchase pursuant to a normal course issuer bid expiring on August 29, 2005, a maximum of 398,542 shares of the corporation for cancellation. Pursuant to the approval from the TSX Venture Exchange, the corporation has purchased 72,500 shares during the year as part of the normal course issuer bid for \$11,423 for cancellation.

## CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Minimum annual payments due in fiscal years ending	Payment due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Capital lease obligations	78,824	39,767	39,057	-	-
Operating leases	518,825	137,242	353,183	28,400	-
Total contractual obligations	597,649	177,009	392,240	28,400	-

Capital lease obligations are related primarily to computer, telephone and warehouse equipment. Operating lease commitments represent the future minimum lease payments under leases primarily for the Company premises. These obligations bear interest at rates varying between 9.0% and 11.3% per annum.

## CAPITAL REQUIREMENTS, RESOURCES AND LIQUIDITY

At year-end, the Company had an operating line of credit of \$2,000,000 of which approximately \$135,000 was outstanding. A registered general security 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.

We believe that our current cash will provide us with sufficient capital to meet our stated operating goals. We would expect that any significant new acquisitions would require additional funding.

## BUSINESS RISKS AND UNCERTAINTIES

Our ability to generate sales and profit from our business is subject to a number of risks. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties, including those we do not know about now or that we currently believe are immaterial may also adversely affect our ability to generate sales and profit.

### 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.

### Dependency on Intellectual Property

The Company enters into exclusive distribution arrangements with producers and television companies to secure the distribution rights for the sale of home video DVD and VHS products in North America. To secure these rights, the Company typically agrees to advance cash to the licensors for each title licensed. These cash advances are set up as a prepaid advance and are recovered by the Company from the proceeds on the sale of the product. The recovery of such advances and related mastering costs is dependent on the success of marketing and sale of each title by the Company. The success of the title is not determinable until the time that consumer acceptance can be measured after the title has been released.

### Dependency on Key Personnel

The success of BFS is dependent on members of its senior management team. The experience of this team will be a contributing factor to BFS' success and growth. The loss of one or more of the members of the management team might have a material adverse effect on the Company's operations and business prospects.

### Risks Associated with Product Returns

Consistent with industry practice in certain circumstances, the Company allows customers to return product for credit. The Company restricts the amount of the return to a percentage of an agreed upon time period of previous sales. There can be no assurance that such product returns will in the future exceed what has been previously experienced by the Company and as a result, it may have a material adverse effect on future operating results.

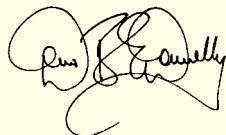
## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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 which includes a review of the company's accounting policies and procedures and where appropriate, a limited review of the company's 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

## 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 7, 2005 and May 1, 2004 and the consolidated statements of operations, retained earnings and cash flows for the fifty-three weeks ended May 7, 2005 and the fifty-two weeks ended May 1, 2004. 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.

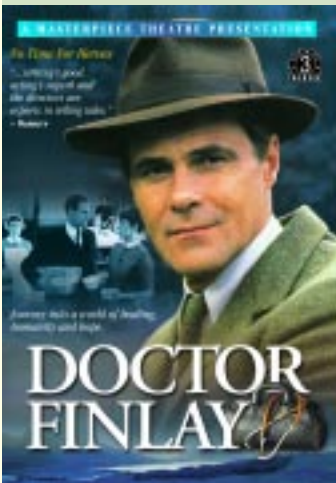
In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at May 7, 2005 and May 1, 2004 and the results of its operations and its cash flows for the fifty-three weeks ended May 7, 2005 and the fifty-two weeks ended May 1, 2004 in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Toronto, Ontario

June 17, 2005 except for financial statements restatement matters described in Note 3, which are as of January 19, 2006.



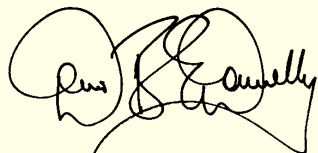



## CONSOLIDATED BALANCE SHEETS

<i>as at</i>	<b>May 7, 2005</b>	May 1, 2004
	<i>(Restated See Note 3)</i>	<i>(Restated See Note 3)</i>
<b>Assets</b>		
Current:		
Accounts receivable	\$ 685,898	\$ 1,478,437
Inventories	1,025,646	1,361,778
Prepaid video royalties	851,774	868,572
Prepaid expenses and deposits	125,233	83,769
	2,688,551	3,792,556
Investment in productions	241,840	148,344
Future income taxes	182,733	169,281
Development costs (Note 4)	238,513	279,048
Capital assets (Note 5)	598,282	788,171
	\$ 3,949,919	\$ 5,177,400
<b>Liabilities</b>		
Current:		
Bank indebtedness (Note 6)	\$ 118,633	\$ 1,083,583
Accounts payable and accrued liabilities	833,950	903,296
Income taxes payable	16,966	110,895
Long-term debt due within one year	-	62,500
Capital lease obligations due within one year (Note 7)	34,686	22,350
	1,004,235	2,182,624
Capital lease obligations (Note 7)	36,401	15,790
	1,040,636	2,198,414
<b>Shareholders' Equity</b>		
Capital stock (Note 8)	2,119,624	2,131,047
Retained earnings	789,659	847,939
	2,909,283	2,978,986
	\$ 3,949,919	\$ 5,177,400

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

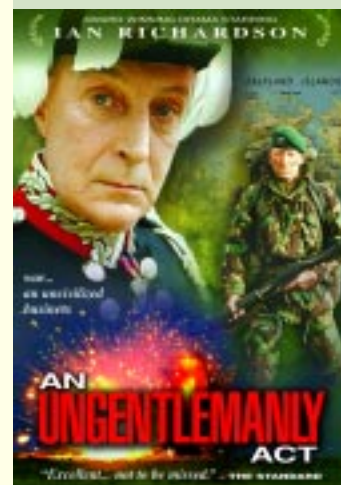
<i>For the period ended</i>	<b>May 7, 2005</b> <i>Fifty-three weeks</i>	May 1, 2004 <i>Fifty-two weeks</i>
	<i>(Restated See Note 3)</i>	<i>(Restated See Note 3)</i>
<b>Sales</b>	<b>\$ 8,578,269</b>	\$ 8,684,128
<b>Cost of goods sold</b>	<b>3,233,944</b>	3,316,475
<b>Gross profit</b>	<b>5,344,325</b>	5,367,653
Expenses:		
Selling	2,038,201	1,981,224
Administrative	2,719,612	2,262,550
Interest (Note 7)	49,345	197,139
Amortization	592,912	737,665
	<b>5,400,070</b>	5,178,578
<b>Earnings (loss) before income taxes</b>	<b>(55,745)</b>	189,075
Income taxes (recovered): (Note 9)		
Current	15,987	84,678
Future	(13,452)	(36,098)
	<b>2,535</b>	48,580
<b>Net earnings (loss)</b>	<b>\$ (58,280)</b>	\$ 140,495
Weighted average number of shares	7,941,208	7,970,833
Basic and diluted earnings (loss) per share (Note 8)	<b>\$ (0.01)</b>	\$ 0.02

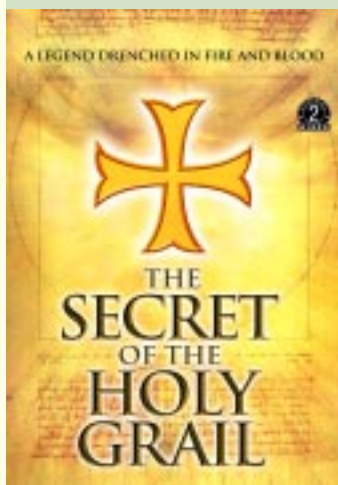
See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

<i>For the period ended</i>	<b>May 7, 2005</b> <i>Fifty-three weeks</i>	May 1, 2004 <i>Fifty-two weeks</i>
	<i>(Restated See Note 3)</i>	<i>(Restated See Note 3)</i>
Retained earnings – beginning of period	<b>\$ 847,939</b>	\$ 707,444
Net earnings (loss)	<b>(58,280)</b>	140,495
Retained earnings – end of period	<b>\$ 789,659</b>	\$ 847,939

See accompanying notes to consolidated financial statements





## CONSOLIDATED STATEMENTS OF CASH FLOW

<i>For the period ended</i>	<b>May 7, 2005</b>	May 1, 2004
	<i>Fifty-three weeks</i>	<i>Fifty-two weeks</i>
	<i>(Restated)</i> <i>See Note 3)</i>	<i>(Restated)</i> <i>See Note 3)</i>
<b>Operating activities:</b>		
Net earnings (loss)	\$ (58,280)	\$ 140,495
Items not affecting cash flows:		
Future income taxes recovered	(13,452)	(36,098)
Forgiveness of loan receivable	14,000	14,000
Amortization of capital assets	431,759	445,759
Amortization of deferred development costs	161,153	164,532
Amortization of AHT Video Library	-	127,374
	<b>535,180</b>	856,062
Net changes in non-cash working capital balances (Note 10)	<b>926,730</b>	132,219
Cash flows provided by operating activities	<b>1,461,910</b>	988,281
<b>Financing activities:</b>		
Increase (decrease) in bank indebtedness	(964,950)	71,690
Proceeds from capital lease obligations	64,646	10,200
Repayment of capital lease obligations	(31,699)	(34,488)
Repayment of long-term debt	(62,500)	(375,000)
Purchase of common shares for cancellation	(11,423)	-
Cash flows used in financing activities	<b>(1,005,926)</b>	(327,598)
<b>Investing activities:</b>		
Additions to investment in productions	(93,496)	(148,344)
Additions to development costs	(120,618)	(153,809)
Additions to capital assets	(241,870)	(358,530)
Cash flows used in investing activities	<b>(455,984)</b>	(660,683)
Net change in cash	-	-
Cash – beginning and end of period	<b>\$ -</b>	<b>\$ -</b>

During the fiscal period, the corporation paid interest of approximately \$49,300 (2004 - \$197,200) and income taxes of approximately \$108,100 (2004 - \$261,100).

See accompanying notes to consolidated financial statements

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Three Weeks Ended May 7, 2005 and the Fifty-Two Weeks Ended May 1, 2004

## 1 | NATURE OF BUSINESS:

BFS Entertainment & Multimedia Limited (the "corporation") was incorporated under the laws of Ontario on February 4, 1980.

The corporation is a recognised independent manufacturer and distributor of home videos. The corporation markets and distributes a specialty line of home videos throughout North America. Under exclusive North America license agreements, the corporation sells its products through various channels, including retailers, distributors, mail order houses as well as its own specialised mail order catalogue.

## 2 | 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, BFS Entertainment Limited (U.S. corporation), Collectables Direct Inc., Collectables Direct Inc. (U.S. corporation), BFS Film & Television Productions Inc. and Oopsadaisy Television Productions Inc. All intercompany transactions and balances have been eliminated.

### (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 uncollectable and net of an allowance of estimated returns for overstock exchanges.

### (d) Inventories:

Inventories are valued at the lower of cost, determined on a first-in first-out basis and net realisable value, net of an allowance of estimated returns for overstock exchanges.

### (e) Prepaid video 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) Development costs:

Deferred development costs relating to the design and development of video products are amortized as follows; 4 years – straight-line.

### (g) Investment in productions:

Investment in productions relating to the development of DVDs and films have been capitalized and will be amortized over their estimated useful life once the assets are put into commercial use.

### (h) Capital assets:

Capital assets are stated at cost less accumulated amortization. Amortization is provided for over the useful life of the assets at the following 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	4 years straight-line
Equipment under capital leases:	
Computer hardware and software	Straight-line over the term of the related leases
Telephone equipment	Straight-line over the term of the related leases
Forklift	Straight-line over the term of the related leases

### (i) Revenue recognition:

The corporation earns its revenue from the sale and delivery of products to its customers. Revenue, net of an allowance of estimated returns for overstock exchanges, is recorded when the products are shipped to customers and collectability is reasonably assured.

### (j) Future income taxes:

The corporation uses the liability method to record income taxes. 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 realised.

### (k) 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

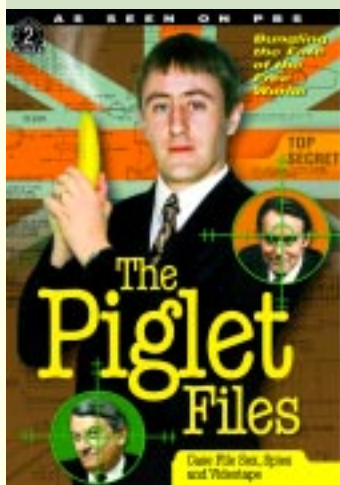
exchange rate. Revenue and expenses are translated at weighted average exchange rates, except for amortization, which is translated at the historical exchange rate applicable to the related assets. Exchange gains and losses are recognised currently in earnings.

### (l) Stock option and bonus plan:

The corporation recognises the value of stock options earned during the year as a compensation expense. This accounting policy is applied prospectively to all stock option awards to employees and directors that call for settlement by issuance of equity instruments, granted on or after May 4, 2003. The fair value of stock options is determined using the Black-Scholes option pricing model. Once fair value is measured, the value is expensed over the period options vest and contributed surplus is increased by the corresponding amount.

### (m) Earnings per share:

Earnings per share is calculated using the weighted average number of shares outstanding during the fiscal period amounting to 7,941,208 (2004 - 7,970,833). Diluted earnings per share is calculated using the treasury method.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Three Weeks Ended May 7, 2005 and the Fifty-Two Weeks Ended May 1, 2004

(continued)

### 3 | RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS

As a result of an Ontario Securities Commission continuous disclosure review, the Company has restated its 2004 and 2005 consolidated financial statements for the following adjustments:

#### (a) Revenue recognition for overstock exchanges and stock balancing by customers

In accordance with Canadian general accepted accounting principles and following the guidance of EIC-141 issued on December 17, 2003, an allowance has been provided for the eventuality that customers may return a portion of their previous purchases for exchanges and therefore credited towards their future purchases. Prior to this, no allowances had been made for stock exchanges and stock balancing. For the restated 2004 and 2005, actual returns for overstock exchanges and stock balancing received were recorded as an allowance at the end of each fiscal year rather than the use of estimates as stated in Note 2(i).

#### (b) Amortization

The amortization for master tapes and development costs have been restated for 2004 and 2005. The amortization method has been changed to a four year straight line (25% per year) from the previous method of a four year period with annual amortization of zero in the first year and 33 1/3 % in the following three years.

#### (c) Summary of net adjustments to consolidated financial statements

The following table represents the net total change to the amounts previously reported arising from the restatement adjustments for 2004 and 2005.

Net increase (decrease) from amounts previous reported	2005	2004
<b>Statement of Operations</b>		
Sales	\$ 19,799	\$ 122,757
Cost of goods sold	7,524	46,648
Amortization – deferred development costs	\$ (11,835)	\$ (1,697)
Amortization – capital assets	(78,735)	(5,808)
Income taxes – future	37,148	30,202
Net earnings	\$ 65,697	\$ 53,412
Change in basic and diluted earnings per share	\$ 0.01	\$ 0.01
<b>Balance Sheet:</b>		
Accounts receivables	\$ (83,048)	\$ (102,847)
Inventories	31,558	39,082
Future income taxes recoverable	86,933	124,081
Deferred development costs	(70,988)	(82,823)
Capital costs	(118,202)	(196,937)
Retained earnings	(153,747)	(219,444)

### 4 | DEVELOPMENT COSTS:

(in dollars)	Cost	Accumulated Amortization (Restated See Note 3)	2005 Net (Restated See Note 3)	2004 Net (Restated See Note 3)
Development costs	1,228,743	990,230	238,513	279,048

During the fiscal period, amortization on development costs amounted to \$161,153 (2004 - \$164,532).

### 5 | CAPITAL ASSETS:

(in dollars)	Cost	Accumulated Amortization (Restated See Note 3)	2005 Net (Restated See Note 3)	2004 Net (Restated See Note 3)
Office and warehouse equipment	310,219	240,655	69,564	70,237
Computer hardware and software	650,282	595,764	54,518	44,780
Leasehold improvements	92,762	47,540	45,222	38,325
Master tapes	2,321,081	1,960,900	360,181	596,116
	3,374,344	2,844,859	529,485	749,458
Assets under capital leases:				
Computer hardware and software	64,646	11,524	53,122	9,346
Telephone equipment	30,876	20,584	10,292	20,584
Forklift	10,200	4,817	5,383	8,783
	105,722	36,925	68,797	38,713
	3,480,066	2,881,784	598,282	788,171

During the fiscal period, amortization on capital amounted to \$397,197 (2004 - \$413,551) and amortization on assets under capital leases amounted to \$34,562 (2004 - \$32,208).

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Three Weeks Ended May 7, 2005 and the Fifty-Two Weeks Ended May 1, 2004

(continued)

### 6 | BANK INDEBTEDNESS:

As at May 7, 2005, the corporation had an operating line of credit in the amount of \$2,000,000 (May 1, 2004 - \$2,000,000) of which approximately \$135,000 (May 1, 2004 - \$1,052,000) 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.

### 7 | LEASE OBLIGATIONS:

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

	Capital Leases	Operating Leases
2006	\$ 39,767	\$ 137,242
2007	27,467	125,983
2008	11,590	113,600
2009	-	113,600
2010	-	28,400
	<b>78,824</b>	
Less interest portion	<b>7,737</b>	
Present value of minimum lease payments	<b>71,087</b>	
Less amounts due within one year	<b>34,686</b>	
	<b>\$ 36,401</b>	<b>\$ 518,825</b>

The capital leases bear interest at rates varying between 9.0% and 11.3% per annum. During the year, the corporation paid interest totalling \$4,788 (2004 - \$5,067) 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

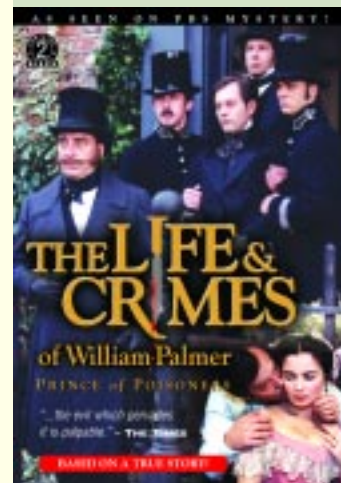
#### Issued:

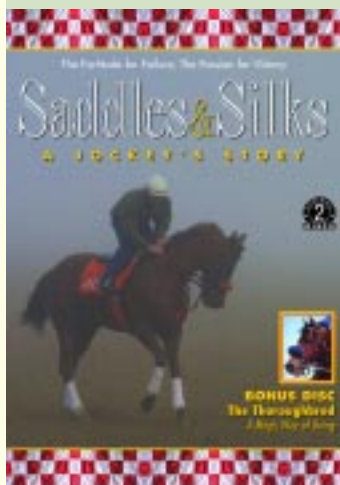
	2005	2004
7,898,333 (2004 - 7,970,833) Common shares of par value of \$1 each	\$ 2,119,624	\$ 2,131,047

#### Common shares:

	Shares	Amount
Balance – beginning of period	7,970,833	\$ 2,131,047
Cancelled pursuant to normal course issuer bid	(72,500)	\$ (11,423)
Balance – end of period	7,898,333	\$ 2,119,624

On August 26, 2004, the corporation received approval from the TSX Venture Exchange to purchase, pursuant to a normal course issue bid expiring August 29, 2005, a maximum of 398,542 common shares of the corporation for cancellation. Pursuant to the approval from the TSX Venture Exchange, the corporation has purchased 72,500 common shares as part of the normal course issuer bid for \$11,423 during the fifty-three weeks ended May 7, 2005.





## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Three Weeks Ended May 7, 2005 and the Fifty-Two Weeks Ended May 1, 2004

(continued)

### Stock option and bonus plan:

As of May 7, 2005, 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 7, 2005, there were 300,000 options outstanding expiring at various dates up to 2007 at exercise prices varying between \$0.65 and \$0.70 per share. 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. These common shares will be issued from time to time as approved by the board of directors. As of May 7, 2005, 40,000 common shares have been issued under this plan.

The following table sets out the stock option plan as at May 7, 2005 and May 1, 2004 and changes during the periods then ended:

	2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding – beginning of period	567,500	\$ 0.65	917,500	\$ 0.67
Expired or cancelled during the period	(267,500)	(0.60)	(350,000)	(0.70)
Outstanding – end of period	300,000	\$ 0.69	567,500	\$ 0.65
Options exercisable – end of period	300,000	\$ 0.69	557,500	\$ 0.65

The following table provides further details of the options outstanding as at May 7, 2005:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average		Options Exercisable	Exercise Price
		Remaining Contractual life (in years)	Exercise Price		
\$ 0.65 – 0.75	300,000	1.6	\$ 0.69	300,000	\$ 0.69

### Stock-based compensation:

Effective for fiscal periods commencing on and after January 1, 2002, the Canadian Institute of Chartered Accountants issued new recommendations dealing with stock-based compensation and other stock-based payments. The new recommendations require either the recognition of a compensation expense for grants of stock, stock options and other equity instruments to directors, officers and employees, based on the estimated fair value of the instruments at the grant date, or alternatively, the disclosure of pro-forma net earnings and earnings per share data, as if the stock-based compensation had been recognised in earnings.

During the fifty-three weeks ended May 7, 2005, the corporation issued no stock options.

Subsequent to May 7, 2005, 50,000 options that were outstanding have expired without being exercised by the option holder.

### Earnings per share:

For the fifty-three weeks ended May 7, 2005, the exercise of outstanding stock options does not have a dilutive effect on earnings per share.

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

	2005	2004
	(Restated See Note 3)	(Restated See Note 3)
<b>Numerator:</b>		
Net earnings (loss) available to common shareholders	\$ (58,280)	\$ 140,495
<b>Denominator:</b>		
Weighted average shares for basic earnings per share	7,941,208	7,970,833
Basic and diluted earnings (loss) per share	\$ (0.01)	\$ 0.02

### Warrants:

As at May 7, 2005 there were no warrants outstanding.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Fifty-Three Weeks Ended May 7, 2005 and the Fifty-Two Weeks Ended May 1, 2004

(continued)

### 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.

	2005	2004
	<i>(Restated See Note 3)</i>	<i>(Restated See Note 3)</i>
Net earnings (loss) before income taxes	\$ (55,745)	\$ 189,075
Combined basic Federal and Provincial income tax provision at statutory rates	(20,135)	67,103
Non-deductible items for income tax purposes	12,390	-
Timing differences between CCA and amortization	(13,452)	(36,098)
Other	23,732	17,575
Income taxes	\$ 2,535	\$ 48,580
Effective income tax rate (percentage)	4.5	25.7

The corporation's future income tax asset is the result of differences in the net book value and undepreciated capital costs of the development costs and capital assets.

### 10 | NET CHANGES IN NON-CASH WORKING CAPITAL BALANCES:

	2005	2004
	<i>(Restated See Note 3)</i>	<i>(Restated See Note 3)</i>
Decrease (increase) in accounts receivable	\$ 792,539	\$ (293,599)
Decrease in inventories	336,132	532,805
Decrease in prepaid video royalties	16,798	152,052
Increase in prepaid expense and deposits	(55,464)	(12,842)
Decrease in accounts payable and accrued liabilities	(69,346)	(71,602)
Decrease in income taxes payable	(93,929)	(174,595)
	\$ 926,730	\$ 132,219

### 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 approximately \$6,476,000 (2004 - \$7,249,000) with the balance of sales to customers in Canada.

### 12 | FINANCIAL INSTRUMENTS:

#### Fair value:

The corporation's financial instruments include accounts receivable, bank indebtedness and accounts payable and accrued liabilities. The carrying value of these financial instruments approximates fair value due to their current nature.

The fair value of loan receivable, long-term debt and capital lease obligations has been estimated based on quoted market prices for same or similar instruments and in management's opinion, approximates carrying value.

#### Interest rate risk:

The corporation is exposed to interest rate risk on fluctuations in interest rates on its bank indebtedness and capital lease obligations. Since interest rates on the lease obligations are fixed, it is management's opinion that the interest rate exposure is not significant. The corporation has considered, but does not use derivative financial instruments to reduce its exposure to interest rate risk on its bank indebtedness.

#### Currency risk:

The corporation conducts a significant portion of its operations with corporations and/or customers in the United States. As a result, a significant amount of sales, expenses, accounts receivables, prepaid video royalties, bank indebtedness and accounts payable and accrued liabilities were incurred or are carried in United States dollars. The corporation occasionally uses forward contracts to reduce exposure to currency risk. During the fifty-three weeks ended May 7, 2005, a foreign exchange loss of approximately \$225,000 was recognised in administrative expenses (fifty-two weeks ended May 1, 2004 - \$244,000 foreign exchange gain was recognised in sales).

#### Credit risk:

Concentration of credit risk arises when a group of customers having a similar characteristic such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. For the corporation, significant concentrations of credit risk are related to industries and geographic location. The corporation's accounts receivable are primarily due from United States based corporations in the entertainment industry.

### 13 | COMPARATIVE FIGURES:

Certain figures in the 2004 consolidated financial statements have been reclassified to conform with the basis of presentation used in 2005.





## SHAREHOLDERS INFORMATION

### 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 <sup>1,2</sup>, Vice President  
Greentree Brokerage Services, Inc.  
Philadelphia, PA, USA

Mark C. Shoniker <sup>1,2</sup>, Director  
Bank of Montreal Capital Corporation  
Toronto, Ontario

C. Mark Zeilstra <sup>1,2</sup>, Company Director  
Winnipeg, Manitoba

<sup>1</sup> | Member of the Audit Committee

<sup>2</sup> | 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 LLP, Toronto, Ontario  
Lawrence Graham, London, England

### STOCK EXCHANGE LISTING

TSX Venture Exchange  
Trading Symbol: BFS

### TRANSFER AGENT

CIBC Mellon Trust Company  
Toronto, Ontario

### BANKERS

Royal Bank of Canada  
Toronto, Ontario

### CORPORATE HEADQUARTERS

360 Newkirk Road, Richmond Hill, Ontario,  
Canada L4C 3G7  
Tel (905) 884-2323 Fax (905) 884-8292  
E-Mail: [info@bfsent.com](mailto:info@bfsent.com)  
Website: [www.bfsent.com](http://www.bfsent.com)

### ANNUAL MEETING

The Annual Meeting of the Company's Shareholders will be held on  
Tuesday, September 27, 2005 at 11:00 a.m.  
in the Paris Room at Stikeman Elliott LLP  
Commerce Court West, 52nd Floor, 199 Bay Street  
Toronto, Ontario, Canada

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