

RAINMAKER ENTERTAINMENT INC.

ANNUAL REPORT 2009



MESSAGE TO SHAREHOLDERS

Overall 2009 was a very challenging year for Rainmaker. External production delays and a weak production service market that was still recovering from the global recession resulted in lower than expected production volumes and new production starts.

The results for the fourth quarter did show improvement over the previous three quarters with four films in various stages of production; resulting in a positive EBITDA of \$567,000 for the fourth quarter.

As we move into 2010 we will continue to diversify our work-for-hire business to an expanded client base and build our proprietary development slate.

Subsequent to the year-end, the provincial government announced increases to the existing production service tax credits and the existing digital and visual effects credit. The government also announced a new initiative that creates a similar credit system to be made available to the gaming industry in British Columbia. This represents a positive show of support for the digital production industry in British Columbia.

Thanks to all our employees for their dedication and first class work and to our shareholders for their continued support.

“Warren Franklin”

*Warren Franklin, CEO
Rainmaker Entertainment Inc.*

OVERVIEW AND BUSINESS DEVELOPMENTS

The 2009 operating results for Rainmaker represented the first year following the 2008 reorganizations that show only the animation segment. The 2008 comparatives include the results of EP Canada and Canada Film Capital until the date of sale November 13, 2008. The remaining 30% interest in the EP and CFC business are included on an equity basis.

During 2009 Rainmaker continued to develop its animation platform with diversified work for hire products, as well as the continued development of its proprietary productions.

In 2009 Rainmaker repaid \$7.2 million of its subordinated debenture on schedule. The debenture represented the final debt facility remaining from the Mainframe acquisition in 2006.

During 2009 Rainmaker delivered 3 DVD films to its client Mattel. Rainmaker also delivered a high quality trailer for the Ubisoft game Splinter Cell: Conviction. The trailer, which was produced primarily for the Internet and for trade shows, was made in very high resolution so it could also be shown on television or in movie theatres. This is one example of how Rainmaker is looking at new ways to deliver animation, while also demonstrating the high quality and diverse range on animation services Rainmaker is able to produce. Rainmaker continued production on the feature film *Escape From Planet Earth*, although not at full scale levels. Rainmaker continues to work with its client to consider further production options. There is no assurance at this time that this project will move forward to completion.

Rainmaker will continue to develop our service based business on both feature films and DVD projects and to creatively develop the classic series *Reboot* as a proprietary Rainmaker film. Rainmaker is also pursuing branded properties for development into its proprietary production slate. As the development slate continues through 2010 Rainmaker will be seeking to secure production, finance, and distribution partners to launch its films into full production.

On February 3, 2010, the provincial government announced changes, subject to approval by the legislature to the provincial tax credits. These changes will apply to productions with principal photography or key animation that begin after February 28, 2010. The proposed changes are an increase in the production services tax credit from 25% to 33% of eligible labour. The digital animation or Visual Effects tax credit will increase from 15% to 17.5% of eligible labour. The qualified BC labour expenditures cap increased to 60% from 48% of production costs. There will also be a new BC Interactive Digital Media tax credit for video game development of 17.5% of qualifying BC labour costs, which will apply to production beginning after September 1, 2010.

Economic Outlook

The credit crisis and deterioration of global financial markets did cause certain production delays. The 2009 year was a difficult one as Rainmaker customers were conservative in new production starts until an economic turn around was more evident. Rainmaker is now starting to see demand for new productions with the economic improvement; however the lead time for animation productions has caused a lag in turn around compared to other industries. Access to credit markets and capital markets to further develop production plans is a concern for the industry as a whole. The Company will continue to operate and manage its animation production mix in a risk averse manner, consistent with the economic environment.

MANAGEMENT DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (“MD&A”) is prepared as of March 29, 2010 and is intended to assist in understanding the results of operations and financial condition of Rainmaker Entertainment Inc. and should be read in conjunction with the audited consolidated financial statements and accompanying notes and other public disclosure documents of Rainmaker. Past performance may not be indicative of future performance. Results are reported in Canadian dollars unless otherwise noted and have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). Throughout the MD&A reference to Rainmaker refers to the Company and its subsidiary entities, and prior to the Reorganization from an income trust structure in August 2008, the fund and its subsidiary entities.

Non-GAAP measure

The MD&A uses the term earnings before interest, taxes, depreciation and amortization (“EBITDA”) that is not defined under GAAP. Rainmaker believes that EBITDA is a measure used by investors in assessing the performance of Rainmaker and its ability to generate sufficient cash flow. As EBITDA is a term not defined under GAAP it may not be comparable to a similar term used in documents of other public entities.

Rainmaker defines EBITDA as earnings from continuing operations before interest expense, interest income, income taxes, depreciation and amortization of property, plant and equipment, amortization of intangible assets, loss on sale of property, plant and equipment, restructuring costs, foreign exchange gains and losses, equity investment earnings and compensation costs related to stock options.

Forward-looking Statements

Some of the statements contained in this MD&A and elsewhere in the Annual Report are forward-looking statements subject to risks and uncertainties. Words such as “expects”, “anticipates”, “intends”, “plans”, “estimates”, “believes”, and variations of such words and similar expressions are intended to identify such forward-looking statements. There are a number of factors that could cause actual or implied results to differ materially from those expressed in forward-looking statements, including but not limited to: decisions of foreign producers to operate in Canada and British Columbia, fluctuations in government policies, the effect of seasonality, fluctuations in currency exchange rates, income tax matters, changes in technology and capital expenditure requirements, acquisitions that Rainmaker may undertake in the future and general economic conditions in North America. Rainmaker competes in a global marketplace and market conditions will vary on a year-by-year basis. Forward-looking statements are made based on current information and expectations at the time the statement is made. Due to the uncertain nature and risks involved in forward-looking statements, readers are cautioned not to place undue reliance on them. Rainmaker assumes no responsibility to revise these forward-looking statements to reflect new information, subsequent events or changes in circumstances except as required by law.

Selected Annual Information

Below is selected annual information derived from the audited consolidated financial statements which have been prepared in accordance with Canadian generally accepted accounting principles.

Years ended December 31,

All amounts are in 000's of dollars, except per share / unit figures

	2009	2008	2007
		Note 1	
Revenue			
Rainmaker Entertainment - Animation	15,137	28,969	20,782
EP Canada - Payroll processing (Note 1)	-	7,149	10,562
Canada Film Capital - Tax credit services (Note 1)	-	1,605	2,152
	15,137	37,723	33,496
Expenses			
Operating	16,707	32,566	28,538
General and administration	1,069	1,811	2,214
	17,776	34,377	30,752
EBITDA (Note 2)	(2,639)	3,346	2,744
Depreciation and amortization	2,539	3,385	2,893
Amortization of intangible assets	868	1,769	3,662
Write-down of intangible assets	-	-	5,750
Gain on sale of EP Canada and Canada Film Capital	-	(2,305)	-
Amortization of deferred gain on sale of business interests	(298)	(39)	-
Gain on settlement of accounts payable	-	(903)	-
Interest expense	685	998	1,237
Foreign exchange (gain) loss	(822)	482	71
Restructuring costs	-	566	-
Equity investment earnings	(565)	(56)	-
Other (income) expense	(57)	(469)	(166)
	2,350	3,428	13,447
Loss before non-controlling interest and discontinued operations	(4,989)	(82)	(10,703)
Non-controlling interest	-	(45)	182
Net loss from continuing operations	(4,989)	(127)	(10,521)
Gain on sale of discontinued operations (Note 3)	97	7,602	-
Loss from discontinued operations	-	-	(3,946)
Net earnings (loss) and comprehensive income (loss) for the year	(4,892)	7,475	(14,467)
Loss from continuing operations per unit / share			
- basic and diluted	(\$0.29)	(\$0.01)	(\$0.62)
Net earnings (loss) per share / unit - basic and diluted	(\$0.28)	\$0.43	(\$0.85)

Note 1: The 2008 results include the operations of EP and CFC up to November 12, 2008, as Rainmaker sold 70% of its interests in EP and CFC on November 13, 2008.

Note 2: EBITDA is a Non-GAAP measure as defined on page 3 of this Annual Report

Note 3: Sale of Post and Visual Effects, January 8, 2008

Results of Operations

Year ended December 31, 2009 compared to 2008

Revenue

Revenue decreased \$22.6 million to \$15.1 million in 2009 from \$37.7 million in 2008. This decrease was due in part to the sale of Rainmaker's interests in EP Canada and Canada Film Capital (now operating as Base 10 Group Inc.) on November 13, 2008. No revenue was reported from either of these divisions in 2009. For 2008 EP Canada and Canada Film Capital reported revenues of \$7.1 million and \$1.6 million, respectively. In 2009 Rainmaker's 30% interest in Base 10 Group Inc. (formerly known as Canfilm Services Inc.) is reported on an equity basis.

Rainmaker's animation operations reported a decrease in revenue of \$13.9 million to \$15.1 million in 2009 from \$29.0 million in 2008. The decrease in revenue was due to fewer projects in the DVD division and external production delays on a feature film.

Operating and general and administration expenses

Operating expenses decreased \$15.9 million to \$16.7 million in 2009 from \$32.6 million in 2008. As a result of the sale of Rainmaker's interests in EP Canada and Canada Film Capital on November 13, 2008 there were no operating expenses reported from either of these divisions in 2009. For 2008 EP Canada and Canada Film Capital reported operating expenses of \$5.0 million and \$1.2 million, respectively.

The decrease in expenses for Rainmaker's animation operations was the result of lower production volumes caused by external production delays. Operating expenses which do not relate directly to the operating segments decreased \$0.3 million to \$1.2 million from \$1.5 million in 2008.

General and administration expenses decreased \$0.7 million to \$1.1 million in 2009 from \$1.8 million in 2008. This decrease was the result of the sale of EP Canada and Canada Film Capital on November 13, 2008.

Depreciation and amortization of property, plant and equipment

Depreciation and amortization of property, plant and equipment decreased \$0.9 million in 2009 to \$2.5 million as compared to \$3.4 million in 2008. For 2008 EP Canada and Canada Film Capital reported depreciation expenses of \$0.7 million and \$0.01 million, respectively.

The balance is due to decreased capital expenditures for 2009.

Amortization of intangible assets

Amortization of intangible assets decreased \$0.9 million in 2009 to \$0.9 million as compared to \$1.8 million in 2008. The decrease in amortization is the result of the sale of Rainmaker's interests in EP Canada and Canada Film Capital on November 13, 2008.

Interest expense

Interest expense decreased \$0.3 million in 2009 to \$0.7 million from \$1.0 million in 2008. The interest on long-term debt decreased \$0.2 million as the outstanding debentures were paid off in August 2009.

Foreign Exchange Gain

There was an increase in the foreign exchange gain of \$1.3 million to \$0.8 million in 2009 from a loss of \$0.5 million in 2008. Included in the 2009 exchange gain is a \$0.2 million unrealized gain from the revaluation of derivative contracts that expire in 2010.

Equity Earnings

Rainmaker's 30% interest in Base 10 Group Inc. (formerly known as Canfilm Solutions Inc.) is reported on an equity basis. For 2009 Rainmaker reported equity earnings of \$0.6 million from this investment.

Loss from continuing operations

The loss from continuing operations increased \$4.9 million in 2009 to \$5.0 million from \$0.1 million in 2008. As a result of the sale of Rainmaker's interests in EP Canada and Canada Film Capital on November 13, 2008 there were no earnings from either of these divisions in 2009. For 2008 EP Canada reported earnings of \$0.3 million and Canada Film Capital reported earnings of \$0.3 million.

The loss from Rainmaker Animation increased \$3.1 million to \$3.5 million in 2009 from \$0.4 million in 2008. The decrease in earnings from animation was the result of fewer projects in the DVD division and external production delays on the feature film. In 2008 there was also a one time gain on the settlement of accounts payable of \$0.3 million. Earnings not related to a specific segment decreased \$1.2 million to a loss of \$1.5 million in 2009 from a loss of \$0.3 million in 2008. This was due to a number of factors, the most significant being the gain on the sale of EP Canada and Canada Film Capital of \$2.3 million and a gain on settlement of accounts payable of \$0.6 million in 2008.

Gain on sale of discontinued operations

The gain on sale of discontinued operations for 2009 was \$0.1 million. This represents the use of service credits from Deluxe more fully described in Note 4 of the accompanying financial statements. The gain on sale of discontinued operations for 2008 was \$7.6 million.

Net earnings (loss) for the year

The net earnings for 2009 decreased \$12.4 million for a loss of \$4.9 million from earnings of \$7.5 million in 2008. The reasons for the decrease were mainly due to non-recurring events that happened in 2008 such as the gain on sale of discontinued operations of \$7.6 million, the gain on sale of EP Canada LP and Canada Film Capital LP of \$2.3 million and the gain on settlement of accounts payable of \$0.9 million.

Selected Fourth Quarter Information

Three months ended December 31,

All amounts are in 000's of dollars, except per share /unit figures

	<u>2009</u>	<u>2008</u>
Revenue		Note 2
Rainmaker Entertainment	4,557	5,953
EP Canada	-	1,614
Canada Film Capital	-	287
	<u>4,557</u>	<u>7,854</u>
Expenses		
Operating	3,661	6,209
General and administration	329	446
	<u>3,990</u>	<u>6,655</u>
EBITDA (Note 1)	<u>567</u>	<u>1,199</u>
Depreciation and amortization	588	728
Amortization of intangible assets	237	334
Write-down of intangibles	-	-
Gain on sale of EP Canada and Canada Film Capital	-	(2,305)
Amortization of deferred gain on sale of business interests	(75)	(39)
Gain on settlement of accounts payable	-	(588)
Equity investment earnings	(520)	(56)
Interest expense	121	250
Foreign exchange loss (gain)	(138)	454
Restructuring costs	-	118
Other income	(4)	(197)
	<u>209</u>	<u>(1,301)</u>
Earnings from continuing operations	358	2,500
Loss on sale of discontinued operations	-	(31)
Net earnings for the period	<u>358</u>	<u>2,469</u>
Net earnings per share - basic and diluted	<u>0.02</u>	<u>0.14</u>

Note 1: EBITDA is a Non-GAAP measure as defined on page 3 of this Annual Report.

Note 2: Revenue and expenses for EP Canada and Canada Film Capital are for the period October 1 to November 12, 2008. On November 13, 2008 Rainmaker sold 70% of its interest in these entities.

Revenue and operating expenses were lower in the fourth quarter of 2009 principally because EP Canada and Canada Film Capital are not included in the 2009 numbers but for 2008 are included up to November 12, 2008. Operating expenses for Rainmaker Animation were lower by \$1.7 million due to the lower production volumes. Earnings from continuing operations decreased by \$2.1 million principally due to the gain on sale of EP Canada and Canada Film Capital and the gain on settlement of accounts payable in 2008.

Summary of Quarterly Results

Below is summary information provided for the last eight financial quarters.

All amounts in 000's of dollars, except per unit figures

	Quarter Ended							
	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009
	Note 2							
Total revenue	8,855	11,028	9,986	7,854	3,929	3,581	3,070	4,557
EBITDA	828	493	826	1,199	(1,276)	(951)	(979)	567
Earnings (loss) before gain on sale of EP Canada and Canada Film Capital	(432)	(1,287)	(908)	195	(2,764)	(1,644)	(939)	358
Gain on sale of EP Canada and Canada Film Capital	-	-	-	2,305	-	-	-	-
Earnings (loss) from continuing operations	(432)	(1,287)	(908)	2,500	(2,764)	(1,644)	(939)	358
Gain (loss) on sale of discontinued operations	7,628	-	5	(31)	25	59	13	-
Net earnings (loss)	7,196	(1,287)	(903)	2,469	(2,739)	(1,585)	(926)	358
Earnings (loss) from continuing operations - per basic and diluted unit / share	(0.03)	(0.07)	(0.05)	0.14	(0.16)	(0.09)	(0.05)	0.02
Net earnings (loss) - per basic unit / share	0.42	(0.07)	(0.05)	0.14	(0.16)	(0.09)	(0.05)	0.02
Net earnings (loss) - per diluted unit / share	0.41	(0.07)	(0.05)	0.14	(0.16)	(0.09)	(0.05)	0.02

Note 1: The quarterly information has been restated to reflect the change in presentation of foreign exchange gains and losses.

Note 2: The revenue and expenses reported for EP Canada and Canada Film Capital are included up to November 12, 2008 the date of sale.

The quarterly information is unaudited, but reflects all adjustments of a normal, recurring nature, which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented. Quarter-to-quarter comparisons in the financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

Liquidity and Capital Resources

Rainmaker's liquidity needs can be met through a variety of sources. Rainmaker generates cash from operations, by borrowing against various operating lines of credit, through capital leases, the issue of shares and the sale of non-core assets.

The primary uses of cash are operating expenses, capital expenditures, interest and principal on capital leases, interest and principal on bank indebtedness and acquisitions.

As at December 31, 2009, Rainmaker had working capital of \$2.0 million compared to \$6.3 million at December 31, 2008. Significant changes during the twelve months ended December 31, 2009 were the repayment of the subordinated debentures of \$7.2 million and the use of the proceeds from the sale of EP Canada LP and Canada Film Capital LP to off-set the 2009 operating deficit. Rainmaker believes that through operations, short term financing under its credit facilities and production financing of its proprietary projects it will generate sufficient liquidity to meet cash requirements for the next 12 months.

Rainmaker has a \$10.0 million revolving credit facility available for general working capital purposes by way of production loans against film and television production tax credits on a per picture basis. The bank loan drawn on the line of credit and interest thereon is repayable upon receipt of the respective film and television tax credits. As at December 31, 2009, this credit facility has not been drawn upon, but \$2.8 million has been approved for productions that are currently in progress. The remaining \$7.2 million is available for production volume increases which would increase tax credit receivables.

Rainmaker has a \$1.0 million revolving credit facility, which can be drawn on to fund general working capital and other corporate requirements. As at December 31, 2009, no amounts had been drawn on this facility.

Contractual obligations

Below is a summary of Rainmaker's contractual obligations on a calendar basis.

All amounts are in 000's of dollars					
	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Capital lease obligations (Note 1)	\$ 6,383	\$ 1,938	\$ 3,449	\$ 996	\$ -
Operating leases (Note 2)	6,899	1,221	2,202	2,304	1,172
	\$ 13,282	\$ 3,159	\$ 5,651	\$ 3,300	\$ 1,172

Note 1 Capital lease obligations include the interest that will be paid to the end of their respective terms.

Note 2 The operating leases are principally facility leases.

Capital lease obligations at December 31, 2009 are \$5.7 million with \$0.7 million of interest payable over the terms of these leases.

Capital Expenditures

Capital expenditures for property, plant and equipment for the twelve months ended December 31, 2009 were \$0.06 million, of which \$0.04 million was financed with capital leases and the balance was financed from cash flow, as compared with \$5.3 million in 2008 of which \$3.8 million was financed with capital leases and the balance was financed from cash flow and short term bank indebtedness.

Financial Instruments

The Company periodically enters into foreign exchange purchase contracts to manage its foreign exchange risk on contracts denominated in US dollars. At December 31, 2009 the Company had currency contracts outstanding that allow the Company to sell USD \$6.6 million at an average exchange rate of 1.08. At December 31, 2009 the Company has recorded an unrealized foreign exchange gain of \$0.2 million to reflect the fair value of these currency contracts and recorded realized gains of \$0.6 million for the year.

Off-Balance Sheet Arrangements

There are no off-balance sheet obligations that are not disclosed in the financial statements.

Critical Accounting Estimates

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. A summary of the significant accounting policies used in the preparation of our financial statements is included in Note 2 of the consolidated financial statements for the year ended December 31, 2009. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore, the preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results will vary from those estimated.

Allowance for doubtful accounts

An allowance for doubtful accounts is recorded against accounts receivable that are considered to be impaired due to the expected inability of our customers to make required payments. The allowance is based on the knowledge of the financial condition of customers, the aging of receivables and historical experience. A change in one or more of these factors could impact the estimated allowance and provision for bad debts recorded.

Depreciation, amortization and valuation of property, plant and equipment

Depreciation and amortization is charged to operations over the estimated useful life of the property, plant and equipment. Management reviews its property, plant and equipment for evidence of impairment whenever events or circumstances indicate that the carrying value of an asset may exceed its estimated recoverable amount.

Proprietary film and television properties

Rainmaker accounts for its production and distribution of proprietary film and television properties in accordance with AICPA Statement of Position 00-2, "Accounting By Producers and Distributors of Film" ("SOP 00-2"). SOP 00-2 requires that film and television costs of production and acquisition are amortized using the individual film forecast method under which such costs are amortized for each film or television program in the ratio of revenue earned in the current period for such title to management's estimate of the total revenue to be realized from all media and markets for that title. Management regularly reviews and revises when necessary, its total revenue estimates on a title-by-title basis, which may result in a change in the rate of amortization and/or a write-down of the film and television asset to the estimated fair value amount. Results of operations in future years are dependent upon the amortization of film and television costs and may be significantly affected by periodic adjustments in amortization rates. As a result, Rainmaker's financial results may fluctuate from period to period. If estimates of ultimate revenues change with respect to a film or television program, causing reductions in fair values, Rainmaker may be required to write-down all or a portion of the related unamortized costs. The fair value of the film or television program is determined using management's estimates of future revenues and costs under a discounted cash flow approach and a write-down equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film or television program is recorded in operating costs.

Revenue recognition

Revenue from production services agreements are recognized using the percentage-of-completion method based upon the proportion of costs incurred relative to total estimated costs. Rainmaker may need to adjust the estimated costs to complete these projects if the actual results differ from Rainmaker's

estimates. The project-to-date effect of any changes in estimates of costs to complete is recognized in the period when the change is determined by management.

Revenue from licensing of film and television programming is recognized only when persuasive evidence of a sale or licensing arrangement with a customer exists, the film is complete, the contractual delivery arrangements have been satisfied, the license period has commenced, the arrangement fee is fixed or determinable, collectibility of the proceeds is reasonably assured and other conditions as specified in the respective agreements have been met.

Revenue from merchandising and licensing contracts for the sale of related rights is recognized when the contracts are executed, the guaranteed minimum amounts are known and collectible, and the license period has commenced. Amounts receivable in excess of non-refundable guaranteed amounts, royalties and other contractual payments are recognized as revenue when the amounts are known and become due provided collectibility is reasonably assured.

Cash received in advance of meeting the revenue recognition criteria described above is recorded as deferred revenue.

Changes in Accounting Policies including Initial Adoption

As discussed more fully in Note 2 of these Consolidated Financial Statements, Rainmaker adopted the new accounting standard issued by the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, Goodwill and Intangible Assets and the amended Section 1000, Financial Statement Concepts. These new Sections clarify the criteria for the recognition of assets, intangible assets and internally developed intangible assets. Items that no longer meet the definition of an asset are no longer recognized with assets. This accounting policy change was adopted retrospectively and comparative figures have been restated.

Future Changes in Accounting Policies

International Financial Reporting Standards (“IFRS”)

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with International Financial Reporting Standards (“IFRS”) by 2011. Rainmaker will be required to report according to IFRS standards for the first time for the quarter ending March 31, 2011 with restated comparative figures for the same period in 2010. As a first-time adopter of IFRS, the company is required to apply IFRS 1 “First time adoption of International Financial Reporting Standards”. A number of exemptions are available under this Standard which Rainmaker is currently evaluating. The more significant exemptions include: electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances and avoiding a retroactive restatement of previous business combinations under IFRS.

The company has developed a plan for the conversion to IFRS, details of which are listed below.

Key activities	Milestones/deadlines	Progress made and yet to be completed
Financial statement preparation: Identification of differences between Canadian GAAP and IFRS accounting policies and choices <ul style="list-style-type: none"> • Selection of the Company's continuing IFRS policies • Selection of IFRS 1 accounting policy choices • Financial statement format • Quantification of effects of change in IFRS 1 disclosures and 2010 financial statements including note disclosure 	Ready for commencement of planning for 2011 by June 30, 2010	Significant areas of differences identified, final choices under IFRS 1 to be made by July, 2010
Infrastructure requirements: IFRS expertise identification and development at level of: <ul style="list-style-type: none"> • Finance and accounting personnel • Board level, including audit committee Information technology including: <ul style="list-style-type: none"> • Systematic processing changes • Program upgrades • One-off calculations (IFRS 1) • Disclosure data gathering • Budget and forecast monitoring processes 	Ready for commencement of 2010 conversion by June 30, 2010 Ready for parallel processing of 2010 transactions and monitoring processes	Leadership team and resources identified. Introductory training completed. Further development of expertise in 2010. Scoping and resource assessment to be finalized in 2010.
Business activity assessment: <ul style="list-style-type: none"> • Effects on financial debt covenants • Effects on compensation arrangements 	Renegotiated debt covenants by August 31, 2010 Renegotiated compensation arrangements by September 30, 2010	Identification of GAAP-dependent debt covenants underway. Identification of GAAP-dependent metrics underway
Control environment – internal controls over financial reporting: <ul style="list-style-type: none"> • Accounting policy determination, documentation and implementation • Independent review of application 	Review and signoff by management, and review by Audit Committee, of all accounting policy changes by September 30, 2010. Implementation review by external auditor by December 31, 2010. CEO/CFO certification process updated by December 31, 2010.	Scoping and resource assessment to be finalized in 2010.
Control environment – disclosure controls and procedures: <ul style="list-style-type: none"> • External communication plan development 	Publication of revised 2010 results and MD&A by May 15, 2011	Scoping and resource assessment to be finalized in 2010.

Business Combinations

CICA accounting standard Business Combinations (Section 1582), replaces Business Combinations (Section 1581). CICA 1582 improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to: an expanded definition of a business, a

requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact adopting this section will have on its consolidated financial statements.

Consolidated Financial Statements

CICA accounting standard Consolidated Financial Statements (Section 1601), in combination with Non-controlling Interests CICA 1602 replaces Consolidated Financial Statements (Section 1600). CICA 1601 establishes standards for the preparation of consolidated financial statements and specifically addresses consolidation accounting following a business combination that involves the purchase of an equity interest in one company by another. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact adopting this section will have on its consolidated financial statements.

Non-controlling Interests

CICA accounting standard Non-controlling Interests (Section 1602), in combination with Consolidated Financial Statements (Section 1601), replaces Consolidated Financial Statements (Section 1600). CICA 1602 establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact adopting this section will have on its consolidated financial statements.

Risks and Uncertainty

Rainmaker is incorporated under the laws of the Province of British Columbia. The company is entirely dependent upon the earnings and cash flow generated from operations. This may fluctuate with the performance of the businesses, which can be susceptible to a number of risks. These risks may include, but are not limited to dependence on key customers, foreign currency fluctuations, government regulations regarding tax credit programs and competition. Continued steps to mitigate risks through operating procedures are taken.

A more in depth discussion of the business risks can be found in Rainmaker's Annual Information Form.

Controls and Procedures

Management is responsible for establishing and maintaining adequate internal control over financial reporting (ICFR) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company has conducted an evaluation of the design and effectiveness of ICFR as of December 31, 2009, based on the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The evaluation was conducted under the supervision and with the participation of management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"). Based on this evaluation, management has concluded that as of December 31, 2009, the Company maintained effective ICFR.

Management maintains disclosure controls and procedures (DC&P) designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings and other reports filed or submitted under securities legislation are recorded, processed, summarized, and

reported within the required time periods. The CEO and CFO, after evaluating the effectiveness of the Company's DC&P as of December 31, 2009, have concluded that disclosure controls and procedures, as of such date, were effective to provide reasonable assurance that information required to be disclosed by the Company that it files or submits, is (i) recorded, processed, summarized and reported within the time periods as required, and (ii) accumulated and made known to management, including the CEO and CFO, to allow timely decisions regarding required disclosure.

There have been no changes in internal control over financial reporting in 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Outstanding Shares

As at March 29, 2010, the company had 17,485,175 common shares issued and outstanding.

Other

Additional information and other publicly filed documents relating to Rainmaker, including the Annual Information Form, are available through the internet on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR"), which can be accessed at www.sedar.com.

RAINMAKER ENTERTAINMENT INC.

Consolidated Balance Sheets

as at December 31,
Expressed in thousands of dollars

Assets	<u>2009</u>	<u>2008</u>
Current		Restated Note 2(p)
Cash	\$ 2,800	\$ 6,886
Accounts receivable (Note 3)	6,613	13,736
Note receivable (Note 4)	-	2,643
Prepaid expenses and deposits	469	599
	<u>9,882</u>	<u>23,864</u>
Property, plant and equipment (Note 6)	4,022	6,501
Intangible assets (Note 8)	968	1,623
Note receivable (Note 5)	500	500
Investment in Base 10 Group Inc. (Note 5)	2,327	1,761
Other (Note 7)	1,043	1,017
	<u>\$ 18,742</u>	<u>\$ 35,266</u>
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 1,198	\$ 2,046
Deferred revenue	5,089	6,906
Current portion of long term debt (Note 9)	-	6,997
Current portion of capital lease obligations payable (Note 10)	1,620	1,584
	<u>7,907</u>	<u>17,533</u>
Capital lease obligations (Note 10)	4,097	5,597
Other (Note 11)	208	499
Deferred gain on sale of business interests (Note 5)	853	1,151
	<u>13,065</u>	<u>24,780</u>
Shareholders' Equity	<u>5,677</u>	<u>10,486</u>
	<u>\$ 18,742</u>	<u>\$ 35,266</u>

See accompanying notes to these consolidated financial statements

Approved by: the Directors

"D.C. Selman"

D.C. Selman, Director

"Warren Franklin"

Warren Franklin, Director

RAINMAKER ENTERTAINMENT INC.
Consolidated Statements of Operations and Comprehensive Income (Loss)
for the twelve months ended December 31,
Expressed in thousands of dollars, except share and per share unit amounts

	2009	2008
		Restated Note 2(p)
Revenue	\$ 15,137	\$ 37,723
Expenses		
Operating (Note 17)	16,707	32,566
General and administration	1,069	1,811
	17,776	34,377
Earnings before undernoted items	(2,639)	3,346
Depreciation and amortization	2,539	3,385
Amortization of intangible assets	868	1,769
Gain on sale of EP Canada LP and Canada Film Capital LP	-	(2,305)
Amortization of deferred gain on sale of business interests	(298)	(39)
Equity investment earnings	(565)	(56)
Restructuring costs (Note 14)	-	566
Interest expense (Note 19)	685	998
Foreign exchange (gain) loss	(822)	482
Stock-based compensation expense (recovery) (Note 13)	79	(128)
Loss on sale of property, plant and equipment	-	6
Gain on settlement of accounts payable (Note 18)	-	(903)
Interest income	(136)	(347)
	2,350	3,428
Loss before non-controlling interest and discontinued operations	(4,989)	(82)
Non-controlling interest	-	(45)
Loss from continuing operations	(4,989)	(127)
Gain on sale of discontinued operations (Note 4)	97	7,602
Net earnings (loss) and comprehensive income (loss) for the year	\$ (4,892)	\$ 7,475
Loss from continuing operations per unit / share - basic and diluted	(\$0.29)	(\$0.01)
Net (loss) earnings per share - basic	(\$0.28)	\$0.43
Net (loss) earnings per share - diluted	(\$0.28)	\$0.43
Weighted average number of shares outstanding Basic (Note 12(c))	17,482,258	17,336,829

See accompanying notes to these consolidated financial statements

RAINMAKER ENTERTAINMENT INC.
Consolidated Statement of Shareholders' Equity
for the twelve months ended December 31, 2009
Expressed in thousands of dollars

	Shareholders' Capital	Accumulated Deficit	Contributed Surplus	Total
Balance as at December 31, 2007	\$ 34,543	\$ (31,843)	\$ 340	\$ 3,040
Net earnings and comprehensive earnings for the year	-	7,475	-	7,475
Conversion of Class B Partnership Units to shares	46			46
Units issued on exercise of unit options (Note 12)	174	-	(121)	53
Contributed surplus on compensation costs relating to share options	-	-	(128)	(128)
Balance as at December 31, 2008	\$ 34,763	\$ (24,368)	\$ 91	\$ 10,486

	Shareholders' Capital	Accumulated Deficit	Contributed Surplus	Total
Balance as at December 31, 2008	\$ 34,763	\$ (24,368)	\$ 91	\$ 10,486
Net loss and comprehensive loss for the year	-	(4,892)	-	(4,892)
Units issued on exercise of unit options (Note 12)	4	-	-	4
Contributed surplus on compensation costs relating to share options	-	-	79	79
Balance as at December 31, 2009	\$ 34,767	\$ (29,260)	\$ 170	\$ 5,677

See accompanying notes to these consolidated financial statements

RAINMAKER ENTERTAINMENT INC.

Consolidated Statement of Cash Flows

for the twelve months ended December 31,

Expressed in thousands of dollars

	2009	2008
Operating Activities		Restated Note 2(p)
Net loss from continuing operations	\$ (4,989)	\$ (127)
Items not involving cash		
Depreciation and amortization	3,407	5,154
Amortization of film and television properties	33	141
Amortization of deferred gain on sale of business interest	(298)	(39)
Gain on sale of EP Canada and Canada Film Capital	-	(2,305)
Gain on settlement of accounts payable	-	(903)
Equity investment earnings	(565)	(56)
Interest expense on debenture	209	403
Non-controlling interest	-	45
Compensation expense (recoveries) relating to share options	79	(128)
Other	133	14
	(1,991)	2,199
Changes in non-cash operating working capital (Note 15)	7,253	(4,971)
	5,262	(2,772)
Financing Activities		
Repayment of bank indebtedness	-	(2,774)
Repayment of long term debt	(7,206)	(9,000)
Repayment of capital leases	(1,602)	(1,261)
Proceeds of units issued	4	53
	(8,804)	(12,982)
Investing Activities		
Purchase of property, plant and equipment	(23)	(1,480)
Purchase of intangible assets	(135)	(361)
Proceeds on sale of discontinued operations, net of costs	-	12,690
Proceeds on sale of EP Canada LP and Canada Film Capital LP net of transaction costs (Note 5)	-	10,940
Other	(386)	166
	(544)	21,955
Increase (decrease) in cash for the year	(4,086)	6,201
Cash at beginning of year	6,886	685
Cash at end of year	\$ 2,800	\$ 6,886
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	\$ 413	\$ 593
Non-cash Investing and Financing activities		
Acquisition of property, plant and equipment and intangibles financed with capital leases	\$ 117	\$ 4,507

See accompanying notes to these consolidated financial statements

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

1. Nature of operations

Rainmaker Entertainment Inc. (“Rainmaker”) is incorporated under the laws of the Province of British Columbia. Rainmaker and its subsidiaries are involved in the production and distribution of animated films and television programs. Through Rainmaker’s ownership of EP Canada and Canada Film Capital (now operating as Base 10 Group Inc.) up to November 12, 2008 and subsequent to that its equity investment in Base 10 Group Inc. it is also involved in payroll processing for the film and television industry in Canada and the administration and financing of film and television production tax credits.

The conversion from an income trust into a corporation was completed on August 1, 2008. The holders of trust units of Rainmaker Income Fund and Class B limited partnership units of RNK Capital Limited Partnership received one common share of Rainmaker Entertainment Inc. for each unit. The new shares of Rainmaker Entertainment Inc. started trading on the Toronto Stock Exchange on August 7, 2008 under the symbol RNK.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following accounting policies:

(a) *Basis of presentation*

These consolidated financial statements include the accounts of Rainmaker and its production subsidiaries. All significant intercompany balances and transactions have been eliminated. Certain of the comparative figures have been reclassified to conform with the current year’s presentation.

(b) *Measurement uncertainty*

The preparation of consolidated financial statements in accordance with 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. Significant areas that involve estimates include the provision for doubtful accounts receivable, the depreciation and amortization of property, plant and equipment, the amortization of intangible assets, revenue recognition, including the determination of the percentage completion of specific services, calculation of stock based compensation, valuation allowance on future income tax and certain provisions for possible future liabilities. Since estimates and assumptions are limited by the relevance of historical data and uncertainty of future events, actual results could differ from those estimates.

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(c) *Foreign exchange*

Monetary assets and liabilities are translated to Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the exchange rate prevailing at the time of the transaction. Gains and losses on foreign exchange transactions are recorded in income.

(d) *Property, plant and equipment*

Property, plant and equipment are recorded at cost. Depreciation and amortization is charged to operations over the estimated useful life of the assets at the following annual rates:

Operating equipment	straight line over 1 to 5 years
Software	straight-line over 3 years
Furniture and office equipment	straight-line over 5 years
Leasehold improvements	straight-line over 7 years

Property, plant and equipment are reviewed for impairment on a periodic basis and when the undiscounted estimated future cash flows resulting from the use of the assets and its eventual disposition is less than the carrying value, the difference between the estimated fair value and the carrying value is charged to operations in the period.

(e) *Intangible assets*

The intangible assets are software that has been reclassified per the new CICA Section 3064, Goodwill and Intangible Assets. This software is being amortized straight-line over three years and is reviewed for impairment on a periodic basis. When the undiscounted estimated future cash flows resulting from the use of the software is less than the carrying value, an impairment is charged to operations.

(f) *Revenue recognition*

(i) Revenue from animation production services for third parties is recognized on a percentage-of-completion basis. Percentage-of-completion is based upon the proportion of costs incurred in the current period to total expected costs. Invoices related to these projects are issued based on the achievement of milestones during the project or other contractual terms. Differences between the timing of billings, based on contract milestones or other contractual terms, and the recognition of revenue, based on the percentage of completion method, are recognized as unbilled accounts receivable. When contract payments have been received in excess of revenue recognized, the excess is recorded as a deferred revenue liability.

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(f) *Revenue recognition (continued)*

- (ii) Revenue from the licensing of film and television properties is recognized only when persuasive evidence of a sale or licensing arrangement with a customer exists, the production is complete, the contractual delivery arrangements have been satisfied, the license period has commenced, the arrangement fee is fixed or determinable, collectability of the proceeds is reasonably assured and other conditions as specified in the respective agreements have been met.

(g) *Government financing and assistance*

The Federal and certain Provincial governments in Canada provide programs that are designed to assist film and television production. Amounts receivable in respect of production assistance are recorded as a reduction to the related production operating costs, or to investment in film and television properties, when conditions for eligibility of production assistance have been met, the qualifying expenditures have been incurred, and collection of the amount is reasonably assured.

(h) *Stock-based compensation plan*

(i) Stock Options

The stock-based compensation plan, which is more fully described in Note 13, values the compensation expense in two different ways depending on when the options were issued. For options that were issued prior to August 1, 2008 (the date of conversion) the value of the compensation to be recorded is measured each period using a variable accounting method based on the difference between the current share price and the exercise price of the share options at the end of the period. For the options that were granted subsequent to conversion, the company used the Black-Scholes option-pricing model to determine the estimated fair value of the options granted.

(ii) Deferred Compensation

The Company also issues deferred shares, where the Company will pay out the cash equivalent of the market value of shares upon the individual's departure from the Company. The liability is marked-to-market at each reporting period. The expense or recovery is charged to operations at each reporting date.

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(i) *Financial Instruments*

The Company's financial instruments are classified into one of the following categories: held for trading, held-to-maturity, available for sale, loans and receivables, and other financial liabilities. The classification determines the accounting treatment of the instrument. The classification is determined by the Company, when the financial instrument is initially recorded based on the underlying purpose of the instrument.

The Company's financial assets and financial liabilities are classified and measured as follows:

<u>Financial Instrument</u>	<u>Category</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Derivative instruments	Held for trading	Fair value
Bank indebtedness	Held for trading	Fair value
Notes receivable	Loans and receivables	Amortized cost
Accounts payable	Other financial liabilities	Amortized cost
Capital lease obligations	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost

(j) *Investment in film and television properties*

Investment in film and television properties represents the unamortized cost of proprietary film and television programs which have been produced by Rainmaker or to which Rainmaker has acquired distribution rights.

Amortization of investment in film and television properties and the accrual of participation costs are based on the ratio that current revenues bear to estimated ultimate total revenue. Estimates of ultimate total revenue in respect of a particular property include revenue from a market or territory only when persuasive evidence exists that such revenue will occur, or there is a history of earning such revenue in the market or territory.

Revenue estimates are prepared on a title-by-title basis and are reviewed periodically based on current market conditions. Ultimate total revenue includes estimates of secondary market revenue for produced episodes only when it can demonstrate through experience or industry norms that the number of episodes already produced, plus those for which a firm commitment exists and delivery is expected, can be licensed successfully in the secondary market. Estimates of future revenue involve measurement uncertainty and it is therefore possible that reductions in the carrying value of investment

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(j) *Investment in film and television properties (continued)*

in film and television properties may be required as a consequence of changes in management's future revenue estimates.

The valuation of investment in film and television properties is reviewed on a title-by-title basis. When an event or change in circumstances indicates that the fair value of a film or television property is less than its unamortized cost, the fair value of the film or television property is determined using management's estimates of future revenues and costs under an undiscounted cash flow approach. A write-down is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film or television property.

(k) *Development Costs*

Development costs include the costs of acquiring film rights to books, scripts or original screenplays and the costs to adapt such projects, including visual development and design. Such costs are capitalized as projects in development and upon commencement of production are added to investment in film and television properties. Advances or contributions received from third parties to assist in development are deducted from these costs. Projects in development are written off as development expenses at the earlier of the date they are determined not to be recoverable or when the project under development is abandoned.

(l) *Income taxes*

Until August 1, 2008 Rainmaker Income Fund was a mutual fund trust as defined under the Income Tax Act of Canada and accordingly was not subject to taxation on its earnings to the extent that its earnings were distributed to its unitholders. Accordingly, no provision for income taxes has been made in respect of the Fund or its consolidated non-corporate subsidiaries up to this date. After the conversion to a corporate structure, Rainmaker and its Corporate subsidiaries are subject to tax and follow the asset and liability method of accounting for income taxes. Under this method, temporary differences between the carrying amount of balance sheet items and their corresponding tax bases result in either future income tax assets or liabilities. Future income taxes are computed using substantively enacted tax rates for the years in which the differences are expected to reverse. Future income tax assets are only recognized to the extent that, in the opinion of management, assets will more likely than not be realized.

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(m) *Asset retirement obligations*

Asset retirement obligations relate to the recognition and measurement of liabilities for obligations associated with the retirement of property, plant and equipment when those obligations result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset.

(n) *Earnings per share*

Basic earnings per share is calculated by dividing the net earnings by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share is calculated based on the basic weighted average number of shares outstanding during the period, plus the effect of dilutive share equivalents such as options. The diluted per share amounts are calculated using the treasury stock method, as if all the share equivalents where average market price exceeds issue price had been exercised at the beginning of the reporting period, or at the date of issue, if later, and that the funds obtained thereby were used to purchase shares of Rainmaker at the average trading price of the shares during the period. The effect of options that are anti-dilutive are excluded from the weighted average number of shares outstanding.

(o) *Equity Investments*

Investments over which the Company has the ability to exercise significant influence but not control are accounted for by the equity method. Under this method, the investment is initially recorded at cost and adjusted thereafter to record the Company's share of post acquisition earnings or loss of the investee as if the investee had been consolidated. The carrying value of the investment is also increased or decreased to reflect the Company's share of capital transactions, including amounts recognized in other comprehensive income, and for accounting changes that relate to periods subsequent to the date of acquisition. When there is a loss in value of an equity accounted investment which is other than temporary, the investment is written down to recognize the loss by a charge included in net income.

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(p) *Changes and adoption of accounting policies*

Goodwill and Intangibles (CICA Handbook Section 3064)

Effective January 1, 2009, Rainmaker adopted the new CICA Section 3064 Goodwill and Intangible Assets. As a result of adopting this new standard, certain computer software costs previously recorded as property, plant and equipment are now recorded as intangible assets. The Company has adopted this new section on a retrospective basis, so prior period figures have been restated. The impact of this change in accounting policy is as follows:

	<u>Year ended</u> <u>December 31, 2008</u>
Consolidated Balance Sheet	
Decrease in property, plant and equipment	(1,623)
Increase in intangible assets	1,623
Consolidated Statement of Operations	
Decrease in depreciation of property, plant and equipment	(751)
Increase in amortization of intangible assets	751
Consolidated Statement of Cash Flows	
Decrease in purchase of property, plant and equipment	(361)
Increase in purchase of intangible assets	361

The amortization of this software is straight-line over 3 years.

Financial Instruments (CICA Handbook Section 3862)

In June 2009, the CICA issued amendments to Section 3862, “Financial Instruments – Disclosures” effective for the Company’s December 31, 2009 financial statements. This Amendment requires disclosure about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measure.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Fair values measured using unadjusted quoted prices in active markets for identical instruments.
- Level 2 - Fair values measured using directly or indirectly observable inputs, other than those included in Level 1.
- Level 3 - Fair values measured using inputs that are not based on observable market data.

RAINMAKER ENTERTAINMENT INC.
Notes to the Consolidated Financial Statements
For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

2. Significant accounting policies (continued)

(p) *Changes and adoption of accounting policies (continued)*

Financial Instruments (continued)

As of December 31, 2009 the Company's classification of financial instruments within the fair value hierarchy are cash – level 1 and derivative instruments level 2.

(q) *Future changes in accounting policies*

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA adopted a strategic plan for the direction of accounting standards in Canada. Accounting standards for public companies in Canada will converge with International Financial Reporting Standards ("IFRS") by 2011.

Rainmaker will be required to report according to IFRS standards for the year ended December 31, 2011. Rainmaker is currently assessing the impact of the conversion of Canadian GAAP to IFRS on our results of operations, financial position and disclosures and developing an IFRS changeover plan.

Business Combinations

CICA accounting standard Business Combinations (Section 1582), replaces Business Combinations (Section 1581). CICA 1582 improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements about a business combination and its effects. This section outlines a variety of changes, including but not limited to: an expanded definition of a business, a requirement to measure all business combinations and non-controlling interests at fair value, and a requirement to recognize future income tax assets and liabilities and acquisition and related costs as expenses of the period. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact of adopting this section on its consolidated financial statements.

Consolidated Financial Statements

CICA accounting standard Consolidated Financial Statements (Section 1601), in combination with Non-controlling Interests CICA 1602 replaces Consolidated Financial Statements (Section 1600). CICA 1601 establishes standards for the preparation of consolidated financial statements and specifically addresses consolidation accounting following a business combination that involves the purchase of an equity interest in one company by another. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact of adopting this section on its consolidated financial statements.

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

(g) Significant accounting policies (continued)

(q) Future changes in accounting policies (continued)

Non-controlling Interests

CICA accounting standard Non-controlling Interests (Section 1602), in combination with Consolidated Financial Statements (Section 1601), replaces Consolidated Financial Statements (Section 1600). CICA 1602 establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The section applies to all financial statements for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Rainmaker is currently evaluating the impact of adopting this section on its consolidated financial statements.

3. Accounts receivable

	2009	2008
Trade receivables, net of allowance for doubtful accounts	\$ 1,096	\$ 1,198
Tax credits receivable	5,202	12,319
Other receivables	315	219
	\$ 6,613	\$ 13,736

4. Discontinued Operations

On January 8, 2008, Rainmaker sold the net assets of its post production and visual effects operations to Deluxe Vancouver Ltd. and Deluxe Entertainment Services Group Inc. (collectively "Deluxe") for cash of \$14,000,000, and a promissory note for \$2,543,000 due January 8, 2009 with interest at 6%. At December 31, 2008 an allowance of \$49,000 was taken against the note to account for uncollected receivable balances that were returned by Deluxe. The note receivable and accrued interest, net of the allowance, were paid in full January 8, 2009. In addition Rainmaker may earn an additional \$6,000,000 based on revenue targets and is entitled to \$5,000,000 in service credits from Deluxe for its animation projects. The additional earn-outs from revenue targets and service credits are treated as contingent consideration. The gains will be recognized when there is assurance that the benefit of services will be received and the earnings targets are met. As at December 31, 2009 \$97,000 (2008 - \$17,000) for these contingent service credits has been recognized in the consolidated statement of operations but none of the performance targets have been recognized.

5. Partial Sale of Business Interests

On November 13, 2008, Rainmaker sold the net assets of EP Canada LP and Canada Film Capital LP to Base 10 Group Inc. ("Base 10"). Shareholders of Base 10 Group Inc. include former directors of Rainmaker and certain senior management of EP Canada and Canada Film Capital. Rainmaker retained a 30% equity interest in the new entity. Since Rainmaker retains significant influence over

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009

(tabular note amounts in thousands of dollars)

5. Partial Sale of Business Interests (continued)

the new entity the operations have not been reclassified as discontinued operations (see Note 21 – Segmented Information for details of operating results and capital employed).

Rainmaker received \$11,213,600 cash on closing, a subordinated note receivable of \$500,000 due November 13, 2013 with interest at 7%. In addition Rainmaker may earn an additional \$2,750,000 earn-out based on revenue targets. The additional earn-out is being treated as contingent consideration, and gains will be recognized only when the obligation to pay the contingent consideration arises.

The sale to Base 10 was an arms length transaction. The gain on sale of \$2,305,000 that has been recognized in 2008 represents the difference between 70% of the agreed fair market value of the assets sold and 70% of the previously recorded carrying value of the operations in Rainmaker's accounts adjusted for transaction costs. The carrying value of the 30% investment in Base 10 has been recorded at \$1,705,000, the fair value at November 13, 2008, with \$1,190,000 recorded as a deferred gain which will be amortized into income proportionately to the amortization of the premium paid by Base 10 for the assets over Rainmaker's carrying value. For the year ended December 31, 2009, \$298,000 has been amortized into income (2008 - \$39,000).

6. Property, plant and equipment

	2009		
	Cost	Accumulated Depreciation	Net Book Value
Operating equipment	\$ 9,576	\$ 6,755	\$ 2,821
Software	6	4	2
Leasehold improvements	1,815	804	1,011
Furniture and office equipment	358	170	188
	<u>\$ 11,755</u>	<u>\$ 7,733</u>	<u>\$ 4,022</u>
	2008		
	Cost	Accumulated Depreciation	Net Book Value
Operating equipment	\$ 9,521	\$ 4,480	\$ 5,041
Software	6	2	4
Leasehold improvements	1,815	610	1,205
Furniture and office equipment	352	101	251
	<u>\$ 11,694</u>	<u>\$ 5,193</u>	<u>\$ 6,501</u>

Operating equipment includes assets under capital lease, which have a cost at December 31, 2009 of \$6,872,000 (2008 - \$7,005,000) and a net book value of \$2,820,000 (2008 - \$4,562,000).

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

7. Other assets

	<u>2009</u>	<u>2008</u>
Investment in film and television properties	\$ 570	\$ 604
Projects in development	185	154
Deposits and other	287	243
Deferred employee compensation	1	16
	<u>\$ 1,043</u>	<u>\$ 1,017</u>

(a) *Investment in film and television properties*

The investment in film and television properties is the unamortized carrying value related to various distribution rights that have been acquired.

(b) *Projects in development*

Projects in development costs relate to projects currently being developed.

8. Intangible assets

	<u>2009</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer software	\$ 3,255	\$ 2,287	\$ 968
	<u>\$ 3,255</u>	<u>\$ 2,287</u>	<u>\$ 968</u>
	<u>2008</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computer software	\$ 3,041	\$ 1,418	\$ 1,623
	<u>\$ 3,041</u>	<u>\$ 1,418</u>	<u>\$ 1,623</u>

Intangible assets includes software under capital lease, which have a cost at December 31, 2009 of \$1,933,000 (2008 - \$1,853,000) and a net book value of \$724,000 (2008 - \$1,268,000).

9. Long term debt

	<u>2009</u>	<u>2008</u>
Debentures, current portion	\$ -	\$ 6,997

On June 30, 2009 the Company repaid \$4,700,000 of the outstanding subordinated debentures. The Company repaid the remaining balance on August 28, 2009.

RAINMAKER ENTERTAINMENT INC.

Notes to the Consolidated Financial Statements

For the twelve months ended December 31, 2009
(tabular note amounts in thousands of dollars)

10. Capital lease obligations payable

	2009	2008
Lease expiring in 2013 at interest rate of 6.43%	\$ 1,425	\$ 1,771
Lease expiring in 2013 at interest rate of 6.15%	2,563	3,102
Lease expiring in 2012 at interest rate of 5.95%	104	-
Lease expiring in 2012 at interest rate of 7.25%	935	1,185
Lease expiring in 2012 at interest rate of 6.13%	408	568
Lease expiring in 2011 at interest rate of 5.88%	265	443
Leases expiring in 2010 at interest rate of 5.71%	17	-
Leases expiring in 2009 at interest rate of 9.62%	-	112
	5,717	7,181
Less: Current portion	(1,620)	(1,584)
	\$ 4,097	\$ 5,597

The capital leases are secured by the related property, plant and equipment. The future scheduled minimum lease payments are as follows:

2010	\$ 1,938
2011	1,799
2012	1,650
2013	996
	6,383
Less: imputed interest	(666)
	\$ 5,717

11. Other liabilities

	2009	2008
Deferred compensation liability	\$ 130	\$ 110
Accrued liability	-	335
Other	78	54
	\$ 208	\$ 499

Deferred Compensation Liability

Rainmaker has a compensation plan whereby it has agreed to pay an executive and a director the cash equivalent of 296,733 shares of Rainmaker upon the termination of the executive's employment agreement and the director's term on the board. Of the 296,733 shares 196,095 are vested, 55,638 shares vest at December 31, 2010 and 45,000 shares vest December 31, 2011. The liability is re-valued at the end of each period to the market value of the underlying shares. The expense or recovery is charged to operations at each reporting date.

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12. Shareholders' Equity and Unitholders' Capital

Authorized Common Shares: Unlimited

(a) *Common shares of Rainmaker Entertainment Inc.*

	Year ended December 31, 2009		Year ended December 31, 2008	
	Number of Shares	Amount	Number of Shares	Amount
Balance at beginning of period	17,480,175	\$ 34,763	-	\$ -
Issued on corporate conversion (Note 1)	-	-	17,239,439	34,717
Issued for cash on the exercise of options	5,000	4	-	-
Conversion of non-controlling interest Class B LP Units to shares	-	-	240,736	46
Balance at end of period	17,485,175	\$ 34,767	17,480,175	\$ 34,763

(b) *Trust Units of Rainmaker Income Fund*

	Year ended December 31, 2008	
	Number of Trust Units	Amount
Balance at beginning of period	17,169,439	\$ 34,543
Issued for cash on the exercise of unit options	70,000	53
Reallocation of contributed surplus on exercise of unit options	-	121
Exchanged for Rainmaker common shares (Note 1)	(17,239,439)	(34,717)
Balance at end of period	-	\$ -

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12. Shareholders' Equity and Unitholders' Capital (continued)

(c) *Diluted earnings per share*

Diluted earnings per share is calculated based on the following weighted average of shares outstanding:

	<u>2009</u>	<u>2008</u>
Basic weighted average number of shares outstanding	17,482,258	17,336,829
Effect of dilutive options	-	66,923
Diluted weighted average number of shares outstanding	<u>17,482,258</u>	<u>17,403,752</u>

The following stock options are excluded from the computation of diluted earnings (loss) per share / unit because either the exercise price exceeds the average market value of the common shares or due to the Company reporting a loss which results in the options being anti-dilutive.

	<u>2009</u>	<u>2008</u>
Stock Options	<u>930,000</u>	<u>525,000</u>

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13. Stock based compensation plan

Pursuant to the Company's stock option plan, directors may, from time to time, authorize the granting of options to directors, employees and consultants of the Company to a maximum of 1,660,000 shares. Options granted under the plan have a term not to exceed 10 years and vesting periods that range from zero to five years.

As at December 31, 2009, there were share options outstanding to allow employees and directors to purchase a total of 930,000 shares (2008 – 635,000).

Outstanding Dec. 31, 2008	Granted	Exercised	Forfeited	Outstanding Dec. 31, 2009	Expiry Date	Exercise Price	Number Vested
110,000	-	(5,000)	(75,000)	30,000	June 2012	\$0.76	30,000
525,000	-	-	(225,000)	300,000	Aug. 2013	\$2.35	135,000
-	100,000	-	-	100,000	May 2014	\$1.00	10,000
-	250,000	-	-	250,000	June 2014	\$0.87	25,000
-	75,000	-	-	75,000	Sept. 2014	\$0.87	75,000
-	100,000	-	-	100,000	Nov. 2014	\$0.87	-
-	75,000	-	-	75,000	Dec. 2014	\$0.87	-
635,000	600,000	(5,000)	(300,000)	930,000			275,000

Outstanding Dec. 31, 2007	Granted	Exercised	Forfeited	Outstanding Dec. 31, 2008	Expiry Date	Exercise Price	Number Vested
180,000	-	(70,000)	-	110,000	June 2012	\$0.76	110,000
-	525,000	-	-	525,000	Aug. 2013	\$2.35	131,250
180,000	525,000	(70,000)	-	635,000			241,250

For options that were issued prior to August 1, 2008 (the date of conversion from an Income Trust) the value of compensation to be recorded is measured each period using a variable accounting method based on the difference between the current unit price and the exercise price of the share options at the end of the period. The quoted market price of the shares as at December 31, 2009 was \$0.45 (2008 - \$0.60), whereas the exercise price as at September 30, 2009 was \$0.76 (2008 - \$0.76) per unit. At December 31, 2009 there were 30,000 of these options outstanding (2008 – 110,000). For the twelve months ending December 31, 2009 the Company recognized a compensation expense of \$2,400 in relation to these options.

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13. Stock based compensation plan (continued)

For the options that were issued subsequent to the conversion, the Company uses the Black-Scholes option-pricing model to determine the estimated fair value of the options issued. In all the calculations the estimated life was five years and the annual distribution yield was assumed to be nil. All other details are summarized below:

Grant Date	Options Granted		Volatility Rate	Risk Free Interest Rate	Weighted average Fair Value at Grant Date	Vesting Periods	Expense for the year ended Dec. 31, 2009
Aug. 2008	525,000	(1)	25.2%	3.50%	\$ 0.69	20% on grant and 5% each quarter thereafter	49
May 2009	100,000		44.7%	2.30%	\$ 0.42	5% each quarter following award date	4
June 2009	250,000		45.4%	2.72%	\$ 0.37	5% each quarter following award date	9
Sept. 2009	75,000		46.5%	2.00%	\$ 0.19	On award	15
Nov. 2009	100,000		51.0%	2.00%	\$ 0.25	5% each quarter following award date	-
Dec. 2009	75,000		52.4%	2.00%	\$ 0.11	5% each quarter following award date	-
	<u>1,125,000</u>						<u>\$77</u>

(1) 225,000 of these options were forfeited as the employee left Rainmaker before 157,500 of the options had vested and the other 67,500 options were not exercised as they were out of the money.

14. Restructuring costs

Restructuring costs are comprised of costs incurred to convert from an Income Trust structure to a Corporate structure.

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15. Changes in non-cash operating working capital

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 9,767	\$ (2,120)
Other current assets	153	(367)
Accounts payable and accrued liabilities	(849)	(355)
Deferred revenue	(1,818)	(884)
Changes of EP Canada and Canada Film Capital working capital	-	(1,245)
	<u>\$ 7,253</u>	<u>\$ (4,971)</u>

16. Commitments and contingent liabilities

(a) Commitments

Rainmaker has various operating leases with remaining terms up to nine years plus renewal options. Future minimum lease payments under these operating leases are as follows:

2010	\$ 1,221
2011	1,111
2012	1,091
2013	1,128
2014	1,176
Thereafter	1,172
	<u>\$ 6,899</u>

(b) Litigation

The Company and its subsidiaries may from time to time, be a party to certain legal disputes and claims arising from employment, environmental or commercial issues in the normal course of business.

The Company is aware of one possible claim at this time with respect to an environmental contamination on a site where the Company formerly conducted business. The Company no longer operates or conducts business at this location. The Company continues to review and evaluate the matter to determine the risk of potential liability associated with this possible claim. A reasonable estimate of the potential liability cannot be determined at this time.

17. Government assistance

Refundable tax credits relating to production activities of Rainmaker are claimed from Canadian federal and provincial governments. For the year ended December 31, 2009 the refundable tax credits recorded as a reduction to operating costs is \$8,437,000 (2008 - \$11,396,000).

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18. Gain on settlement of accounts payable

The gain on settlement of accounts payable is comprised of two transactions. The first was the settlement of a production loan payable which resulted in a gain of \$0.3 million. The second was the reversal of a provision made in 2002 for a guarantee payment under a production financing agreement. Pursuant to the Limitation Act of B.C. this claim has now been statute barred resulting in a gain of \$0.6 million.

19. Interest expense

	<u>2009</u>	<u>2008</u>
Interest expense on capital leases	\$ 413	\$ 392
Interest expense on long term debt	209	417
Interest expense on bank indebtedness	63	189
	<u>\$ 685</u>	<u>\$ 998</u>

20. Income taxes

Until August 1, 2008 Rainmaker Income Fund was a mutual fund trust as defined under the Income Tax Act of Canada and accordingly was not subject to taxation on its earnings to the extent that its earnings were distributed to its unitholders. A reconciliation of income taxes for the years ended December 31, 2009 and 2008 at statutory rates with the reported income taxes is as follows:

	<u>2009</u>	<u>2008</u>
Loss before non-controlling interest and discontinued operations	\$ (4,989)	\$ (82)
Equity earnings in Base 10 Group Inc.	(565)	(56)
	<u>\$ (5,554)</u>	<u>\$ (138)</u>
Tax benefits at estimated combined statutory tax rate	\$ (1,666)	\$ (41)
Items not deductible for income tax		
Amortization and write-down of intangible assets	-	305
Other	24	255
Non-taxable portion of gain on sale of business interests	-	(346)
Expense (recovery) before valuation allowance	(1,642)	173
Change in valuation allowance	1,642	(173)
Income tax provision	<u>\$ -</u>	<u>\$ -</u>

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20. Income taxes (continued)

As at December 31, 2009, Rainmaker has non-capital tax loss carry-forwards and temporary differences on property, plant and equipment. The Company does not consider it more likely than not that the tax assets will be realized so it has applied a valuation allowance and therefore no future income tax expense or recovery has been recorded for the period.

	2009	2008
Non-capital losses carried forward	\$ 22,748	\$ 22,494
Capital losses carried forward	10,338	14,691
Property, plant and equipment temporary differences	10,534	6,922
Other	(5,089)	(760)
	<u>\$ 38,531</u>	<u>\$ 43,347</u>
Tax benefits at estimated combined statutory tax rate	\$ 9,484	\$ 11,270
Valuation allowance	(9,484)	(11,270)
Future income tax assets	<u>\$ -</u>	<u>\$ -</u>

Rainmaker has non-capital loss carry-forwards that expire as follows:

Expiry date	Amount
December 31, 2010	843
December 31, 2022	4,751
December 31, 2023	11,022
December 31, 2024	1,779
December 31, 2028	2,274
December 31, 2029	2,079
	<u>\$ 22,748</u>

RAINMAKER ENTERTAINMENT INC.

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21. Business segments

In 2008, Rainmaker through its subsidiaries, operated in three distinct business segments with each segment offering different services to the film and television industry. Since Rainmaker sold its interest in EP Canada and Canada Film Capital on November 13, 2008 it now operates in only one segment. The comparative segment information for 2008 is detailed as follows:

	Twelve months ended December 31, 2008				
	Animation	Payroll	Tax credit	Corporate	Total
	Note 2	Notes 1 & 2	Notes 1 & 2		
Revenue	\$ 28,969	\$ 7,149	\$ 1,605	\$ -	\$ 37,723
Segment earnings (loss) before undemoted	\$ 3,634	\$ 1,802	\$ 324	\$ (2,414)	\$ 3,346
Depreciation and amortization of					
property, plant and equipment	2,715	661	9	-	3,385
Amortization of intangible assets	751	940	78	-	1,769
Compensation expense related to options	(128)	-	-	-	(128)
Gain on sale of EP Canada and Canada Film Capital	-	-	-	(2,305)	(2,305)
Amortization of deferred gain on sale of business interests	-	-	-	(39)	(39)
Equity earnings in Base 10 Group Inc.	-	-	-	(56)	(56)
Loss on sale of property, plant and equipment	6	-	-	-	6
Gain on settlement of accounts payable	(315)	-	-	(588)	(903)
Restructuring costs	-	-	-	566	566
Interest on capital lease obligations	392	-	-	-	392
Interest on long term debt	-	-	-	417	417
Interest on bank indebtedness	189	-	-	-	189
Foreign exchange (gain) loss	534	(49)	(4)	1	482
Interest income	(146)	(30)	(16)	(155)	(347)
	3,998	1,522	67	(2,159)	3,428
Segment (loss) earnings before non-controlling interest and discontinued operations	\$ (364)	\$ 280	\$ 257	\$ (255)	\$ (82)
Expenditures for segment property, plant and equipment	\$ 5,254	\$ -	\$ -	\$ -	\$ 5,254

	December 31, 2008				
	Animation	Payroll	Tax credit	Other and	
	Note 1	processing	services	Corporate	
		Note 1	Note 1	Total	
Total assets	\$ 30,286	\$ -	\$ -	\$ 4,980	\$ 35,266

Note 1 The assets of these segments were sold November 13, 2008

Note 2 Restated for the adoption of the new CICA Section 3064 Goodwill and Intangible assets – see note 2(p)

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22. Financial instruments, risks and other matters

The fair values of Rainmaker's financial instruments approximate the carrying values. Rainmaker is exposed to various risks related to its financial instruments as follows:

(a) *Foreign exchange risk*

Rainmaker is exposed to foreign exchange risk on revenue denominated in United States dollars. For the year December 31, 2009 revenue denominated in United States dollars accounted for 71% (2008 - 50%) of total revenue. A five percent fluctuation in the average US dollar exchange rate for the year ended December 31, 2009 would represent a \$476,000 (2008 - \$939,000) change in net income from operations.

The Company periodically enters into foreign exchange purchase contracts to manage its foreign exchange risk on contracts denominated in US dollars. At December 31, 2009, the Company had currency contracts outstanding that allow the Company to sell USD \$6.6 million at an average exchange rate of 1.08. At December 31, 2009 the Company has recorded an unrealized foreign exchange gain of \$0.2 million to reflect the fair value of these currency contracts at the year end exchange rate. The currency contracts mature as follows: \$2,000,000 on May 28, 2010 and \$4,650,000 on August 31, 2010.

Rainmaker is also exposed to foreign exchange risk on its cash, accounts receivable and accounts payable that are denominated in United States dollars. A five percent fluctuation in the US dollar closing rate would result in a change to net income at December 31, 2009 of \$118,000 (2008 - \$82,000).

(b) *Credit risk*

The Company is subject to credit risk with respect to cash, accounts receivable and note receivable. Substantially all of Rainmaker's customers are in the entertainment industry and are subject to normal industry credit risks. Credit risk is managed through a credit approval process and monitoring procedures. At December 31, 2009 there was one customer that accounts for 15% of the accounts receivable. At December 31, 2008 there was no customer that accounted for over 10% of accounts receivable.

All cash balances are held at a major Canadian banking institution.

The credit worthiness and liquidity of Base 10 Group Inc. (the issuer of the \$500,000 promissory note) is monitored closely by the Company.

(c) *Interest rate risk*

Rainmaker is exposed to interest rate risk on the floating rate credit facilities. Based on the average carrying value of these facilities a fluctuation in interest rates of 1% would represent a \$5,000 change to net earnings for the twelve months ended December 31, 2009 (2008 - \$76,000).

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22. Financial instruments, risks and other matters (continued)

(d) *Customer concentration*

During the twelve months ended December 31, 2009, Rainmaker had one customer that accounted for 66% (2008 – 37%) of total revenue and a second customer that accounted for 22% (2008 – 31%).

(e) *Liquidity risk*

Rainmaker manages liquidity risk by continuously monitoring actual and forecast cash flows, using capital lease financing and by maintaining revolving credit facilities.

(f) *Other price risk*

Rainmaker is exposed to other price risk arising from cash settled stock based compensation, as an increasing share price increases both the expense and future liability and potential cash flow.

(g) *Contractual maturity analysis for financial liabilities*

	Total	Less than 1 year	1 to 3 years	4 to 5 years	After 5 years
Accounts payable (i)	\$ 1,198	\$ 1,198	\$ -	\$ -	\$ -
Capital lease obligations (ii)	6,383	1,938	3,449	996	-
Operating leases	6,899	1,221	2,202	2,304	1,172
	<u>\$ 14,480</u>	<u>\$ 4,357</u>	<u>\$ 5,651</u>	<u>\$ 3,300</u>	<u>\$ 1,172</u>

(i) Accounts payable are generally settled within 90 days

(ii) Capital lease obligations include the interest that will be paid to the end of their respective terms

23. Capital Disclosures

Rainmaker's objectives when managing capital are to safeguard its assets, maintain a competitive cost structure, continue as a going concern in order to pursue the development of its film properties, and provide a return to its shareholders in the form of capital appreciation.

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23. Capital Disclosures (continued)

Rainmaker's capital is comprised of the following:

	2009	2008
Total Bank Indebtedness and Long Term Debt	\$ -	\$ 6,997
Less: Cash	(2,800)	(6,886)
Net Debt	(2,800)	111
Total Shareholders's Equity	5,677	10,486
	\$ 2,877	\$ 10,597

In order to facilitate management of capital, Rainmaker prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful deployment of capital and industry conditions. The annual and updated budgets are approved by the Board of Directors.

Rainmaker is not exposed to externally imposed capital requirements and expects its current capital resources will be sufficient to carry out operations beyond its current reporting period. The overall strategy with respect to capital risk management remains unchanged from the year ended December 31, 2008.