

REPORT

05/06

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NATIONAL AND INTERNATIONAL DISSEMINATION OF CANADA'S AUDIOVISUAL CULTURE

- * Canadian productions win dozens of international awards every year
- * We regularly contribute to retrospectives
- * Canadian products are sold in over 100 countries
- * We administer coproduction agreements annually
- * We certify some 100 coproductions annually in Europe for
- * We organize immersion sessions in Europe for Canadian professionals

SUBSTANTIAL LEVERAGE

- * Some 1,000 Canadian creation and distribution companies supported annually
- * Budgets of these projects: more than \$700 million
- * About 25,000 direct and indirect jobs created in Canada

OUR FINANCIAL TOOLS

- * Investments
- * Advances
- * Loans
- * Loan guarantees
- * Grants
- * Performance-based envelopes

OUR PARTNERS

- * Broadcasters
- * Private funds
- * Private partners
- * Distributors
- * Federal agencies
- * Provincial agencies
- * Foreign partners

OUR CLIENTS

- * Scriptwriters
- * Directors
- * Producers
- * Distributors
- * Multimedia designers
- * Canadian festivals
- * Industry promotional events
- * National training schools (film and video)



A VITAL PARTNER

MANAGEMENT OF NEARLY \$400M

- * Canadian Television Fund: \$272M
- * Canada Feature Film Fund: \$81M
- * Canada New Media Fund: \$14M
- * National Training Program: \$2M
- * Industrial development: \$5M
- * Business management: \$16M

OUR REGIONAL PRESENCE

- * Halifax
- * Montréal
- * Toronto
- * Vancouver

PRESENT AT NATIONAL AND INTERNATIONAL FESTIVALS AND MARKETS

- * We handle entries for over 1,000 productions at more than 80 festivals and events annually
- * We attend seven international markets
- * We provide financial and logistical support for Canadian producers, distributors, exporters and directors with productions in the official selection of international festivals
- * We encourage sales and coproduction

OUR INVESTMENTS in 2005-2006

- * Feature films
- * Drama programs and series
- * Documentaries
- * Children's and youth series
- * Variety and performing arts shows
- * New media (CD-ROM, DVD-ROM, websites, games)

END-TO-END SUPPORT: FROM SCRIPTWRITING TO INTERNATIONAL MARKETING

- * The Canada Feature Film Fund supports:
 - * development
 - * production
 - * marketing
 - * scriptwriting
 - * low-budget independent features
- * participating in Canadian and international festivals and markets
- * The Canada New Media Fund supports:
 - * pre-development
 - * development
 - * product production
 - * distribution and marketing
 - * promotion and industrial and professional development

TELEFILM
C A N A D A

A ~~UNIT~~ PARTNER



ADDING ECONOMIC AND CULTURAL VALUE

A GROWING ROLE in CANADA'S AUDIOVISUAL INDUSTRY

Established in 1967 by the federal government, Telefilm Canada has helped build Canada's audiovisual industry, which is a vibrant component of the Canadian economy. Telefilm is the government's chosen instrument to foster Canadian creative expression in all segments of the audiovisual industry: film, television and new media.

Telefilm Canada's success is best measured by the way that local Canadian stories resonate with Canadian audiences. This is what Telefilm is about: reaching Canadian audiences with the best of what Canadian talent has to offer.

Telefilm's mandate as an investor is unique among Canadian cultural agencies. Our role as a public agency was recognized on March 23, 2005, by the adoption of a revised version of the *Telefilm Canada Act* that reflects all of our activities. Our mandate is to foster and support the development of Canada's audiovisual industry. As a Crown Corporation reporting to the Minister of Canadian Heritage, Telefilm operates as an arm's-length investor, focused on assisting Canadian production companies to produce stories that will reach Canadian audiences.

A UNIQUE MANDATE

INVOLVEMENT IN THE WHOLE VALUE CHAIN

Telefilm provides assistance to Canadian companies and professionals throughout the entire value chain, from highly specialized training to project financing, from development to distribution and marketing, and from promotion to sales of finished products. Telefilm is also a catalyst for talent. Its support has made it possible for thousands of Canadian screenwriters, directors, producers, distributors, technicians, performers and new media creators to pursue careers in Canada, and to work in their region and in the official or Aboriginal language of their choice. We also provide support for visible minority and Aboriginal professionals. Telefilm is an active player in the worldwide market — from promoting Canadian films at major festivals to stimulating new coproduction partnerships. Through its programs, Telefilm services three sectors of the Canadian industry: feature film, television and new media.

Headquartered in Montréal, Telefilm also has offices in Halifax, Toronto and Vancouver.

A COMPREHENSIVE



Telefilm strives to finance high-quality works that have the best chance of reaching Canadian audiences, while at the same time fostering the long-term sustainability of the Canadian industry. Our vision is to assure a thriving Canadian audiovisual culture, produced by Canadian creators and production companies, and disseminated through Canadian distribution companies, broadcasters, telecommunications carriers, Web operators, and local festivals.

Telefilm believes that the extent to which Canadians watch and use the products it helps finance is the key measure of success in meeting its mandate. A second measure of success is a strong and vibrant industry capable of developing, producing, distributing and exhibiting the cultural creations that it helps to finance in Canada and around the world.

VALUES WORTH SHARING

As a public-sector corporation and a partner to the industry, Telefilm emphasizes six core values:

- Celebrate the telling of Canadian stories;
- Actively champion a sustainable audiovisual culture;
- Recognize performance and encourage innovative thinking;
- Promote diversity in policies and programs;
- Be open, transparent and accessible to stakeholders, the industry and the public; and
- Deliver services in the most cost-effective fashion possible, in order to meet the expectations of Parliament, clients and the Canadian public.

OUR DEDICATED PEOPLE

Our ability to meet our objectives depends on the quality of our human resources. For several years now, Telefilm has endeavoured to create a work environment that recognizes the importance of qualified employees who exemplify our required competencies and can thrive in our corporate culture. In taking on its new role in television, Telefilm has integrated some 15 Canadian Television Fund employees into its own television team, thus ensuring the benefit of acquired expertise for the industry. Also in 2005-2006, Telefilm introduced a prize designed to recognize and celebrate the Corporation's most valued players.

Telefilm's staff complement of 200 employees includes a large number of professionals with extensive industry experience, as well as legal, economic, communications and policy experts. Industry expertise is an essential requirement of all individuals who make decisions on projects. Of Telefilm's educated staff (about 60% have university degrees), 8% belong to visible minorities, while over half of all female employees hold professional or executive positions.

2005-2006: HIGHLIGHTS

In 2005-2006, Telefilm reaffirmed its strategic objectives in a fresh plan signed by our chairman and executive director. *From Cinemas to Cell Phones is:*

- ✦ a five-year plan for meeting the challenges of our ever-changing audiovisual industry,
- ✦ a strategic blueprint to help us achieve our stated objectives in the multi-platform environment, and
- ✦ a results-based framework with clearly defined objectives and measurable outcomes, to help us manage results and bring value to Canadians.

Canadian cultural products enjoyed growing consumer participation

- ✦ \$44 million in box-office receipts generated by Canadian feature films, up from \$41 million last year.
- ✦ An overall feature film market share of 5.3% for Canadian productions, surpassing our 5% target.
- ✦ Canadian-made television event programming in English attracted million-plus audiences, showing modest improvement over last year. Four TV movies attracted over a million viewers, compared to one last year, and a fifth show came close to achieving the same performance.
- ✦ Rolling out at the end of 2005-2006, our first-ever quarterly report on Canadian audiences online revealed tens of millions of hits and hundreds of thousands of unique visitors to Canadian online and interactive Internet products.



We took action to help the industry grow and flourish

- * Telefilm has strategically grouped all national and international industry development in a single department.
- * The Canada-UK Television Coproduction Immersion held in England from March 5 to 7, 2006, was tailor-made to give producers from all parts of Canada and the United Kingdom a complete immersion into the business of television coproduction. Feedback from participants was very enthusiastic and more of such events are planned.
- * New York's prestigious MoMA and Telefilm Canada brought together a diverse group of Canadian filmmakers and their latest productions for the third Canadian Front, a showcase aimed at building American audience interest in films from north of the border. Great press coverage and an enhanced distribution arrangement for Thom Fitzgerald's *3 Needles: the Director's Cut* were among the outcomes reported.
- * Ever attentive to achieving its objectives, Telefilm conducted the first of a series of surveys designed to measure the effectiveness of its international market operations.

We strengthened relationships with our partners and clients

- * The questions about the administration and governance of the Canadian Television Fund are resolved. As requested by the Minister of Canadian Heritage, Telefilm and the CTF worked together in 2005-2006 to establish a service agreement and a solid operational structure for managing all CTF funding programs at Telefilm.
- * Four projects were supported through a pilot program for feature-length theatrical documentaries set up by Telefilm in partnership with CBC and the Rogers Group of Funds. This program demonstrates the potential of public-private partnerships to make more money available for Canadian cultural products.
- * Telefilm reinstated the CFFF working groups for the French- and English-language markets. Telefilm values the contribution of the industry in informing and affecting Telefilm's policy. We also held an industry focus group so that producers, distributors and exhibitors could discuss the structural problems hindering success in the English-language market. Participants committed to effecting positive change.
- * As promised in the corporate plan, Telefilm initiated a multi-year client satisfaction and needs assessment survey. Early analysis of top-line data suggests that we have improved service throughout the application process all the way to the cost-reporting phase. In addition, our clients report greater satisfaction with the level of industry consultation.

An effective and efficient manager

- * Telefilm posted its best cash position in five years. The Corporation successfully financed the CTF start-up costs from its administrative budget envelope. Moreover, savings of close to 1.5% were achieved on program operating and administration costs this year through increased manager accountability and more rigorous monitoring of budget expenditures.

MESSAGE FROM THE CHAIR

My aim with this 2005-2006 annual report is twofold: to celebrate the progress achieved and to signal the urgent need for action in both public and private financing.

We celebrate Canadian talent, of course, which once again this year distinguished itself with unique works. We celebrate Canadian companies that forged ahead with admirable determination and know-how. We celebrate Canadian domestic and international success stories. And finally, we celebrate all the public and private partners that work to advance our cultural industries at home and abroad.

It is also fitting that we celebrate the role of Telefilm and its employees, who, in often difficult conditions, push their thinking and actions farther every year, as shown in this report and in our new corporate plan for 2006-2011, *From Cinemas to Cell Phones – Telefilm Canada Responds to the Multiplatform Challenge*.

Telefilm: From Reflection to Action

Telefilm has played a vital cultural and economic role for nearly four decades, and its ultimate responsibility is to provide a vision, strategies and actions that help develop and promote Canada's audiovisual industries while responding to major public policies.

I have made the requirement for a vision central to my mandate. In 2002-2003, one of the Board's first initiatives was to work with management to define three key strategic objectives: to increase audiences, to help the industry realize its full potential and to make Telefilm an exemplary administrator. Our choices were clearly well founded, since they remain valid today.

These objectives have resulted in investments, strategies, sectoral, regional and national consultations, action plans, targets, two restructuring exercises and performance indicators. But above all, they have enabled us to improve our ability to meet the highest standards in managing public funds and creating value for Canadians. Can we do better? Certainly, as this is an ongoing process. That being said, I feel we should take stock of the many accomplishments and consider the corporate plan's efficient, exciting responses to the strategic and operational challenges of the next five years.

Audiences

Telefilm effected a key historical shift in 2002 with the decision to define the performance of public investments in feature films, television and new media in terms of audience reach. Our partners and clients followed suit, despite some reluctance, and there is now little doubt that the industry's future is linked to its capacity to create, distribute and promote diverse products that people want to see. We are betting that the growing success of French-language cinema, which earned a 26.6% market share in 2005, can extend to other media (subject to certain financing conditions that I will get to later). The Board is satisfied with the clear, measurable action plans that have been put in place for this purpose, notably with respect to English-language features and industry development.

This shift was all the more important in that Canadian content creators now face the multiplatform challenge of an increasingly digital world. The 2006-2011 corporate plan offers a stimulating vision for the future, calling on the industry to exploit the innovative distribution platforms that allow consumers to choose when and where to access cultural content, be it in movie theatres, on TV, on computer screens or on iPods. The Corporation will work with the industry to identify the main issues and develop an action plan for the transition.

Industry Development

Telefilm's industrial role is inseparable from its cultural role. Only solid, viable companies can produce and distribute works with substantial Canadian content and sustainable audience reach.

In restructuring corporate management, we have consolidated our previous efforts so as to deliver better-integrated, strategic action in all areas of industry development, from training to international sales. A new department has been created, with an action plan that will be shared and discussed with the industry across the country.

CROSSROADS:

Exemplary Administration

Telefilm has focused on service excellence in recent years, undertaking a client satisfaction survey, publishing a service charter, conducting a review of programs and of business policies and processes, creating the eTelefilm online service, and improving consultation through new working and focus groups and regular regional tours.

Certainly one of the most significant achievements of the last fiscal year is the new business model established with the Canadian Television Fund (CTF). The "one board, one administrator" model suggested in the 2003 Lincoln Report was formally proposed by the Minister of Canadian Heritage in June 2005. Telefilm and the CTF then worked intensely to define and introduce a three-year service agreement.

The CTF retains responsibility for governance, while Telefilm is charged in administering the funding programs, establishing control mechanisms and maintaining quality client service on the CTF's behalf.

In entrusting Telefilm to administer the CTF programs, the Department has acknowledged our management strengths, such trust is not unrelated to the fact that Telefilm's control mechanisms and its risk management and quality control have been substantially improved. It bears noting that Telefilm would have been unable to accept this responsibility had its Act not been adjusted in 2005 to recognize the Corporation's areas of activity, including television. The Board had made this a priority.

The agreement with the CTF assures us an entrepreneurial position in the audiovisual industry, and the Corporation may eventually administer other public- and private-sector programs.

Crossroads: To Grow or to Shrink

Although culture is often evoked with emotion, and even passion, in discussing Canadian identity and our shared values of tolerance, openness and respect for others, governments see health, education, security and employment as their primary responsibilities and will continue to allot them the lion's share of budgets.

Not only has Telefilm's budget not been raised to account for inflation, it has been cut by nearly \$9 million since 2002-2003. It was this that led me to observe in the 2004-2005 annual report that the financial situation was reaching a critical point and that, if funding remained at the current level, it would be more and more difficult to maintain the volume of production needed to forge audience loyalty at home and abroad. This appears to be happening in the high-performance Quebec market, where there is already talk of shrinkage. In addition, financing from foreign sources has been shrinking. This recent development is cause for concern at Telefilm as we are already seeing an overall effect on the industry.

Telefilm has concluded that one of the only real options at its disposal (but not under its full control) is to promote new Canadian and international public and private partnerships in order to optimize the leverage effect of monies available in the Canadian audiovisual system. Piloted by Telefilm's executive director, this will be a long-term effort requiring a departure from beaten paths. However, meeting this objective will require a solution to falling foreign financing. Two years ago, the Department of Canadian Heritage initiated its review of Canada's coproduction agreements with a view to modernizing them. Telefilm saw this as an urgently needed first step to resolving some of the difficulties in foreign financing. This process is still underway, and Telefilm looks forward to new international coproduction policy.

Telefilm and the industry are at a crossroads. Many of the paths defined in this report and in the corporate plan are doable and can get us where we want to go. One thing is certain, though: the road of self-interest and complacency is a dead end.

TOGETHER

A Final Word

This leads me to underscore the urgent need for a national audiovisual policy that, from the definition of Canadian content through to exports and coproduction, would provide coordinated, integrated avenues for maximizing the contribution of each and every stakeholder.

The industry also needs a national training policy to assure that creators and professionals, including those from Aboriginal, ethnic and official-language minority communities, have the conceptual and practical tools needed to fully develop their potential.

Telefilm will be actively involved to this end. I am confident that the Corporation will continue to make strategic investments in feature films and new media products, fostering stories from all regions and from diverse companies. The programs in place will mean better services for the industry, and Telefilm's structuring role in the film, television and new media sectors can only have a positive effect for Canadians.

I am pleased that the *Telefilm Canada Act* was revised in 2005 so as to reflect the Corporation's present activities. However, I feel that the Act should be further amended, notably to afford Telefilm the greater financial flexibility needed to build new partnerships of benefit to the industry.

As part of revising the *Telefilm Canada Act*, the eligibility criteria for members of the Board were changed, excluding anyone holding a financial interest in the audiovisual industry. Following a review to ensure that all members satisfy the new criteria, the Board has maintained its quorum.

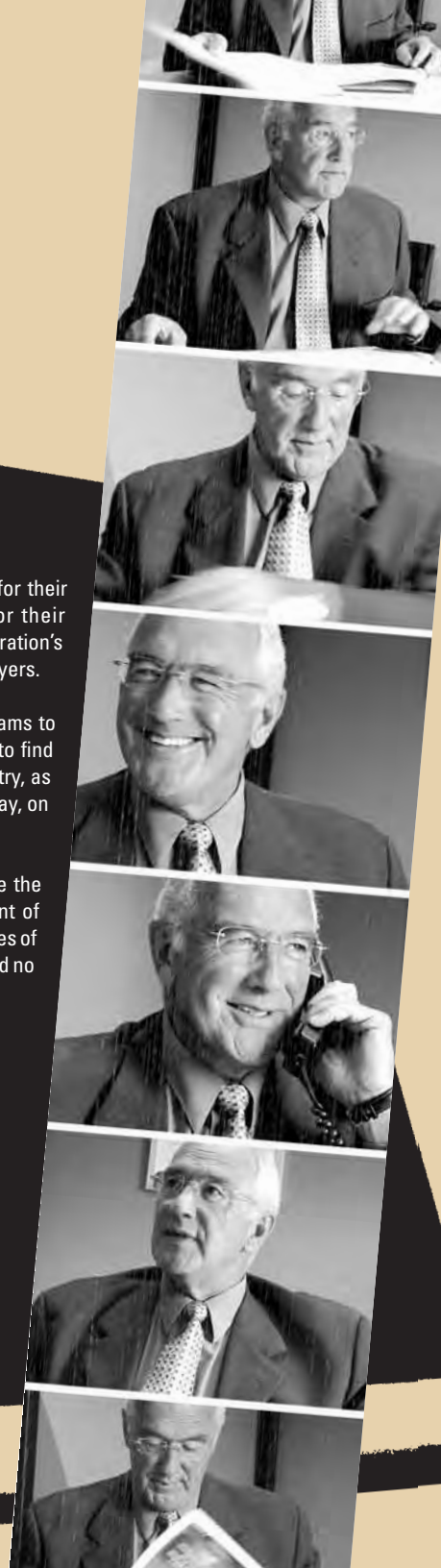
My thanks go to the members of the Board for their commitment, to Telefilm's management for their numerous accomplishments and to the Corporation's employees, who are truly wonderful team players.

I admire the ability of the various Telefilm teams to work together knowledgably and effectively to find solutions in close cooperation with the industry, as often as the situation calls for it, which is to say, on an ongoing, daily basis.

In closing, I want to acknowledge and salute the immense talent and unwavering commitment of Canada's audiovisual artisans, the cornerstones of the successes that we can celebrate today and no doubt for generations to come.



Charles Bélanger



MESSAGE FROM
THE EXECUTIVE DIRECTOR

TELEFILM CANADA
TAKES ON THE
MULTIPLATFORM
CHALLENGE

Our newly launched corporate plan for 2006-2011 is appropriately titled *From Cinemas to Cell Phones.*

From Cinemas to Cell Phones describes not only the fast pace at which new platforms continue to be created for the delivery of audiovisual products but also the pressing need to address evolving new business models, modernization of financing tools and consolidation of the feature film and new media industries. These are Telefilm's priorities for the future for which we are pleased to report on in our first year of implementation of our five-year corporate plan.

Against the backdrop of a rapidly changing media landscape, our goal remains to make distinctively Canadian audiovisual works available to Canadians and to ensure that they are accessible on the numerous platforms that deliver this content. The task will not be easy. We recognize the need to maintain an adequate pool of human resources that can keep our fast-paced industry functioning. Moreover, we intend to find new financing tools to offset the industry's inadequate resources.

Policy and programs must mirror the rapidly changing landscape. Access to distribution channels, licensing rights and revenue-sharing frameworks are among the many crucial areas that must be addressed promptly, either by legislation or by other means. Telefilm will do its part, in consultation with the industry and government.

Finally, partnership and consultation have become key words at Telefilm, as reflected throughout this annual report. They are rooted in both our practices and our vision.

Evolving: New Business Models

There is no better example of innovative partnership than the one between the Canadian Television Fund, a private corporation, and Telefilm, a public corporation, which are now bound by a three-year service agreement, with the CTF responsible for governance and Telefilm for delivering programs on the CTF's behalf.

Transferring the CTF programs to Telefilm was a demanding administrative task, but one that we are proud to have carried out within the agreed terms and timeframe. One key to this success was the CTF's cooperation in defining the processes, the management structure and the roles and responsibilities needed to provide integrated program administration. The other was Telefilm's ability to swiftly put in place a step-by-step transition and integration plan, intersectoral change management committees and a new, highly specialized TV Unit, which opened for business on March 1, 2006.

The monies administered on the CTF's behalf represent nearly 70% of the Corporation's financial responsibilities, and in future our performance will be assessed in large part on the basis of decidedly administrative criteria, no doubt making us better public administrators in all areas of activity. This new arrangement will realize a savings in administration costs of approximately \$3 million per year compared to previous years.



Modernizing: An Instrument for Industry Development

The restructuring that we undertook in the fall of 2005 is another step in this direction. We have simplified the management structure to encourage synergistic thinking and actions, as well as a more strategic approach to industry issues.

Among other things, the changes will mean better support for talent and companies. Our industry development programs include training, professional development, Canadian festivals, international markets and festivals and coproduction. Going forward, these will be more closely aligned with the corporate objectives. As a result, Telefilm's industry development activities will better gel with the multiplatform universe and its inevitable requirement of new skills and strategies.

These programs have been grouped together in an industry development department, which is reviewing them and will consult with the industry and its partners prior to finalizing a comprehensive action plan in fall 2006.

Telefilm has already redirected the monies formerly allocated to its European office in Paris to international sales and coproduction activities. Recent initiatives have been highly successful, including a Canada-UK immersion session in Manchester and a program of special screenings for buyers at the Cannes Market.

It is important to keep in mind that, through their close, daily contact with clients, Telefilm's regional offices in Vancouver, Toronto, Montréal and Halifax play a key role in implementing and tracking Telefilm's industry development action plan.

Strengthening the Feature Film and New Media Industries

Canadian cinema reached a peak this year, earning a 5.3% market share at the same time that movie theatres were seeing a sharp decline in attendance from coast to coast. A few English-language films topped the \$1 million mark, and the new crop funded in 2005-2006 shows promise. French-language films captured a remarkable 26.6% market share. These victories certainly warrant recognition and due applause.

However, the remaining challenges are numerous and by no means insignificant, as seen, for instance, in the report by the Standing Committee on Canadian Heritage entitled *Scripts, Screens and Audiences: A New Feature Film Policy for the 21st Century*. These challenges pertain mainly to building audiences for English features, a problem that persists despite recent-year efforts, and to maintaining the volume of production in French.

As the year went by, it became increasingly clear to me that Telefilm could not provide significant solutions for the industry without the industry's close collaboration.

In January 2006, Telefilm organized a first focus group to establish a framework of cooperation and a forum for innovative ideas. The meeting was fruitful, and there will be two more, one on creative aspects and the other on marketing. In addition, Telefilm is banking heavily on the input of the Canada Feature Film Fund working groups, established in 2005-2006 and which began their task early in the new fiscal year. These groups will advise the Corporation on policy, guidelines and follow-up, for the English-language and French-language markets.

Fiscal year 2006-2007 will see some major developments, notably, the Canada Feature Film Policy is under review and the Canada New Media Fund is set to expire. The way these issues are resolved will be a priority for the industry. The Corporation will assist the Department in establishing programs to ensure that government investments serve as effective levers for Canadian audiovisual creativity. Nevertheless, it is clear that new monies, be they public or private, must be made available.

The Corporation will pursue its asymmetrical policy for feature films. In the French market, where the problems are primarily financial, the solution lies in new financing partnerships, increased sales and international coproduction. Telefilm will also encourage initiatives to distribute French-language films across the country. In the English market, fixed application deadlines have been eliminated, as requested by the industry, and decision making will take market considerations into greater account. Telefilm will continue to promote synergy among all stakeholders and will allot more money to project development and marketing.

In addition, the measurement of feature film performance, while continuing to give emphasis to commercial box office, should also include DVD sales and audiences for other platforms such as television and the Internet.

With regards to new media, although funding was raised from \$9 million to \$14 million in 2005-2006, it is glaringly evident that distinctively Canadian projects do not have the budgets needed to rival the international competition, particularly in the game arena. Moreover, the lack of resources is forcing more and more Canadian talent, which is highly mobile in this field, to move to the service sector, much to the detriment of creation and innovation. Telefilm feels it is important to be able to administer the funding more flexibly, so as to keep pace with market changes and industry needs. The Corporation will work with the recently formed Canadian Interactive Alliance and will explore possible partnerships with the private sector.

Moving Forward in Step With our Clients

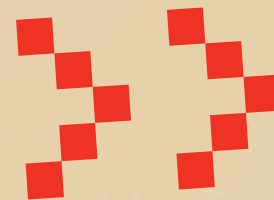
In 2005-2006, Telefilm initiated a national survey of its more than 1,000 clients to measure the level of satisfaction with its services, the industry's needs and, above all, the added value of its regional offices and its role in industry development. The initial findings show that our clients are generally satisfied with our services and, especially, with our improved consultation process. The results will help us establish a new client service charter and improve our overall performance.

I want to close with a tip of the hat to the industry for its many successes and its tireless efforts in bringing to screen works that Canadians enjoy and in which they recognize themselves. The challenge that awaits us is to meet the new requirements of an increasingly connected public with access to sources of entertainment as numerous as they are innovative. Our dialogue got off to a good start in 2005-2006, and I look forward to continued exchange in the years to come.

Lastly, I want to thank Telefilm's Board and employees for their outstanding work and for their ability to take on weighty challenges. For the past two years, I have been highly impressed with the expertise, innovation and outright passion that the Telefilm staff bring to their jobs. They are determined to make Telefilm's objectives a reality, and I feel privileged to work with them towards this goal.



S. Wayne Clarkson



MOVING FORWARD:
RETHINKING THE INDUSTRY

➤ ➤ ➤ Telefilm finds itself in the midst of a **major shift** among audiovisual industries. **Technologies are advancing** at an unprecedented rate and the **way** in which Canadians consume **media product** has **changed forever**.

The hot topic for the coming **year** is the **multiplatform** universe. We are witnessing a complex web of audiovisual devices on **which content can reach** the intended **audience**.

CONTENT>WEB SITES.GAMES.MOVIES.TV PROGRAMS



**<THEATRES.DVD.WEB.IPOD.CELL PHONES.
GAME CONSOLES.COMPUTERS.CONVENTIONAL TV.
ON DEMAND AND SPECIALTY TV.VIDEO ON DEMAND.>**

: -)



AUDIENCE |







Now is

- * A 25% increase in family use of the Internet since 1999
- * 80% of people under 35 years old access the Internet regularly
- * 33% of people aged 13-34 are interested in watching TV content on the Internet
- * 30% of advertising dollars are now spent on new media outlets
- * 61% of young people want to watch TV on mobile phones
- * People can now play TV content from a video iPod on a home cinema screen
- * Golden opportunity to reach audiences with personalized messages



The Time

THE MULTIPLATFORM CHALLENGE

THE CONSUMER IS KING

The new key to success for the Canadian industry is the multiplatform approach, which capitalizes on constant technological progress and growing consumer choices for accessing cultural content (theatres, DVD, Web, iPod, cell phones, game consoles, computers, conventional, on-demand and specialty TV, Video on Demand, etc.).

THE RACE FOR CONTENT

Content reigns supreme. This new reality offers important opportunities for creators and distributors of distinctively Canadian stories – but the time to act is now. A multiplatform strategy means recognizing the need for radically different practices.

SINK OR SWIM

Telefilm recognizes the high costs and risks involved in developing multiplatform strategies. In an environment shaped by digital technologies, many of the players will be newcomers, or will have new roles. Telefilm will work with the industry to find untapped partners and financing sources.

CONCERTED ACTION

The Corporation will encourage producers, distributors, exhibitors and other players to cooperate and to steer their companies in ways that build new intersectoral relations.

THREE TRANSITION THRUSTS

Telefilm will act in three areas to facilitate the transition to a fully digital multiplatform market: building audiences, enhancing industry potential, and professional development.

MEASURING TRUE WORTH

Telefilm will expand its performance measures – without diminishing its commitment to measuring the box office – to include DVD sales and rentals and audiences for other platforms, such as television and the Web. This approach will more accurately reflect a feature film's career.



PERFORMANCE REPORT

TELEFILM'S
STRATEGIC
OBJECTIVES
ARE TO:

01

Inform, engage
and entertain
Canadian
audiences
with distinctly
Canadian
content

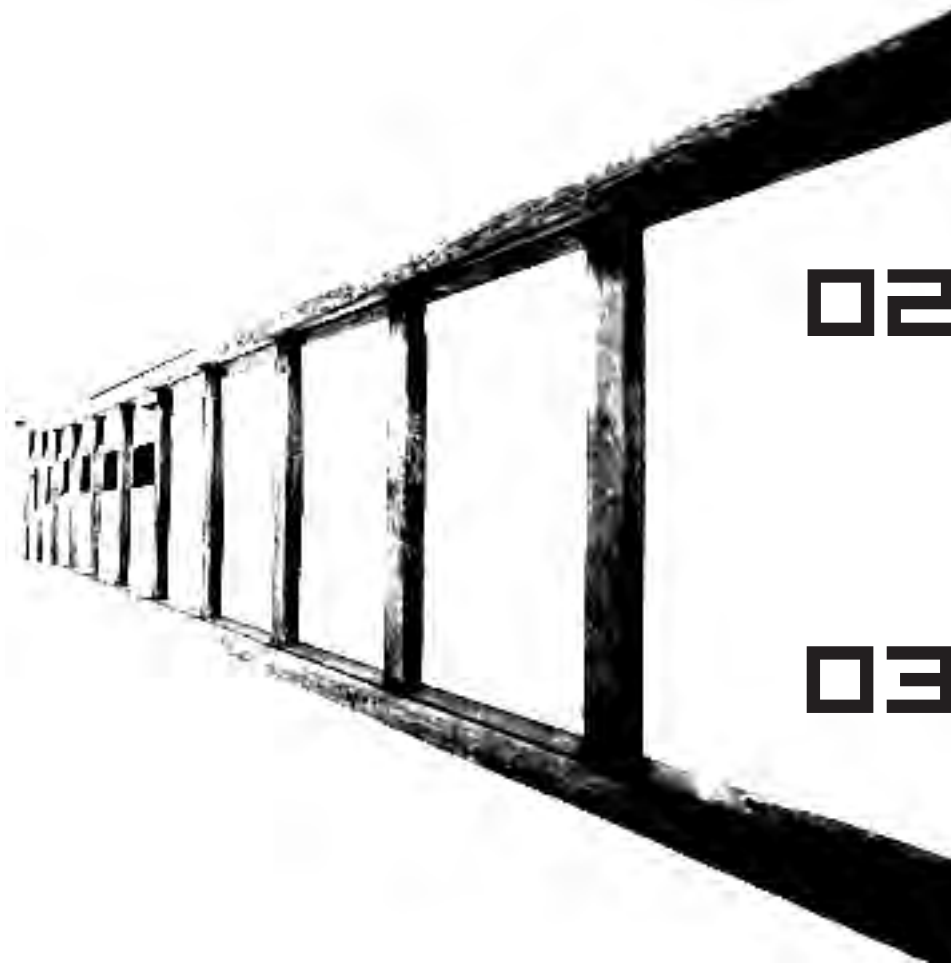
02

Stimulate,
leverage and
increase the
capacity of
the industry

03

Strengthen and
improve relations
with its clients
and partners
for an efficient
and effective
administration

FOR FISCAL YEAR 2005-2006, TELEFILM
SAW SUCCESS AS WELL AS CHALLENGES
IN ALL THESE AREAS.



A SPECIALIST APPROACH TO MEASURING OUR SUCCESS

Telefilm has firmly established expertise for measuring industry trends in both feature film and television audiences. Independent box office data is obtained weekly by Telefilm from the Motion Picture Theatre Associations of Canada. Business Intelligence software tools are used to create a weekly performance dashboard, so that Telefilm management can monitor trends in feature film. Number of screens, country of origin and genre are among the many analytical data points available to our experts.

As for television, in 2003, Telefilm started using a new coding system for Canadian television audience measurement. For the first time, genre and country of origin could be measured. This coding has allowed for unprecedented analysis of Canadian cultural product on television.

While the CTF supports television productions in four major genres – drama, documentary, performing arts, and children’s and youth programming, in 2005-2006 the bulk of Telefilm’s financing activity through the Equity Investment Program was directed towards English-language dramatic programming. Telefilm’s audience objective in television was defined as the Fund’s ability to attract audiences for dramatic programming in prime time (7 PM to 11 PM).

Due to the new governance model, Telefilm will no longer report annually, but will retain full research capabilities in order to provide the needed intelligence for meeting the strategies of our corporate plan.

Tracking multiple new media websites owned and managed by multiple unrelated companies poses a unique challenge for Telefilm. Considering the problems associated with Web panels for tracking Canadian culture consumption online, and mindful of the need to provide some audience intelligence to its fund managers, Telefilm has spent the last year experimenting with an alternative measurement solution.

In September 2005, the online research company Phase 5 was commissioned by Telefilm to launch a trial project to measure the audiences of Telefilm-funded online media. Instead of using a catch-all measurement system, Phase 5 proposed using the existing measurement system of each client website and processing these data so as to create an aggregate picture. Data for the final quarter of the fiscal year has been gathered and analyzed for this report.

STRATEGIC OBJECTIVE

BUILD CANADIAN AUDIENCES
FOR CANADIAN STORIES

STRATEGIC OBJECTIVES

▼ BUILDING AUDIENCES

- ▼ **Film:** Greater numbers of Canadians enjoy distinctive Canadian films in Canadian theatres

- ▼ **New Media:** Greater numbers of Canadians find Canadian games and cultural experiences on the internet and digital offline platforms such as DVD-ROMs

- ▼ **Festivals and Awards:** Canadian cultural products are promoted to audiences in Canada

KEY PERFORMANCE INDICATORS

▼ BUILDING AUDIENCES

- ▼ Market box office share

- ▼ Number of unique visitors for online products

- ▼ Sales revenues for off-line products

- ▼ Size of television audience for Canadian awards shows

- ▼ Prizes earned at major Canadian and international festivals

- ▼ Percentage of Canadian content and box office at major Canadian festivals

TARGETS

- ▼ **BUILDING AUDIENCES**
- ▼ Achieve a market share of at least 5%
- ▼ New targets for each language market to be determined as part of the renewal of the Canadian Feature Film Policy
- ▼ Establish baseline data for online audiences
- ▼ Determine appropriate approach and methodology for measurement
- ▼ Maintain or increase current levels

2005-2006 RESULTS

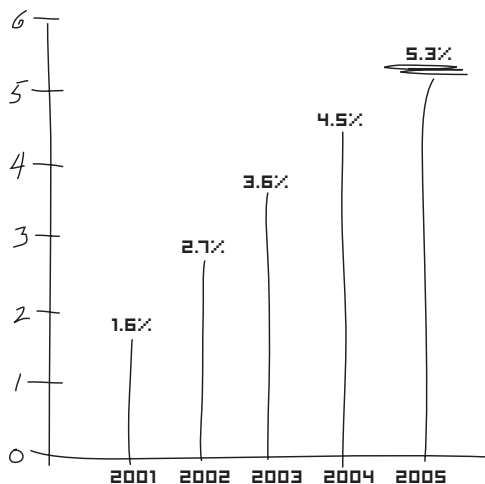
- ▼ **BUILDING AUDIENCES**
- ▼ **5% goal reached and surpassed: 5.3% market share achieved**
- ▼ **Pilot online audience measurement project launched**
- ▼ **Pilot to collect data through producer exploitation reports launched**
- ▼ **Slight increase in size of audience**
- ▼ **16 major awards for 7 productions (comparable to previous year)**
- ▼ **Almost 60% Canadian content overall at major Canadian festivals with approximately 10% of the box office**

CANADIAN AUDIENCES
ENJOY CANADIAN STORIES
ON THE BIG SCREEN

FEATURE FILM

5% goal reached

MARKET SHARE GROWTH OF CANADIAN FILMS




TOP 20 CANADIAN FILMS OF 2005

(in millions of dollars)

Title	French-Language Box Office	English-Language Box Office	Total 2005 Box Office Receipts
C.R.A.Z.Y.	\$ 5,652	\$ 417	\$ 6,070
Aurore	\$ 5,035	\$ 131	\$ 5,166
White Noise	\$ 1,031	\$ 3,491	\$ 4,522
Horloge biologique	\$ 4,122	\$ 99	\$ 4,220
Maurice Richard	\$ 2,783	\$ 123	\$ 2,906
Le Survenant	\$ 2,821	\$ 18	\$ 2,839
Les Boys IV	\$ 2,641	\$ 12	\$ 2,653
Les Voleurs d'enfance	\$ 1,704	\$ 21	\$ 1,725
Ma vie en cinémascope	\$ 1,705	\$ 8	\$ 1,712
Water	\$ 18	\$ 1,595	\$ 1,613
Idole instantanée	\$ 1,525	\$ 11	\$ 1,536
Maman Last Call	\$ 1,457	\$ 19	\$ 1,476
L'Audition	\$ 1,297	\$ 18	\$ 1,314
La Vie avec mon père	\$ 717	\$ 5	\$ 722
Where the Truth Lies	\$ 111	\$ 477	\$ 587
La Neuvaïne	\$ 529	\$ 0	\$ 529
Daniel and the Superdogs	\$ 444	\$ 50	\$ 494
C'est pas moi c'est l'autre	\$ 464	\$ 0	\$ 464
Familia	\$ 432	\$ 8	\$ 439
Being Julia	\$ 5	\$ 376	\$ 381

* Rounded to the nearest thousand dollars



The Canada Feature Film Fund continues to be vitally important in aiding the dissemination of Canadian stories via cinema.

In 2005,

- * 106 Canadian films were screened in Canada for at least one week.
- * Of these, 67 received support in production and/or marketing from Telefilm.

This CFFF financial support brought Canadian audiences a wide variety of film genres, from action/adventure to comedy to drama, in both French and English.

Canadian audiences responded well to this selection of films:

- * Telefilm-supported films in production accounted for 83.2% of the total Canadian box office for Canadian films.
- * Films supported in production and/or marketing accounted for 98.6% of the same take at the box office.

The objective of *From Script to Screen*, the federal government's Canadian Feature Film Policy launched in 2000 was to achieve a market share of 5% for Canadian films in the domestic market by April 2006.

This objective was achieved in 2005, as market share for Canadian films reached 5.3%.

The achievement is all the more impressive in that in Canada, like almost everywhere else in the world, fewer people went to the movies last year than in 2004. Total box office here was down for the third year running, dipping by 8.7% last year alone. The downturn was similar in the United States while admissions in Europe were down by 11%.

Thirteen Canadian films broke the \$1-million mark in 2005, a drop from 16 in 2004. Canada's top performers in 2005 were *C.R.A.Z.Y.*, *Aurore*, *White Noise* and *Horloge biologique*. *Maurice Richard* was number five on the list, and will likely re-appear on the list of top films in 2006, due to its release in English-language markets and re-release in Quebec in early 2006.

Of the top 20 earners, all received financial support from Telefilm.

This success has not been the same everywhere. The two language markets in feature film are grossly out of balance.

THE CHALLENGE IN THE ENGLISH- LANGUAGE MARKET

The challenge to reach Canadian audiences with English-language Canadian feature films has always been significant. Competition from our American neighbours creates a tide of competing, big budget films. Notably, the top 20 earners in Canada are dominated by American blockbusters. Feature film in English Canada finds itself at an internationally unique disadvantage. This must be noted above all when approaching any performance schema for English-language Canadian film.

TOP 20 FILMS OF 2005 (IN CANADA)

(in millions of dollars)	2005 Box Office Receipts
Star Wars: Ep.III – the Revenge of the Sith	\$ 34.6
Harry Potter and Goblet of Fire	\$ 31.6
Wedding Crashers	\$ 24.8
War of the Worlds	\$ 20.8
Madagascar	\$ 19.5
Mr. and Mrs. Smith	\$ 19.4
Batman Begins	\$ 18.2
Hitch	\$ 17.7
Charlie and the Chocolate Factory	\$ 16.3
Meet the Fockers	\$ 16.1
The Chronicles Of Narnia: The Lion, the Witch and the Wardrobe	\$ 16.0
The 40 Year-Old Virgin	\$ 12.9
King Kong	\$ 12.9
Fantastic Four	\$ 12.2
The Longest Yard	\$ 11.7
Robots	\$ 11.2
Million Dollar Baby	\$ 11.0
Sin City	\$ 9.7
Chicken Little	\$ 9.1
Flightplan	\$ 8.9

In 2005-2006 the English-language market continued to struggle. Market share declined from 1.6% the previous year to a small 1.1% market share. All was not grim however, given the success of Deepa Mehta's *Water*, which received international accolades and took in \$1.6 million at the Canadian box office in 2005 and over \$2 million in cumulative box office. This success is encouraging, but to meet the government's overall target for feature film, the market has to be closely examined, and novel approaches considered.

In the English-language market, individual Canadian productions, on average, occupy far fewer screens. For example, the critically acclaimed Canadian film *Water* noted earlier was released on only 11 screens, whereas foreign films are often launched on anywhere from 100 to 200+ screens. In addition, new releases rarely stay in the theatres more than a few weeks. Canadian producers must compete in this kind of 'disposable' environment with a much more modest number of films.

In our assessment, the reasons for these scheduling disparities between Canadian and imported films are structural in nature. Business relationships among the various sectors of production, distribution and exhibition need to be strengthened, to assure stronger product that everyone believes in.

It is also important to note the business realities of film in the English market. The total value of the English market in Canada for 2005 was just shy of \$700 million. This means that the value in the market of a single share point is \$7 million. In the French market a share point is worth approximately \$1.4 million. If the differing market sizes are considered, it can be concluded that it takes five times as many ticket sales to gain a single share point in the English market. And our analysis indicates that overall, French-speaking Canadian audiences are more open to seeing Canadian films of either language than their English-speaking counterparts. This may be attributed to the greater diversity of offer in Quebec.

There is also a disparity in our capacity to support an adequate number of films. Because the policy requires that one third of our investments go to the French-language market, and also because English-language production budgets are higher, the CFFF has annually supported the production of an average of 23.2 films in English and 15.6 in French since it began operating five years ago. Translated into a population-based supply, it has supported one film per 600,000 French speakers compared to one film per 1.1 million people in English Canada. To maintain the current level of success and surpass it, we need to encourage more production in both language markets.

The accomplishment in the French-language market has gone beyond pure dollars and cents. The last five years have seen a well-nurtured star system develop in the market as well as a significant investment in a string of excellent scripts. Accomplishing the same level of success in the English-language market remains a formidable challenge. Despite the low performance figures, English-language Canadian film had a few modest successes.

Looking to 2006, the prospects for English-language films are a bit brighter. Promising new releases for 2006 include *Bon Cop, Bad Cop, Trailer Park Boys-The Movie*, and *Silk*.

AN IMPRESSIVE RUN FOR CANADIAN FILM IN THE FRENCH- LANGUAGE MARKET



The French-language market continued its impressive five-year run of top performers. Canadian film reached a 26.6% market share in 2005, up from 21.2% in 2004.

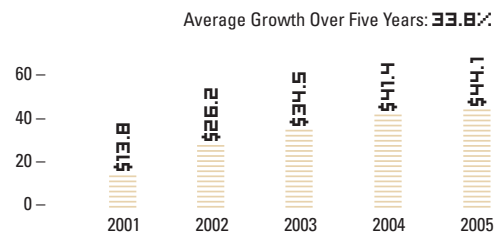
Almost half of the top twenty French-language films in Canada were indigenously produced. This includes such box office hits as *C.R.A.Z.Y.*, *Aurore*, and the fourth instalment of the ever-popular, *Les Boys*.

In the French-language market, Telefilm has helped develop an industry and support projects that are enjoyed by many Canadians. Not only do these productions attract large audiences, they are also highly competitive against imported fare. French-language feature film in Canada has been an undisputed success story. However, the challenge going forward will be maintaining this great success.

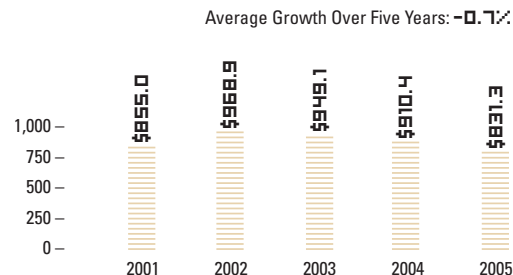
The resources that Telefilm has at its disposal to continue building this industry do not reflect the realities of the coming years. Production budgets have increased substantially since the inception of the Fund, rising from around \$3 million to \$5 million. In addition, Telefilm's participation in financial structures has gone from an average of 25% to 35%. As a result, the number of films financed has declined. The market share of box office earned by Canadian films in the French-language market is expected to drop in 2006 and 2007. Early indications are that it will.

The Canadian Box Office: Canadian Films Versus the Overall Market

Total Box Office of Canadian Films (English- and French-Language Markets)
(in millions of dollars)



Total Box Office Overall (English- and French-Language Markets)
(in millions of dollars)



AUDIENCES FOR ENGLISH CANADIAN
TELEVISION DRAMA – A LAST REPORT
BY TELEFILM

TELEVISION

Last year, Telefilm's annual report provided information on the performance of the Canadian Television Fund (CTF) in attracting audiences for dramatic programming in prime time. With the new governance model that came into effect on April 1st, 2006, this is the final report by Telefilm on the audience numbers for Canadian drama. Going forward, the Canadian Television Fund Corporation will be responsible for reporting on audience numbers, while Telefilm will report on its performance in meeting the standards set in the service agreement with the Canadian Television Fund Corporation.

In the English-language television universe, Canadian drama accounted for about 7% of all English viewing in 2004-2005. This represented a slight decline from the previous year (8.2%). Of this total, 3% was accounted for by CTF-funded programming and 4% by non-CTF funded programming.

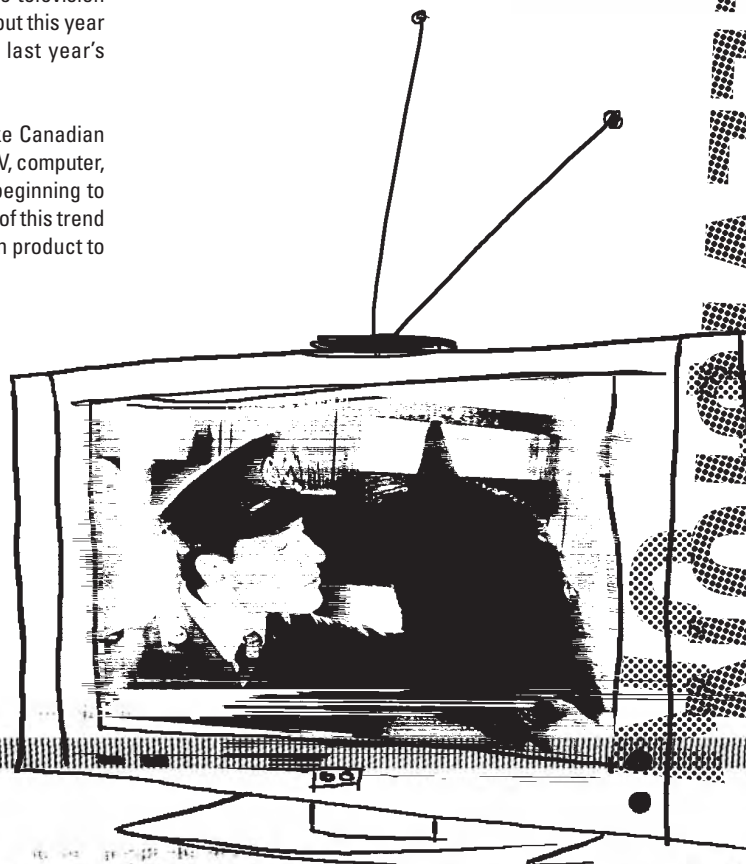
If we focus on total English-language drama viewing, Canadian-produced English drama accounted for about 22% of the total, which was very similar to the previous year (23%). Less than half of that – about 40%, or 8% overall – was actually CTF-funded. In other words, CTF-funded dramas represent about 40% of all Canadian English drama, and 8% of drama viewing overall. (Note that the definition of drama does not include theatrical films aired on television). Non-CTF English drama captured about 14% of all English drama viewing. The CTF share of 8% is actually up somewhat over the previous year (6.6% for 2003-2004).

Comparing CTF-funded English-language drama to other CTF genres (which were not administered by Telefilm), it is clear that drama has fared less well compared to documentary and children's programming. CTF-funded documentaries account for 10% of all documentary viewing and 13% of all children's viewing. Only variety/performing arts had lower shares than drama among the CTF genres.

Given the dominance of hit American television programming, it is an inevitable fact that Canadian-produced drama programming struggles in the English market. However, CTF-funded English drama programming is significantly more efficient at attracting audiences compared to the non-CTF fare. The availability (number of hours aired) against the consumption (number of hours viewed) shows an index of 68 for CTF programming compared to only 51 for non-CTF Canadian programming.

For the past season, individual CTF-funded English drama programs have seen highpoints of success. The TV movie *A Bear Named Winnie* returned a highly competitive average audience of 1.5 million viewers on CBC. CTV also saw a million-plus audience with the skiing story *Crazy Canucks*, which attracted about 1.1 million viewers. For every successful CTF project on television, there were just as many challenges. American television creates one of the most competitive television markets in the world. These titles prove that successes can happen, but this year did not necessarily see any more major inroads made – at best, last year's performances were merely matched.

Much work remains to be done, and one possible solution is to make Canadian content available to Canadian viewers on the screens of their choice (TV, computer, iPod, etc.) Although television content on multiple platforms is just beginning to be noticed in the industry, Telefilm is keen to follow the developments of this trend and will harness any potential it has to improve the ability of television product to reach Canadians.



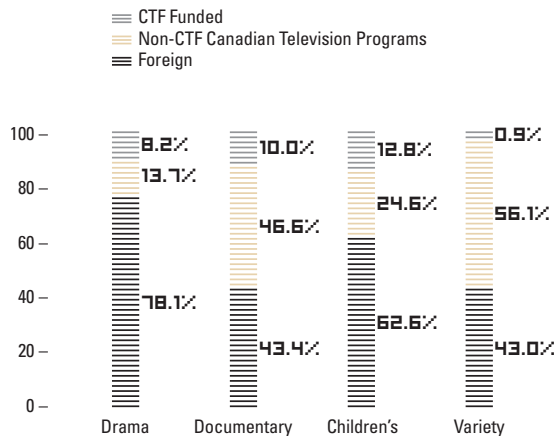
English Drama Efficiency

	Foreign	Non-CTF Canadian Television Programs	CTF Funded
% Availability	61	27	12
% Consumption	78	14	8
Index	128	51	68

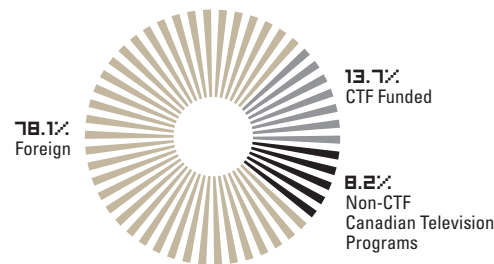
Canadian English Drama as a Share of all English Viewing



English-Language CTF Program Viewing Distribution Among Genres



All Primetime Cumulated Hours of TV Viewing



MEASURING CANADIAN AUDIENCES FOR THE INTERACTIVE SCREEN

The Canada New Media Fund crosses multiple platforms and presents novel challenges for audience tracking. With the help of a preliminary report from Phase 5, we can see that the first results are encouraging.

The month of March 2006 contains data for 26 of the 32 web projects financed through the Canada New Media Fund and currently distributed online, shown in the following table.

Our analysis of this new data indicates that the most popular CNMF-funded online media projects with consumers are Websites tied to youth-oriented television shows. For example, the Telefilm-funded project *Cornemuse* received the greatest number of hits of the 24 projects measured in March 2006, with an impressive total of over 22 million. Similarly, other youth-oriented Websites with strong appeal included *Arctic Mission: The Cyberdocumentary*, *This is Daniel Cook* and *Degrassi*.

Producers of these hit TV shows indicate that the creation of an entertaining and informative Website tied to a show helps build a loyal audience, creates a “buzz” and boosts TV audience numbers.

While our data is preliminary – based on a limited time sample – it is encouraging.



NEW MEDIA

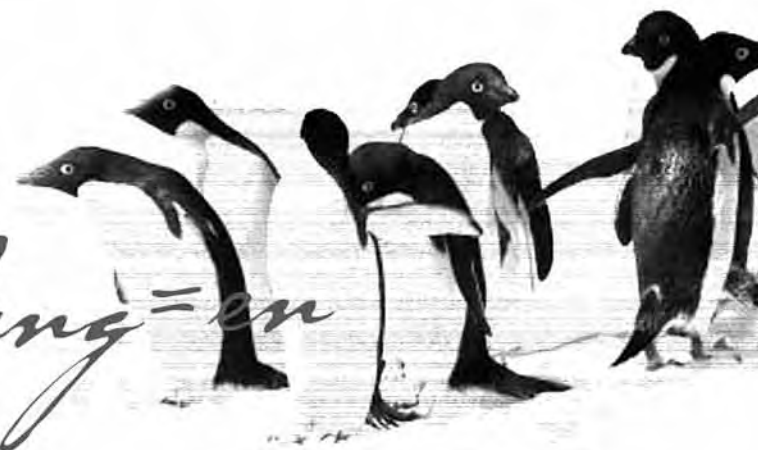
<http://sedna.tv/srip>

TELEFILM-FUNDED PROJECTS PERFORMANCE

For March 2006

Project / Site	Hits	Page views	Unique visitors
Be the Creature	77,779	18,749	1,458
Wild Files	62,784	5,987	856
Ollieland	48,194	25,167	2,594
English Live!	235,129	28,908	445
Burnt Toast Opera	65,537	62,446	1,056
Rendez-vous voyageurs	–	25,147	8,049
Instant Star	2,189,811	68,247	–
Deaf Planet	232,853	95,204	2,514
Degrassi	6,582,130	256,338	–
Shipwreck Central	1,399,908	256,185	1,495
Contact, l'encyclopédie de la création	1,406,241	188,669	8,545
Cornemuse	22,104,529	1,521,778	49,075
This is Daniel Cook	5,688,073	3,790,709	86,504
Mission Antarctique / sedna.tv	12,444,511	8,866,013	24,250
Rock Camp	12,206	1,527	198
Dellilah and Julius	1,122,995	735,011	19,292
15/Love	507,366	–	–
ReGenesis Extended Reality Game	1,489,911	129,785	7,002
11 Somersset	–	138,045	31,341
Broken Saints	655,339	91,551	506
Ecoprint	403,675	218,435	6,273
Falcon Beach	1,855,268	373,518	25,838
Passepart	188,197	27,620	4,482
T'shinanu	83,767	33,405	7,786
Visez	429,690	71,308	9,657
Made in Montreal	394,066	148,882	8,681
Total	59,679,959	17,178,634	307,897

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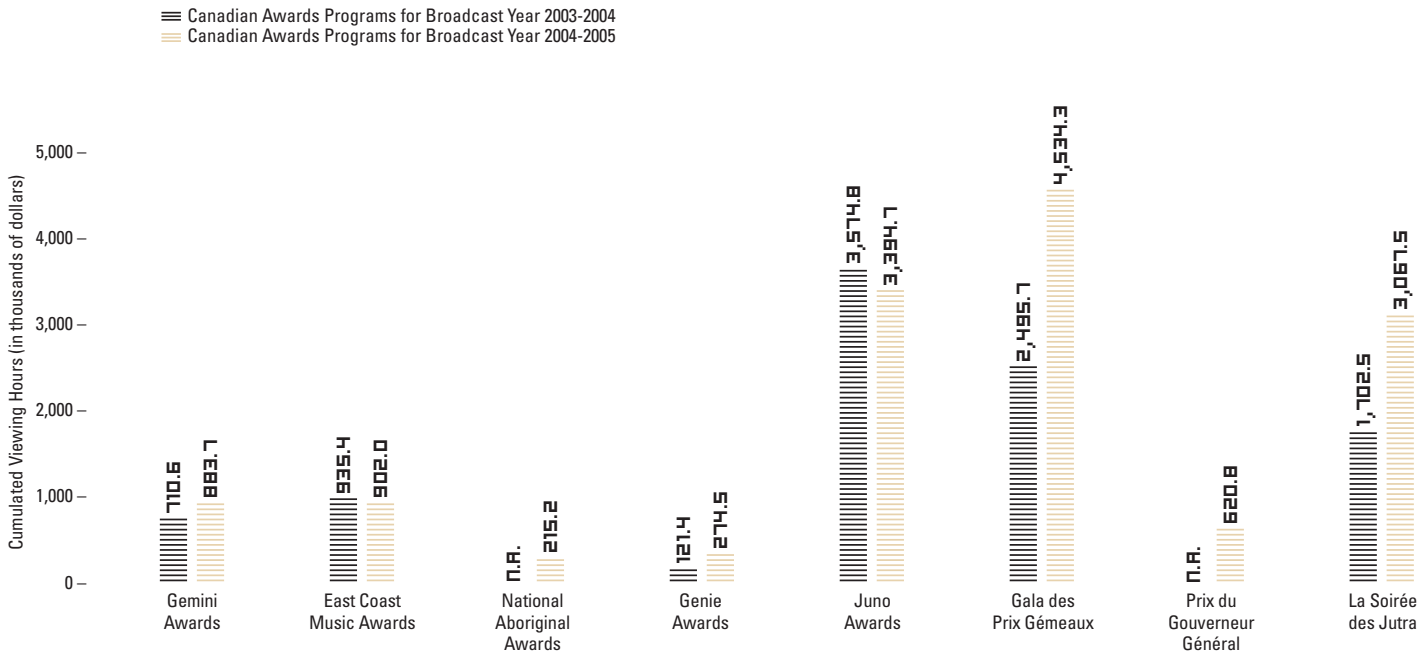


PROMOTING CANADIAN PRODUCTIONS TO CANADIAN AUDIENCES

Telefilm partnered with Canadian award shows, including the Genies, the Jutras, the Gemini and the G meaux, to celebrate Canadian creators and stars, and thus contribute to developing new audiences. As shown in the following table, many of the major award shows celebrating Canadian films and television programming displayed considerable growth in their viewing audiences over the past year. Notably the Genies' audience almost doubled year over year.

However, despite this growth, there is great disparity between audience performance in French- and English-language award programs. For example, the Jutras (film) and the G meaux (television) both achieved audiences well in excess of a million viewers. The English counterparts of these awards did not even approach half a million. This is all the more problematic considering the English-language market has a much larger potential audience.

Audiences for Canadian Award Shows





CANADIAN SUCCESS STORIES

A NUMBER OF
TELEFILM-FINANCED
PRODUCTIONS GARNERED
AN IMPRESSIVE
ARRAY OF AWARDS
DURING 2005-2006





C.R.A.Z.Y.

Director: Jean-Marc Vallée
Production: Cirrus Communications
 inc. / Crazy Films

AWARDS:

La Soirée des Jutra 2006	Best film
26 ^e Gala des prix Génie	Best film
Toronto International Film Festival 2005	Best Canadian Feature Film
Atlantic Film Festival 2005	Best Canadian Film
Marrakech International Film Festival 2005	Best Feature Film
Los Angeles International Film Festival 2005	Best Feature Film



EVE & THE FIRE HORSE

Director: Julia Kwan
Production: Red Storm Productions
 Inc. / Holiday Pictures Ltd. /
 Firelight CineMa

AWARDS:

Vancouver International Film Festival 2005	Most Popular Canadian Feature Film
Sundance Film Festival 2006	Jury's Award



FAMiLiA

Director: Louise Archambault
Production: micro_scope

AWARDS:

26 ^e Gala des prix Génie	Claude Jutra Award
Toronto International Film Festival 2005	Citytv Award for Best Canadian First Feature



LA NEUVAINÉ
Director: Bernard Émond
Production: Corporation de développement et de production ACPAV inc.

AWARDS:
 Festival Internazionale del Film Locarno 2005
 Ecumenical Jury Award
 Best Leading Actor
 Environment and quality of life Award by The Junior Jury

LA VIE AVEC MON PÈRE
Director: Sébastien Rose
Production: Max Films

AWARD:
 Karlovy Vary International Film Festival 2005
 Public's Award

THE LIFE AND HARD TIMES OF GUY TERRIFICO
Director: Michael Mabbott
Production: Darius Films Inc.

AWARD:
 Toronto International Film Festival 2005
 Citytv Award for Best Canadian First Feature

TIDELAND
Director: Terry Gilliam
Production: Capri Films Inc. / Recorded Picture Company

AWARD:
 Festival Internacional de cine donostia – San Sebastián 2005
 International Press Award (FIPRESCI)



TELEVISION



THE ELEVENTH HOUR

Production: Norstar Filmed Entertainment Inc. / Eleventh Hour Productions Inc.

AWARD:

20th Annual Gemini Awards

Best Dramatic Series



L'HÉRITIÈRE DE GRANDE OURSE

Production: Les Productions Point de mire inc.

AWARD:

20^e Gala des prix Gémeaux

Best Dramatic Series

ANNIE ET SES HOMMES

Production: Sphère Média Plus inc.

AWARD:

20^e Gala des prix Gémeaux

Best Soap Opera





RAMDAM
Production: Vivavision inc.

AWARD:
 20^e Gala des prix Gémeaux
 Best Youth Program or Series

SHAKE HANDS WITH THE DEVIL:
THE JOURNEY OF ROMÉO DALLAIRE
Production: White Pine Pictures

AWARDS:
 Melbourne International Film Festival 2005
 2005 Banff Rockie Awards
 Audience Citation
 Feature Length Documentaries
 Best Canadian Program



NEW MEDIA

MADE:INMTL.COM
Production: BlueSponge / Locomotion Films

AWARDS:
 Canadian New Media Awards 2005
 Excellence in Culture, Lifestyle, Arts
 Concours Grafika 2006
 Grand prix – Edutainment Web Site
 Cyber Lions 2005
 Bronze Lion
 Concours Boomerang 2005
 Grand Prix – Arts and Culture



REGENESIS EXTENDED REALITY
Production: Xenophile Media

AWARD:
 Canadian New Media Awards 2005
 Excellence in Cross Platform



STRATEGIC OBJECTIVE



BUILD CAPACITY IN THE INDUSTRY

STRATEGIC OBJECTIVES

▼ BUILDING THE INDUSTRY

- ▼ Invest strategically in audiovisual projects that enable Canadian companies to attract other sources of financing
- ▼ Invest strategically in a diverse portfolio

- ▼ Companies increase their capacity through sales and business development at markets

- ▼ Industry professionals benefit from high-quality training initiatives

- ▼ Culturally diverse and Aboriginal professionals benefit from opportunities to advance in their careers

KEY PERFORMANCE INDICATORS

▼ BUILDING THE INDUSTRY

- ▼ % overall financing from other sources
- ▼ Level of foreign financing in financial structures
- ▼ Diversification by genre, budget size, language and region

- ▼ Level of sales and business development achieved at markets through Telefilm sponsored activities

- ▼ Level of client satisfaction with Telefilm training initiatives

- ▼ Level of resources committed to initiatives and programs designed to promote the professional development of culturally diverse and Aboriginal members of the industry

TARGETS

- ▼ **BUILDING THE INDUSTRY**
- ▼ Tracked and analysed but no target set
- ▼ Develop baseline data on portfolio diversification by genre, budget size, language and region
- ▼ Establish baseline data through development of an export database in 2006-2007
- ▼ Launch survey methodology
- ▼ Maintain or increase investment level

2005-2006 RESULTS

- ▼ **BUILDING THE INDUSTRY**
- ▼ Greater diversification of financing in new media sector
- ▼ Baseline data on level of portfolio diversification achieved
- ▼ First survey of companies having attended the European Film Market at Berlin conducted
- ▼ Survey development initiated
- ▼ Investment level maintained

A STRATEGIC PORTFOLIO OF INVESTMENTS

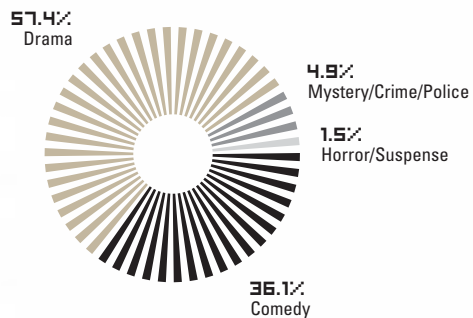
As an investor, Telefilm shares the risks and eventual revenues of the productions we participate in. Recoveries from investments are reinvested in new productions.

Telefilm takes a portfolio approach to its investments, in order to encourage excellence while supporting projects of various genres and budget sizes, which will appeal to Canadian audiences and support the continued renewal of the industry. To maintain and increase the number of Canadians enjoying Canadian-made entertainment, Telefilm has ensured continued support to a wide range of projects in 2005-2006. Diversification is key.



Feature Film Production – Commitments by Genre

English



French



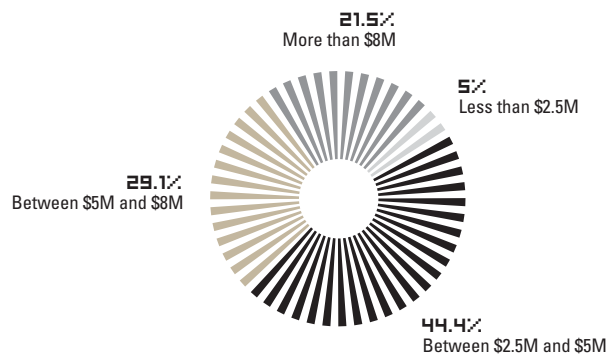
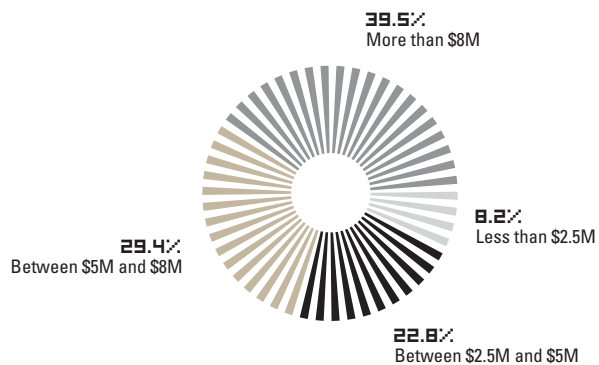
DIVERSIFICATION



Feature Film Production – Commitments by Budget Size

English

French



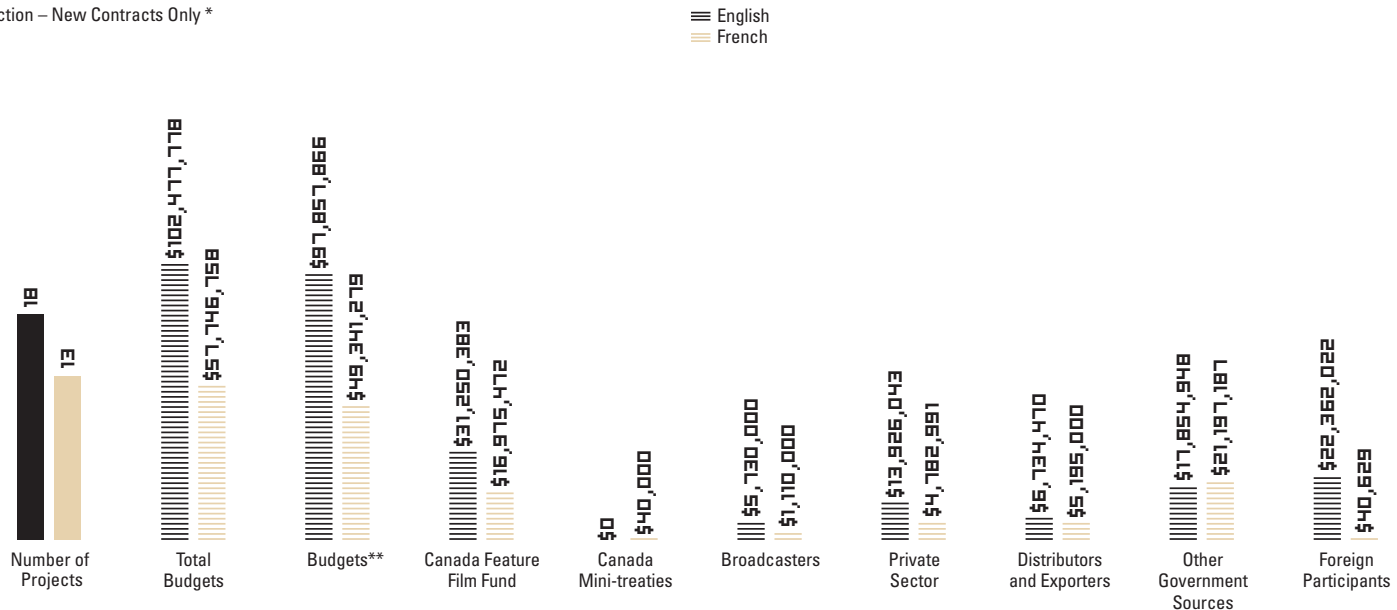
LEVERAGING OTHER FINANCING

Telefilm is usually the first investor in Canadian productions, which is vitally important to the producer's ability to attract other forms of public and private investments.

- In 2005-2006, ✱ **Telefilm signed contracts (production only) totalling \$146 million in Canadian feature film, television and new media.**
- ✱ **Generating a total overall production volume of more than \$780 million in the industry.**
- ✱ **Every million dollars invested by Telefilm results in five million dollars in investments.**

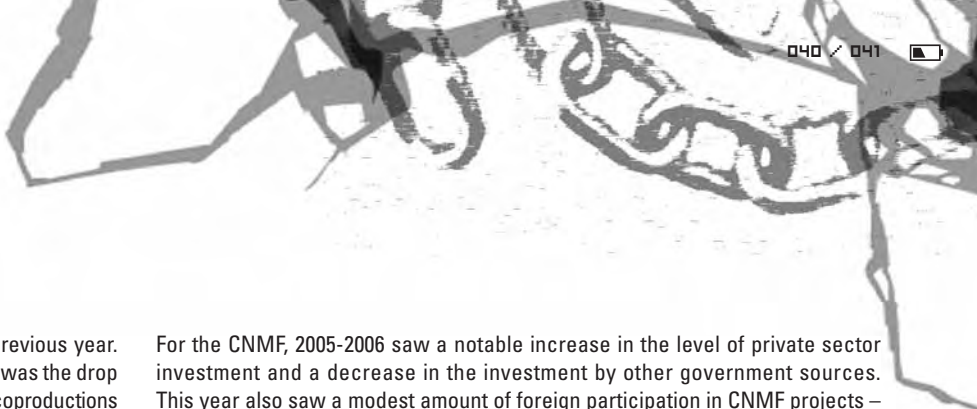
Canada Feature Film Fund – Financial Analysis

Production – New Contracts Only *



* Includes Feature Films financed through the Canadian Television Fund

** Does not include the foreign share (13 025 391 \$) of official coproduction budgets in which Canada is a minority partner. All percentages are based on these amounts. CFFF column includes Greenlight amount in production (1 321 632 \$)



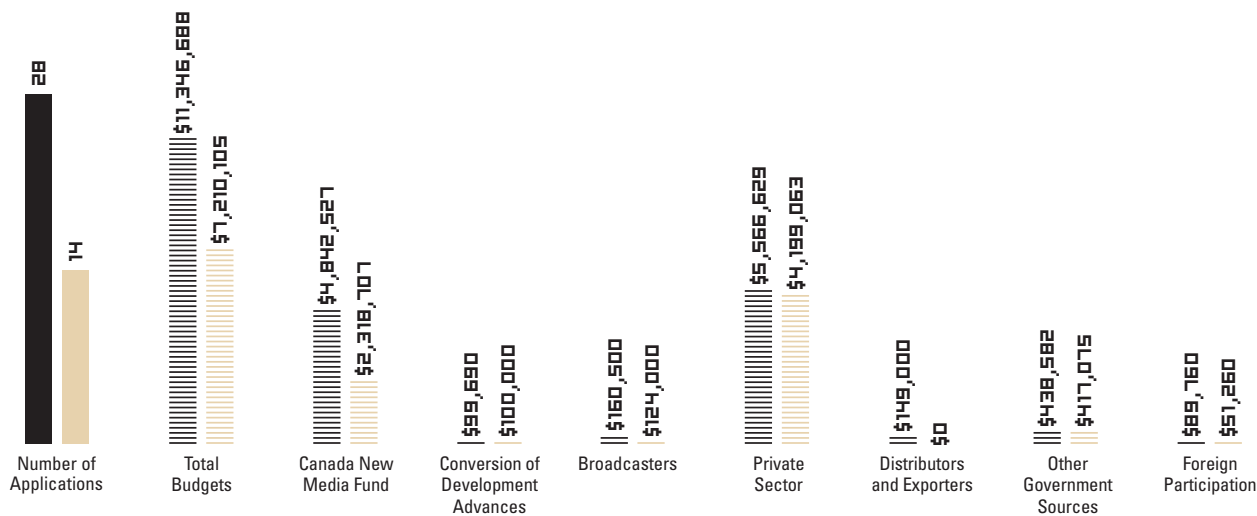
The leverage picture for feature film is very similar to that of the previous year. The most significant change in the feature film sector over last year was the drop in foreign financing from 25% to 15%. The fact that fewer international coproductions were financed through the CFFF in 2005-2006 is the leading cause of the 10% decrease. This decrease is of concern to Telefilm, since international financing is a key factor in the vitality of Canadian cinema. Coproductions attract investments, which in turn contribute to the industry's growth and stability. The Corporation wants distinctly Canadian cultural products aimed primarily at Canadian audiences to be treated flexibly and to be able to complete their financing by means of coproduction or foreign sources.

For the CNMF, 2005-2006 saw a notable increase in the level of private sector investment and a decrease in the investment by other government sources. This year also saw a modest amount of foreign participation in CNMF projects – the first time that this has occurred. However, compared to other sectors in the audiovisual industries, developers of new media product continue to assume a disproportionate level of risk, jeopardizing the completion of projects or their ability to adequately finance marketing campaigns.

Canada New Media Fund – Financial Analysis

Product Assistance – Production Only – Signed Contracts

English
French



PROVIDING CONSUMER CHOICES IN BOTH OFFICIAL LANGUAGES

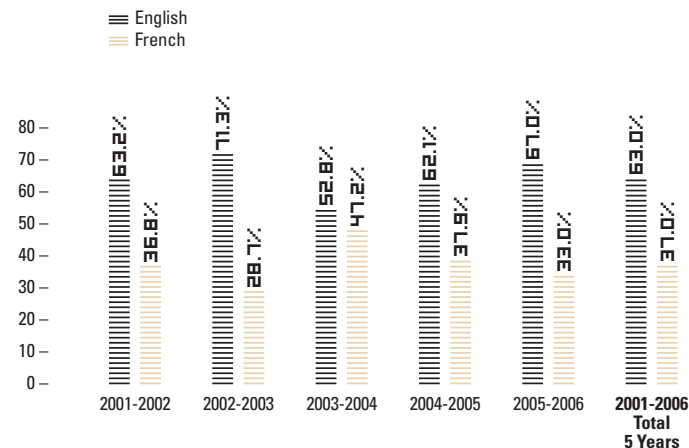
In addition to respecting target allocations for both official languages, as set out in our various agreements with the Department of Canadian Heritage, Telefilm Canada submitted its annual report on the *Official Languages Act* to the Minister of Canadian Heritage.

As a Crown Corporation, Telefilm has faithfully respected its commitment to obtain concrete results in applying the *Official Languages Act*. Public consultations have served to improve the Corporation's programs and services.

Some years ago Telefilm established a set of performance measures for the purpose of assessing and monitoring its contribution to official language minority communities. These measures have led to keeping relatively detailed statistics on its participation in French-language projects outside Quebec and on English-language projects in Quebec.

The figures for the past five years show a substantial progress in support to these communities through all of the funds administered by Telefilm, i.e., an increase of 66% over five years. During the past two years, the increases were especially noticeable in the Canada Feature Film Fund. This evolution appears to confirm the fact that Francophone Canadian producers – previously involved mainly in television production – have begun moving into feature film. Telefilm hopes to encourage this trend by expanding its support program for directors in linguistic minority situations.

Linguistic Breakdown of Projects — Production, Development and Amendments



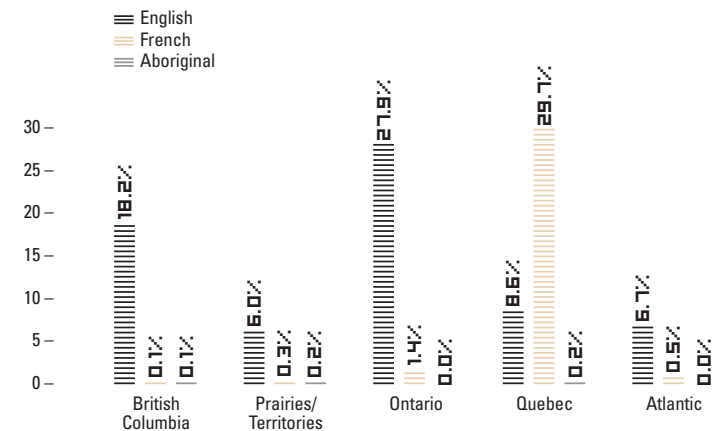
SHARING STORIES FROM ACROSS THE COUNTRY

Telefilm has long been committed to ensuring that local stories are told from all of Canada's major regions. Regional expenditure targets are established so that contracts can be signed with local production companies from across the country.

A balanced approach to our investment in 2005-2006 resulted in:

- * 35.4% of projects financed were from outside the major urban centres of Montreal and Toronto
- * Over \$60 million being distributed to the regions.

Commitments by Province/Language



HELPING THE INDUSTRY SEIZE OPPORTUNITIES

Telefilm supports Canadian companies that participate in domestic and international festivals. This allows for creators, producers and distributors to have the opportunity to meet and arrange business deals with buyers. And in the case of festivals, film-goers have the opportunity to see Canadian films, which get much-needed exposure via the national and foreign press.

Internationally, Telefilm provided strategic support for Canadian companies to sell their productions at seven key markets in all segments of the audiovisual industry. At each event, Telefilm's Canada Pavilion continued to provide a focal point for Canadian activity, helping Canadian companies to network with potential buyers and partners.

Telefilm's participation in Canadian Front, a presentation of 11 films at the prestigious Museum of Modern Art in New York City, brought American press attention for Canadian films. *C.R.A.Z.Y.* wowed audiences and the press. The public's enthusiasm for *3 Needles: The Director's Cut* led its American distributor, Wolfe Releasing, to enhance its release strategy. Marketing will now be centered on the social issue at the heart of the film, with the launch set for next December 1, World AIDS Day. The film will open on 20 screens, a much larger number than originally planned. In addition, Showtime will promote the US launch by broadcasting the film on the same date on its pay TV channel.

In addition to these important results, a new Web survey methodology was piloted for the European Film Market in Berlin that occurred in February 2006. These results, though preliminary, were very positive. **The survey found that five participating Canadian companies signed 20 distribution agreements, achieved sales of \$500,000 while at the festival, and expected to achieve an additional \$3.2 million worth of sales as a result of discussions initiated while at this market.**

Canadian producers and distributors indicated that they highly value the services provided under the Canada Pavilion umbrella.

Participants also rated the European Film Market as one of the top three markets around the world (the others being the Cannes Film Festival and American Film Festival), thereby confirming the ongoing role of Telefilm Canada and its federal and provincial partners in supporting Canadian companies to attend this event.

PROVIDING OPPORTUNITIES FOR PROFESSIONAL DEVELOPMENT...

Telefilm's commitment to excellence in professional education and development for the audiovisual industry continued in 2005-2006 through our support for the National Training Program in the Film and Video Sector (NTPFVS) and other professional development initiatives in each region.

As we indicated in our last annual activity report on the NTPFVS, the funded training institutions reported positive results measured by the newly established performance indicators. The program has three key performance indicators: high-calibre training is provided to talented students across the country; graduates work professionally in their respective fields; and graduates reflect and express the diversity of the Canadian society.

AND REACHING OUT TO UNDERSERVED COMMUNITIES

Another strategic objective of Telefilm is to ensure that *all* professionals benefit from the opportunities we afford Canadians. We do this with the intent of advancing careers and properly representing culturally diverse and Aboriginal professionals in the audiovisual industry. Each year, Telefilm reports to the Minister of Canadian Heritage on its compliance with the *Canadian Multiculturalism Act*. The report contains a description of activities undertaken in support of multiculturalism, as well as an assessment of the level of cultural diversity contained in the products we help to finance.

Last year we set a target of maintaining our level of resources allocated to initiatives and programs that specifically target the professional development of cultural and aboriginal groups and individuals. **We met our target, disbursing \$1.6 million for this purpose, primarily through the Spark Plug program and the Aboriginal languages component of the Canadian Television Fund.** The Spark Plug program seeks to strengthen the abilities of talented, mid- to advanced-career visible minority and Aboriginal producers who have an interest in developing dramatic television programming for broadcast in Canada. The Aboriginal languages component of the Canadian Television Fund, supports the creation of television programs produced in any of Canada's Aboriginal languages.

STRATEGIC OBJECTIVE



ACHIEVE VALUE FOR CANADIANS

STRATEGIC OBJECTIVES

▼ ACHIEVE VALUE FOR CANADIANS

▼ An efficient program administrator

▼ Client-oriented, regionally based services

▼ Create a culture of accountability

KEY PERFORMANCE INDICATORS

▼ ACHIEVE VALUE FOR CANADIANS

▼ Overhead percentages for CFFF, CTF and CNMF

▼ Level of client satisfaction of funding recipients with Telefilm's administration

▼ Performance measures, target objectives and data collection system in place for all programs

TARGETS

- ▼ **ACHIEVE VALUE FOR CANADIANS**
- ▼ Maintain or reduce overhead percentages
- ▼ Match or improve upon outcomes of 2001-2002 client survey
- ▼ Provide figures for 75% of all measures (2006)

2005-2006 RESULTS

- ▼ **ACHIEVE VALUE FOR CANADIANS**
- ▼ Operating costs have decreased in all funds
- ▼ Overall satisfaction levels comparable to the last survey in 2001-2002. Greater satisfaction reported for application, cost reporting and consultation processes
- ▼ Most performance indicators now reported on. All are now measured

ADMINISTRATIVE EFFICIENCY

In order to achieve the strategic objectives described in this annual report, Telefilm continues to implement initiatives that ensure we carefully control the public resources entrusted to us and provide ongoing added value to the Canadian audiovisual industry.

Reducing Administration Costs

For the past year, in line with government objectives, Telefilm has focused on optimizing administration costs. As our resources are limited, this exercise enables us to cope with the pressures of continuous budget increases while meeting the need to make strategic investments. This year, our efforts allowed us to generate \$850,000 in administration savings. The major part of these savings (\$640,000) was used to finance the CTF transition, and the balance was returned to programs.

Among the strategies that Telefilm has brought to bear, the technological shift has proven one of the most important. In emphasising efficient information management as a means of achieving its strategic objectives, the Corporation expects to make significant savings. Capital and infrastructure investments have served to put in place modern, efficient, customizable management tools that allow Telefilm to meet the expectations and requirements of all its stakeholders. Providing high-quality financial information and improving administrative performance is a central concern. These tools also give Telefilm the flexibility needed to incorporate the activities of the new Canadian Television Fund structure into its own operations.

More than a year ago, the Corporation put in place a change management process based on the ITIL (IT Infrastructure Library) standard, which corresponds to best industry practices. The purpose is to have all changes approved to ensure they are in line with the organization's objectives. This process further allows us to prioritize our actions and synchronize our efforts for greater efficiency. The committee is composed of representatives from the Policy, Planning and Research and the Information, Performance and Risk departments.

Better Management of Business Processes

In pursuing the policy and process review which began several years ago, Telefilm undertook major improvements again this year. As part of transferring the CTF funding processes to Telefilm, we implemented a television program delivery process that has already generated substantial annual savings of some \$3 million. A similar undertaking is planned in 2006-2007 for the delivery of the Canada Feature Film Fund.

Another significant initiative involved the review and optimization of business processes related to accounting procedures and financial planning in the Finance and Administration department. In addition, two accounting control processes were put in place to oversee expenditure and revenue transactions.

In order to achieve its accountability and efficiency objectives, Telefilm also introduced or revised a certain number of policies in 2005-2006. Among the new policies, one deals with client account write-offs and another with capital spending. We also revised our Contracting Guidelines (Acquisition of goods, Services, Hiring consultants), to bring it more fully in line with current Treasury Board policies. Telefilm encourages its managers to use the various government tools available for procurement (standing offers for services, centralized travel services, etc.).

More Extensive and User-Friendly Information Systems

Telefilm will soon have completed the overhaul of its data warehouse, which is now equipped with more user-friendly, complete tools and more fully covers the Corporation's activities. The aim of these improvements is to provide more powerful management and performance measurement tools for things such as program evaluation and cost control.

SINEWEB has been adjusted to make it more flexible. The adjustments were initially designed to enable administration of the Canadian Television Fund programs as of April 2006. This single effective information system now allows Telefilm to administer the programs of other organizations, should the occasion arise.

OUR COMMITMENT TO SERVICE: IMPROVED CLIENT SERVICE

Telefilm has for several years now been committed to improving its client service. In 2003, after an extensive effort to better develop its service delivery mechanism, Telefilm became the first cultural corporation to publish a charter of client service. This charter was the result of a comprehensive satisfaction survey of its clients. Efforts to improve service delivery processes have been ongoing since then and in line with established objectives.

Delivering on our *Client Service Charter*

In its *Client Service Charter*, Telefilm promised to “turnaround” requisitions for contract drawdowns from clients within eight business days. Once again this year, we met our performance target for this service, achieving an overall success rate of more than 90% in the high-volume sectors of feature film, television and new media.

A New Client Satisfaction and Needs Assessment Survey in 2005-2006

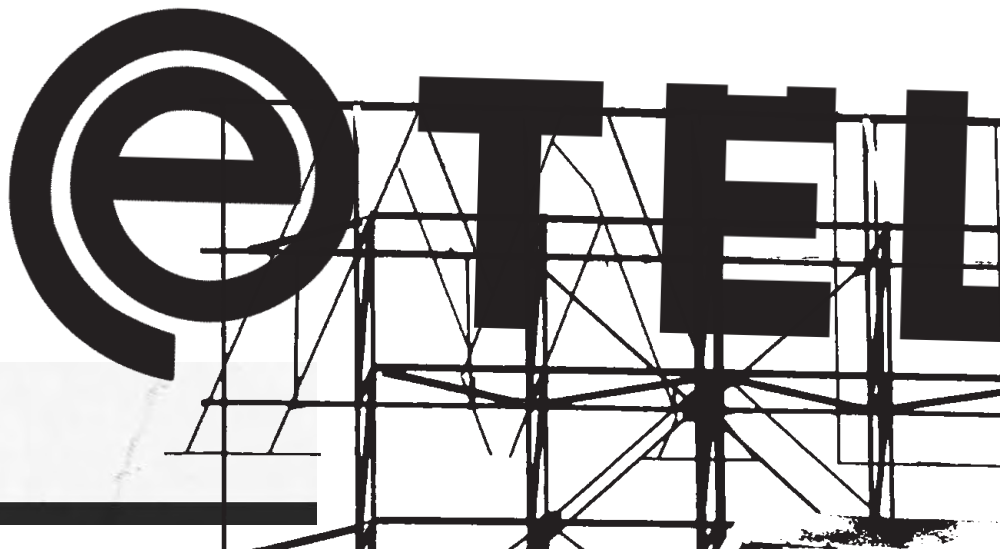
In 2005-2006, Telefilm once again launched a comprehensive survey of client satisfaction and needs assessment. Preliminary results of the data indicates that Telefilm’s overall performance ratings are similar to those reported in our last survey, which was conducted in 2001. Improved satisfaction was reported where we responded to the last survey’s recommendations.

Clients are now more satisfied with the application process, the cost reporting phase, and the level of consultation of the industry. They are also more satisfied with our responsiveness in adapting our programs and services to the changing needs of the market.

Detailed results of this study will be compared with past client satisfaction studies and our strategies going forward will be developed to meet the needs of our clients. Our attention to the business processes involved in the delivery of the Canada Feature Film Fund will take into account clients’ comments for the need to improve the contract negotiation process and the disbursement phase.

eTelefilm – A Service Tool for the Industry

Our eTelefilm online service portal for the industry was considerably enhanced in 2005-2006. Access security is assured by use of the Secure Channel ePass service provided by Public Works and Government Services Canada, eTelefilm is now more accessible, allowing Mac users to enjoy the same functions as PC users. Clients can opt to receive payments by direct deposit as eTelefilm now covers the full project cycle, from application to product launch. Telefilm has also refined the layout to put project summaries – application status, evaluation dates, payment dates, etc. – up front, on a client’s home page.



A CULTURE OF ACCOUNTABILITY

Clear Objectives

Going forward, Telefilm has created an extensive framework for determining objectives and developing a set of measures to gauge its success in reaching these goals. This framework, which is presented in our new corporate plan, consists of Strategic Objectives, Key Performance Indicators, Current Levels and Targets. This new and solid set of goals allows Telefilm to clearly communicate its successes and to better define its public accountability.

Under the proposed new agreement between the Canadian Television Fund and Telefilm, the TV Unit is subject to administrative performance standards that will serve to assess compliance with the Corporation's financial, legal and operational obligations. The primary purpose is keep the Executive Director, the Executive Committee and the Board informed of Telefilm's performance as a fund manager and service provider. The same performance standards will be introduced across Telefilm in 2006-2007.

Improved Performance Measurement Tools

The 2005 launch of weekly and monthly audience reports (for feature film, television and online projects) proved to be hugely successful at keeping Telefilm analysts abreast of market conditions throughout the year. These performance reports have also empowered managers to more effectively focus their efforts on achieving value for Canadians. This data will be rolled into a quarterly management report.

A SOCIALLY RESPONSIBLE ADMINISTRATOR

Physical Fitness Incentive Program

At Telefilm, promoting good health is important. The Physical Fitness Incentive Program was launched in spring 2004 with the main objective of encouraging employees to take personal responsibility for their physical well-being. Fiscal year 2005-2006 saw the continued success of this program.

The program includes three steps:

- * a full physical evaluation of each employee by a fitness specialist;
- * establishing and executing personal programs; and
- * reevaluation after six months to measure progress.

This initiative has been highly popular the past two years, with 89 employees (almost half of all staff) participating in 2005-2006.



Saving our Forests

Telefilm wants to be a corporation whose operations reflect a concern for the environment. For internal operations, Telefilm has introduced and continues to develop technological tools that help reduce the use of paper. Working towards a paperless environment, the Information Technology department adopted automated purchase orders and signatures at the start of the year. This project will be extended to the rest of Telefilm in 2006-2007. All paper and ink cartridges are recycled. Docunet – the document management system, Sineweb – the operations tracking system, and eTelefilm are all part of Telefilm's efforts to use less paper and encourage paperless applications.

In addition, all of our offices are located close to public transit services, the means of transportation used by most employees. These measures aim to limit the size of our environmental footprint.



PRIORITIES FOR THE FUTURE

Telefilm expects that in the next five years, the Canadian industry will experience an **unprecedented series of transformations.**

Peu de M. Robley la somme de

While new and unpredictable, the technologies and business models that triggered these changes should be welcomed, not feared, by **Canadian producers and developers**. Nevertheless, getting from here to there will require **new skills**, new sources of capital and a **new kind of relationship** with Canadian audiences, as well as much more detailed information about the attitudes and behaviours of those audiences- or “end users” as they say in new media.
(From Cinema to Cell Phones)

CANADIAN CINEMA in A CHANGING ENVIRONMENT

Despite hitting the targeted 5% market share for feature film in 2005-2006, the extreme imbalance between the relative success and failure of each respective language market must be resolved. Telefilm will continue to work diligently to address those challenges in Canada's English-language film sector as well as strengthening and maintaining the already strong French-language film market. Several actions need to be taken.

More Resources for Production and Marketing

We need a Fund that agrees with the realities of the market.

- * Canadian film has proven greatly successful in the French market, but to meet the demands of growing budgets and to maintain market share, more resources will be needed merely to maintain current levels.
- * Marketing strategies must innovate, in keeping with the rapid proliferation of choices on other platforms.
- * Telefilm, with the help of the CFFF working groups for both linguistic markets, is reviewing the performance component of the Fund to assure that we continue to reward performance in the best way.

In the coming year, Telefilm intends to find these elusive dollars through appealing to federal interests as well as private partnerships, coproductions and foreign sources. As we mentioned above, a review of the coproduction policy is a pressing need. We need to modernize our coproduction treaties in order to make Canada more competitive in the race for international financing.

Strengthening Relationships Across Industry Sectors

We believe that the English market has fallen short because all sectors have failed to work together cooperatively.

- * Relationships between producers, distributors and exhibitors, are not as strong as they could be, resulting in mixed and conflicting objectives for Canadian film.
- * There are many scheduling problems with the exhibition of English feature film.
- * Opportunities now exist to promote and even distribute films across a range of new and old screen technologies.

Telefilm has already begun a process of bringing together the various sectors of the feature film market. An English-language focus group meeting this past January proved immensely useful. Two more such meetings are planned in the coming months.

Better Scripts for Better Films

- * This is a complex problem, but everyone agrees that better scripts are a key part of the solution.

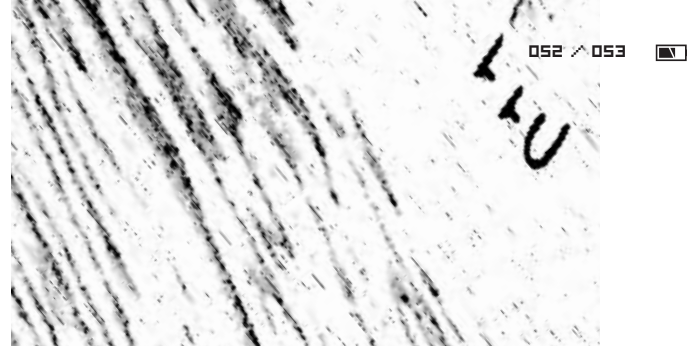
To that end, Telefilm will be hosting a Creative Summit that brings together creative industry professionals to look for solutions that work.

More Accountable Decision Making

We continue to better define our roles and responsibilities and link them to accountability on specific strategic objectives.

- * In doing this, the burden of accountability is becoming more focused on specific results expected for our regional and national investment decisions.
- * The role of the regional decision makers is now defined as accountable for developing an industry, developing talent, promoting regional culture, while contributing to some box office return.
- * The role of the national decision maker will be linked to accountability for cross-country box office success.

We have implemented changes to our internal structure to meet these objectives. Going forward, we will review the performance of this new arrangement.



A FUND TO MEET THE NEEDS OF CANADIAN INTERACTIVE CONTENT PRODUCERS

Renewing the Canada New Media Fund in Step with the Industry

Even with the recent addition of \$5 million, what was once an adequate resource for developing and producing Canadian-made new media content is now a resource stretched to its limit.

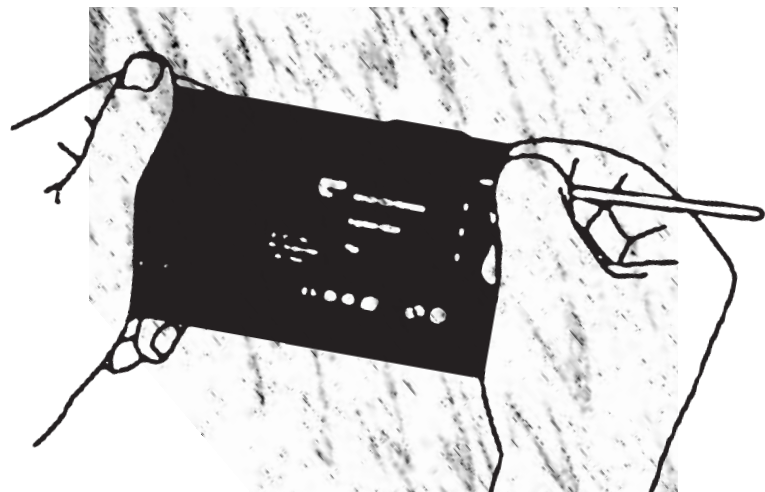
- * The Canada New Media Fund can no longer address the realities of the multiplatform new media world and all the challenges that come with it.
- * Although some progress has been made, developers continue to assume too much risk. Development costs are high, financing is scarce, and resources available through the Fund are inadequate to meet the needs of even modest projects.
- * Business models developed in the last year barely resemble those from 2001 and now involve multiple delivery platforms for a single product.
- * Games are a significant cultural force, but barriers to entry for game developers are formidable.
- * Interactive media is an opportunity that can't be missed for promoting Canadian stories and Canadian culture.

We need to take a fresh look at the Canada New Media Fund. If the fund is to achieve its objective, it needs to grow and be more responsive to the needs of the industry. Telefilm will work with the government as it strives to develop a policy for this new environment. First on the agenda for us will be a renewed fund with adequate resources and the flexibility needed to respond rapidly to changing market developments.

The Financing Conundrum

Outside of federal resources, there are other ways to increase investment resources for the development of Canadian interactive content.

- * We recognize the importance of partnerships as a means to share the burden of developing this industry and to help the industry meet its financing needs and stay Canadian.
- * The development of Canadian games will require significant investment from many sources, public and private.



CRITICAL TIME FOR INDUSTRY DEVELOPMENT

Consolidating our Resources – a Strategic Investment in Industry Development
Helping build the Canadian audiovisual industry requires a coordinated approach.

- * There needs to be an effort in raising the profile of Canadian talent and optimizing industry development both domestically and internationally.
- * Developers, producers, distributors, publishers, retailers and exhibitors across the audiovisual industries are affected by the on-demand consumer model, as well as the long-term trend to user-pays models.
- * We need to develop an action plan for going forward.

We have already streamlined all industry development activities into a single unit within the Corporation. That department is now in the process of reviewing our programs in order to better align them with our corporate plan. We plan to be more proactively involved in strategic industry development activities, based on solid analysis of the market place.

Coordinating our Efforts to Develop Canadian Talent

It is also becoming apparent that management expertise in film, television and interactive media production is lacking, particularly in the areas of business and financial planning.

- * Structured routes that allow emerging and established Canadian creators to enter and progress through the industry are no longer apparent.
- * Nor are there agreed-upon quality control systems to ensure that the training being delivered is high calibre and meeting the needs of the industry.

Telefilm intends to contribute to fulfilling a recent recommendation of the House of Commons Standing Committee on Canadian Heritage to develop a coordinated and invigorated training strategy for the audiovisual sector.

Increasing Resources Through Partnerships

The *Telefilm Canada Act* currently limits our ability to enter into partnerships. Telefilm is keen to see changes to its legislation in order to better support Canada's audiovisual industry.

ONGOING COMMITMENT TO CLIENT SERVICE

A new Consultation Charter

One of the deliverables that Telefilm has committed to, following its pluriannual Client Satisfaction and Needs Assessment survey, is to develop a Consultation Charter. The Charter will lay out Telefilm's commitment as to how it intends to consult stakeholders, as well as what it expects from them to assure an effective process.

Awareness Campaign for eTelefilm

Our online application tool is now state of the art. Online business relations are the way of the future. By late 2005-2006, 325 clients were registered with our online service, but only a small proportion were submitting applications electronically. This has prompted us to undertake an information and awareness campaign to encourage the use of its secure, confidential eTelefilm portal.



MEASURING OUR EFFECTIVENESS

Enhancing our Results-Based Management

Our review of roles and responsibilities is helping us to define what each decision maker at Telefilm is accountable for. Quarterly performance reports for key Operations managers will roll out in the coming year. In addition, our annual review of employee performance is now aligned to the corporate plan and individual objectives and achievements are measured against it.

New Approaches to Audience Measurement

The new environment creates new challenges for measuring the reach of Canadian cultural products with Canadian audiences.

- * Beyond box office and television audience, there are endless alternative metrics that can be applied to gauge the successes of our funded projects.
- * The industry itself is at a crossroad for developing audience measurement frameworks for multiplatform media content.

We are committed to working with the industry to determine, strategies, metrics and baselines for measuring the audiences to the multiple platforms through which Canadians consumers access Canadian content.

A Database of Canadian Cultural Exports

- * Telefilm is taking concrete action to measure our client's international success.

We have now developed a survey that tracks sales and business development over time, which we are using to supply a database of Canadian cultural exports.

We have also developed a survey methodology for measuring the economic impact on producers from participation at each international market. We are going forward with many market surveys in the coming year.

Lastly, Telefilm has just launched two new surveys of training and professional development clients to measure their satisfaction with initiatives, and eventually, their professional outcomes.

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BOARD MEMBERS

As at March 31, 2006

CHARLES BÉLANGER

Chair
Montréal (Quebec)

Charles Bélanger has been involved in the television and communication industries for over 30 years. He was previously President and CEO of CFCF Inc., Vice-President and CEO of the Réseau de télévision Quatre Saisons, Vice-President of Broadcasting of the Canadian Radio-television and Telecommunications Commission (CRTC), and Vice-President of Corporate Development and Regulatory Communications at CANCOM. Mr. Bélanger was also Chair (Television) of the Canadian Association of Broadcasters.

FELIX (FIL) FRASER

Member
Edmonton (Alberta)

Currently an adjunct Professor of Communications Studies at Athabasca University, Fil Fraser was previously President and Chief Executive Officer of Vision TV. He founded the Banff Television Festival, was the Chief Commissioner of the Alberta Human Rights Commission, and managed his own audiovisual production company for 10 years. Known for his commitment to human rights, multiculturalism and diversity, he has published many texts on these topics.

SUZANNE SHEAVES

Member
Halifax (Nova Scotia)

Suzanne Sheaves has a solid track record in the business and investment sector. She is currently First Vice-President and Investment Advisor of CIBC Wood Gundy and conducts business there through the Suzanne Sheaves Group. She has also served as Senior Vice-President of Nesbitt Burns and Vice-President of Dean Witter.

JACQUES BENSIMON

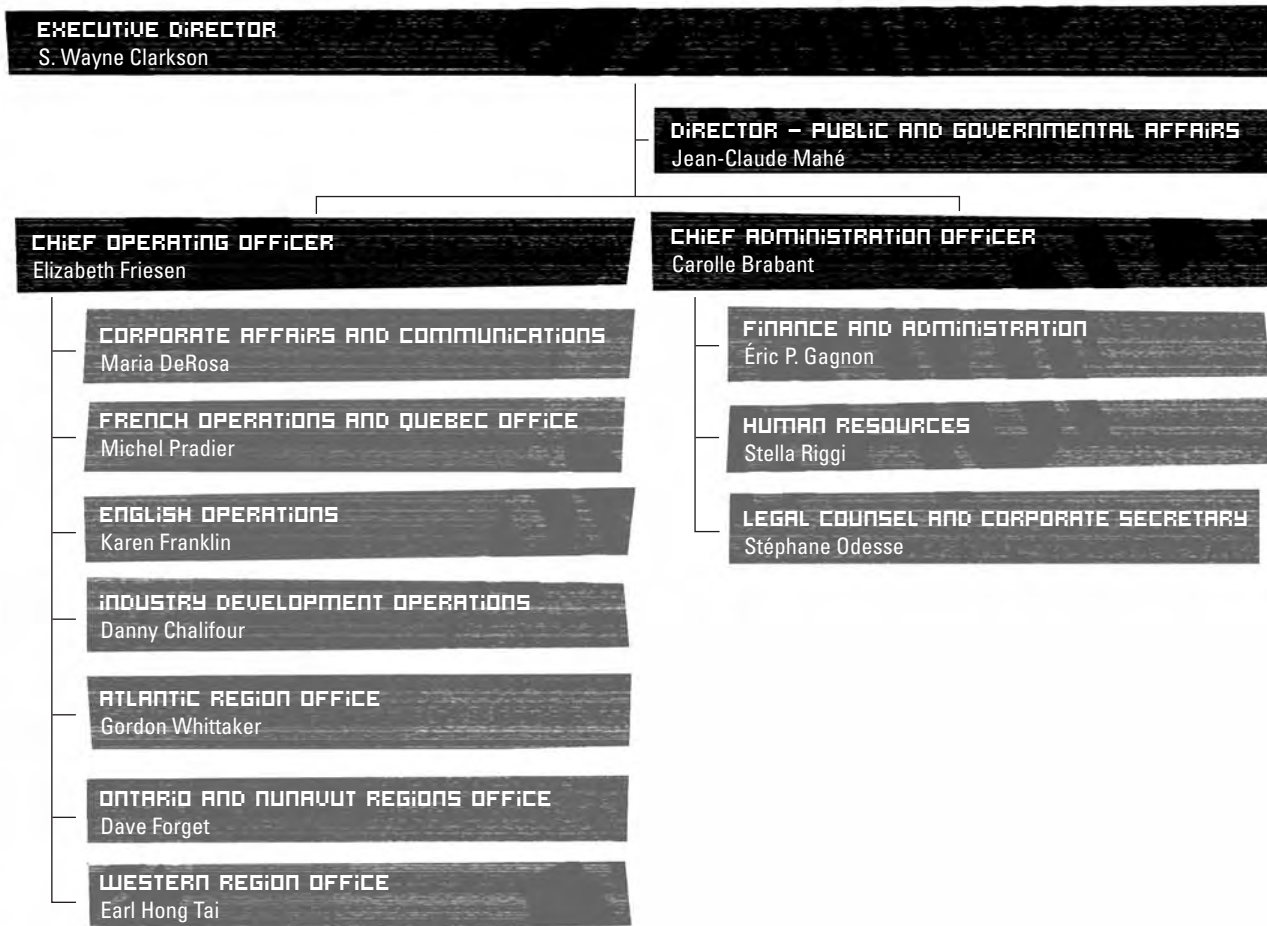
Ex-officio Member Government Film Commissioner
Chair, Cultural and Linguistic Diversity Committee
Montréal (Quebec)

Since his appointment as Government Film Commissioner and Chairperson of the National Film Board of Canada in 2001, Jacques Bensimon has been an ex-officio member of Telefilm's Board. He was previously Executive Vice-President of the Banff Television Foundation and its Chief Operating Officer. Mr. Bensimon also worked at the NFB for nearly 20 years as a scriptwriter, editor, director and producer, and served as Director of TFO, the French network of TVOntario.



SENIOR MANAGEMENT

As at March 31, 2006



GOVERNANCE REPORT

Telefilm Canada's Board of Directors

The Telefilm Board is statutorily composed of a chair and six members. The Board has three working groups: the Audit and Finance Committee, the Cultural and Linguistic Diversity Committee, and the Selection Committee formed in 2004. The Board works with management to define the Corporation's strategic directions and ensures that all efforts are made to achieve the stated objectives. The Board also sees to it that management practices and management and audit systems meet the Corporation's needs and produce reliable results.

The *Telefilm Canada Act* was updated in 2005 in order to, among other things, extend Telefilm Canada's mandate to the entire audiovisual industry. Consequently, changes were made to the eligibility criteria for members of the Board. The revised Act prohibits members from having "directly or indirectly and individually or as a shareholder, partner or otherwise, any pecuniary interest in the audiovisual industry."

Subsequently, a review was conducted to ensure that the sitting members satisfied the new eligibility criteria. The initial findings confirmed that four of the directors met the criteria and could thus form the quorum.

Because of the member eligibility review, the Board held only four meetings, instead of the usual six, and the Audit Committee met only once. As a result, the Board was unable to approve the 2004-2005 annual report and financial statements within the legally prescribed timeframe.

At the time of signing this annual report, in June 2006, the situation of uncertainty as to the full composition of the Board remained unresolved. This situation is detrimental to Telefilm at a time when the Corporation feels a comprehensive review of its enabling legislation would be pertinent and when the challenges appear particularly crucial.

The Board approved the restructuring of Telefilm, as described later in this section, and played an important role in developing the corporate plan for 2006-2007 to 2010-2011.

The Board members are remunerated in line with the guidelines on remuneration for chairs and directors issued by the Office of the Privy Council.

Telefilm Canada before the Standing Committee on Canadian Heritage

Telefilm's Chair and other representatives appeared twice before the Standing Committee on Canadian Heritage, on March 23, 2005 and October 27, 2005 relative to the study on the evolving role of the federal government in support of the Canadian feature film industry. The Standing Committee's report, *Scripts, Screens and Audiences: A New Feature Film Policy for the 21st Century*, was released in November 2005.

Several recommendations of the Standing Committee's report concern Telefilm's role as the key agent for implementing film policy. Telefilm has taken note of these recommendations, some of which were already being carried out, and will inform the Committee of the changes it is making.

Structuring Corporate Management

In October 2005, with the support of the Board, Telefilm began restructuring its corporate management. The objectives were twofold: on the one hand, to ensure better synergy and better expertise sharing within the teams, and, on the other, to ensure Telefilm's ability to achieve the objectives of its new corporate plan and administer the Canadian Television Fund programs.

The redesigned structure with two main divisions, Operations and Administration, is already producing meaningful results, both strategic and operational. It will be final in October 2006, once all roles and responsibilities have been redefined to reflect the new objectives. Telefilm's Television Business Unit was put in place for fiscal 2006-2007 and will undergo adjustments for several months.

Telefilm's four regional offices remain important, particularly in the areas of industry development (cooperation with companies, provincial agencies, etc.), feature film, new media and client service. Each office will have specific roles and responsibilities based on its clientele and a related expenditure framework. And each will develop an action plan with clear objectives, consultation and information programs and measurable outcomes.

Public and Governmental Affairs

Also as part of the new structure, the position of Director – Public and Governmental Affairs was created to support the Chair and the Executive Director in maintaining and developing the public and private partnerships necessary to the Canadian industry's long-term growth. An action plan has been defined, and various Telefilm departments will be involved in national and international efforts, according to their respective expertise and business networks.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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INTRODUCTION

The following analysis was prepared by the Corporation's management, which is responsible for presenting understandable, reliable and relevant financial information. It is approved by the Executive Committee, which then submits it to the Board of Directors for final approval.

The review starts with the highlights and achievements that have had an impact on our financial resources for the fiscal year. This is followed by a comprehensive financial review, future prospects, an overview of the past five years and our institutional risk management strategy.

The financial statements presented on pages 71-84 – the statement of operations, the balance sheet, the statement of cash flows and the supplementary appendices – are helpful in following this financial review.

HIGHLIGHTS

- * Conclusion of a service agreement to manage the Canadian Television Fund programs.
- * The year ending March 31, 2006, was encouraging in many aspects:
 - The net result is positive and amounts to \$6.8 million.
 - By controlling our operating and administrative expenses, we were able to cut not only our management costs for the Canada New Media Fund but our administrative costs as well.
 - The Corporation successfully financed the CTF start-up costs within its administrative budget envelope.
 - Telefilm is in its best cash position in five years.
- * Management succeeded in renewing the CNMF funding agreement with a \$5.1 million increase for a total of \$14 million.

THE YEAR'S ACHIEVEMENTS

OBTAINING THE CANADIAN TELEVISION FUND SERVICE AGREEMENT MANDATE

Following an announcement by the Minister of Canadian Heritage in June 2005, Telefilm Canada and the Canadian Television Fund started negotiations to transfer to Telefilm all operations related to the administration of the CTF funding programs. According to the guidelines, Telefilm is to administer the funding programs while the Canadian Television Fund is to retain overall governance. This three-year contract took effect April 1, 2006.

This large-scale project was designed to optimize the investment processes shared between the two organizations. The task of integrating these processes was guided by the following objectives: to simplify the funding application process in order to facilitate communications with our clients; to lower the programs' administrative costs so that more money goes to financing projects; and to make the process more efficient. On March 31, 2006, bound by a memorandum of understanding, the parties implemented the new process for administering the funding programs, taking into account the human, material and financial resources needed to optimize operations within the new management framework.

Finalization of the service agreement and the transfer of assets to the Canadian Television Fund to conclude the agreement should be completed by July 31, 2006.

COST REDUCTION EFFORTS

In 2005-2006, the emphasis was put on our ability to generate savings and exercise more control over operating and administrative costs. Year after year, we are forced to cope with an administrative budget under upward pressure while our funding sources remain unchanged.

To improve the existing management tools, Telefilm has developed new tools to track its operating expenses. This has enabled us to provide operations managers with more accurate reports of the costs for each program. Telefilm is now better equipped than ever to supply all stakeholders with per-program cost reports. The cost-based accounting approach had played a major role in our ability to generate accurate financial information, and this certainly increased the comfort level for both parties involved in negotiating the CTF service agreement.

INSTITUTIONAL RESTRUCTURING

The Telefilm environment has evolved greatly over the past few years. Among the changes that spring to mind are the introduction of innovative business models such as the CTF service agreement, the growth of the audiovisual industry and its funding needs, and restrictions on access to financing that affect the Corporation. In this context, Telefilm has an obligation to maintain its operations as efficient as possible in order to meet the requirements of its stakeholders, such as the Department of Canadian Heritage and the CTF, or those operating in the industry it serves.

This drives us to innovate and adopt management philosophies that satisfy the standards of these different groups. To maintain the levels of services we provide to our clients and stakeholders, Telefilm undertook a restructuring of its operations. The Corporation's structure is now divided into two areas: program management and administrative management. Program management skills have been consolidated in the Operations Division in order to capitalize on our staff's combined expertise in establishing funding policies and processes.

The administrative management focuses on measuring the Corporation's performance in meeting our stakeholders' and clients' expectations and requirements in accounting, financial and legal matters. It also has a new business architecture section, which ensures the integrity of the Corporation's initiatives and proper use of the resources at its disposal.

This structure helps meet the new challenges involved in managing modern businesses.

FINANCIAL REVIEW

1. EXPENSES

In 2005-2006, Telefilm made a major financial contribution totalling \$201 million to the television, film and new media sectors. At the same time, Telefilm recovered a net amount of \$26 million on its investments and advances, which can now be used to fund projects. The following tables show the analysis of assistance expenses and net recoveries for each main Fund.

Canadian Television Fund

(in thousands of dollars)

	2006	2005
Canadian Television Fund – Equity Investment Program	107,673	109,890
Net recoveries	(13,495)	(10,997)
	94,178	98,893

A total of \$107.7 million was disbursed to 1,379 projects, including \$93.9 million invested in productions and \$12.7 million in development advances. A little more than \$1 million was divided among the other components of the Fund.

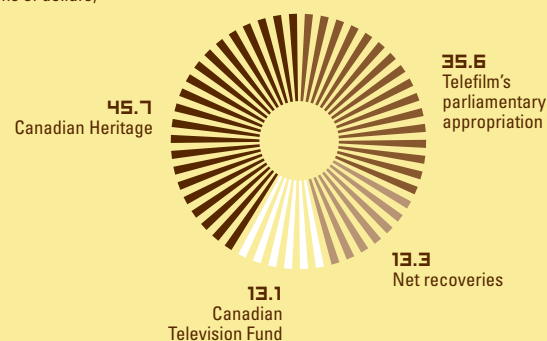
Fiscal 2005-2006 saw a \$3.7 million decrease in funding for production projects and a \$1.7 million increase in funding for projects in development. The decline in production funding is due to slower disbursement against 2005-2006 commitments combined with a reduction in amounts payables on prior year commitments.

The \$1.7 million increase in funding for projects in development is mainly a result of the CTF Board of Directors' decision to offset the declining number of projects in the Prairie and Atlantic regions.

The following graph shows the funding sources for the Fund's expenditures. It illustrates the diversification of these sources and the fairly balanced distribution of monies from the various funding sources. Telefilm and the Department of Canadian Heritage provided 75% of the funding, while the Canadian Television Fund-Licence Fee Program and net recoveries from producers and distributors accounted for 25%. This is a good example of partnership between the public and private sectors.

Funding Sources for CTF – EIP expenses

(in millions of dollars)



Net recoveries for fiscal 2005-2006 rose by \$2.5 million over the previous year to \$13.5 million. This is the result of a 15% increase in recoveries on investments due to improved performance by English-language productions. Additionally, recoveries on advances rose by 18%, most of which are from versioning and acquisition projects.

Canada Feature Film Fund

(in thousands of dollars)

	2006	2005
Canada Feature Film Fund	74,573	79,304
Net recoveries	(10,396)	(12,008)
	64,177	67,296

A total of \$74.6 million was disbursed to 762 projects, including \$43 million for production investments, \$15 million for distribution and marketing advances, \$7.7 million for development advances, \$2.5 million for grants to Canadian festivals and \$1.4 million for participation in foreign festivals and markets. The balance of industry support amounts to \$5 million and is spread over various types of assistance in areas such as versioning, screenwriting, low budget independent feature films and official coproductions.

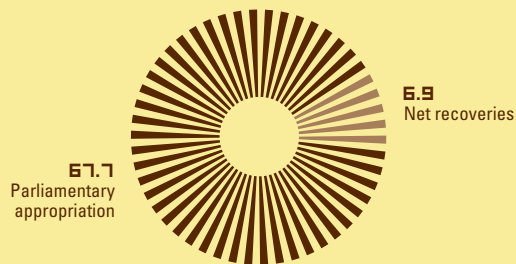
The \$4.7 million decline in spending by the Canada Feature Film Fund is due mainly to three factors: a \$5.4 million decrease in production expenses, a \$1.5 million decrease in marketing expenses and a \$1.9 million increase in development expenses.

One of the reasons for the decrease in production spending is related to producers who carried forward part of their performance envelopes to next year, for a total of \$4.7 million. In addition, there was an appreciable decrease in disbursements against commitments made in 2005-2006 for projects financed through performance envelopes. This is mainly attributable to the 18- to-36-month production cycle. One of Telefilm's annual operational challenges is to reconcile the industry's funding needs with the financial constraints of its fiscal year.

The increase in development expenses stems from a greater use of performance envelopes to develop new projects.

Funding Sources for CFFF Expenses

(in millions of dollars)



With respect to funding for Canada Feature Film Fund expenditures, 91% comes from the Corporation's parliamentary appropriation and the remaining 9% comes from net recoveries. Management is concerned by the lack of diversification and the ongoing rise in production costs. Since the long-term funding outlook promises little change, the Fund's viability in terms of the number of productions financed poses a challenge. Management acknowledges that the Canada Feature Film Fund would benefit from diversifying its funding sources to ensure its continuity and prosperity.

This year, net recoveries from feature films are down \$1.6 million from the previous year. The downturn is largely due to a decrease in returns on investments, which are \$1.8 million lower than in 2005. For example, only six titles generated recoveries of over \$100,000, for a total of \$1.2 million, compared to nine titles last year, which brought in total recoveries of \$3.3 million. When there are fewer major box-office hits, the impact is unavoidable and considerable.

Canada New Media Fund

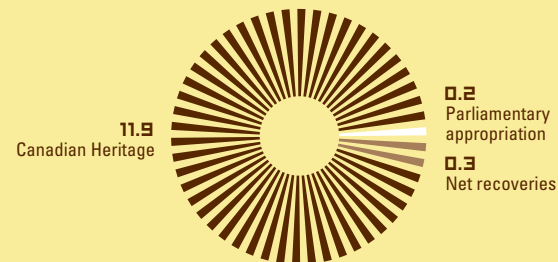
(in thousands of dollars)

	2006	2005
Canada New Media Fund	12,445	8,608
Net recoveries	(1,303)	(516)
	11,142	8,092

This year, expenses are up by \$3.8 million, mainly due to a \$1.9 million increase in project development support and a \$1.2 million increase in production assistance. This is the direct result of the additional financial resources that saw the available budget jump from \$8.4 million in 2004-2005 to \$12.2 million in 2005-2006. Increased investment has led to tangible results in the Canadian new media industry. In 2005-2006, Telefilm funded 162 new projects, compared to 80 the year before, which caused the rejection rate to fall from 76% to 62%. Similarly, the average funding per project rose from \$89,772 to \$93,697.

Funding Sources for CNMF Expenses

(in millions of dollars)



The Department of Canadian Heritage provided 96% of the funding for CNMF expenditures. Net recoveries are up by \$0.8 million; the increase is mainly due to the approximately \$0.5 million sale of rights for two projects. In the medium term, management anticipates increased recoveries on projects.

TELEFILM: AN EFFECTIVE, EFFICIENT MANAGER

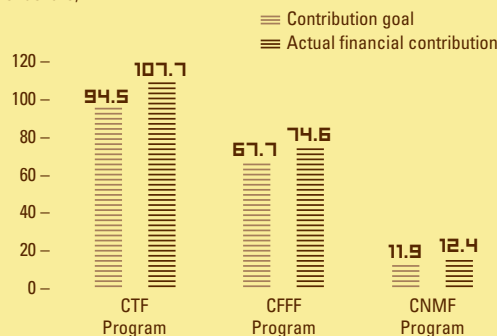
Management of the Canadian Television Fund – Equity Investment Program, the Canada Feature Film Fund and the Canada New Media Fund is subject to agreements that impose strict requirements. Under these agreements, the Corporation must attain the stipulated financial contribution targets. Reaching these targets makes it possible to adequately support the audiovisual industry, which in turn



creates cultural content and jobs. Failing to reach the targets would result in a loss of funding, which would have a direct impact on projects. The following graph shows the financial contribution targets and the results for the fiscal year.

Financial Contribution Targets

(in millions of dollars)



In all three programs, the Corporation's investment exceeded the target, demonstrating that Telefilm is an effective fund manager. The financial contributions that exceed the anticipated funding level essentially come from net recoveries arising from the projects.

Operating and Administrative Expenses

(in thousands of dollars)

	2006	2005
Operating expenses	19,816	19,029
Administrative expenses	3,606	4,759
Total operating and administrative expenses	23,422	23,788

The total operating and administrative expenses are down by 1.5%, a decrease of \$366,000. This illustrates how seriously management takes expenditure control. The ratio of operating and administrative expenses to total support spending is 11.7%, compared to 11.4% in 2004-2005. The overall decrease in 2005-2006 assistance expenses impacts negatively on this performance measure: in actual fact, for a level of support spending comparable to that of last year, the Corporation improved its performance.

All of our expenses fluctuated slightly. During the year, management stressed managers' responsibility for the financial resources they control. This approach yielded very positive results in terms of both accountability and expenditure control. Tight budgetary discipline enabled management to reallocate more than \$0.2 million in administrative funding to program expenditures.

Operating Expenses

Operating expenses are the costs incurred to deliver the various programs. These costs rose by \$0.8 million in 2005-2006. The increase is due mainly to the start-up costs of \$0.6 million required to implement the activities associated with the Canadian Television Fund service agreement. Were it not for these start-up costs, the operating expenses would have risen by less than 1%.

Administrative Expenses

Administrative expenses are inherent to our corporate activities. These expenses dropped by \$1.2 million, from \$4.8 million in 2004-2005 to \$3.6 million in 2005-2006. The decrease is due mostly to savings realized by our Board of Directors and a reduction in institutional activities in the area of communications. Administrative expenditures are required primarily for the governance of our Funds and for the strategic management of the Corporation. Management is especially satisfied with the current level of administrative expenses because it represents only 1.8% of the total assistance expenses of \$201 million. This ratio was 2.3% for the previous fiscal year.

Management Expense Ratios for the Main Funds

(in thousands of dollars)

	CTF-EIP	CFFF	CNMF
Operating expenses	6,895*	8,419	2,064
Assistance expenses	107,673	74,573	12,445
Fund management expenses	6%	11%	17%

* For comparison purposes, start-up costs of \$640,000 have been subtracted from the CTF-EIP operating expenses.

The CTF-EIP and CFFF ratios are 6% and 11%, respectively, and this performance is comparable to the previous fiscal year. The CNMF ratio is 17%, a sharp improvement over the ratio for 2004-2005, which was 24%. The improved efficiency of the CNMF is directly related to the fact that file analysis conducted in 2005-2006 is now leading to concrete investments made possible by increased funding.

The ratios also show that the costs of the different Funds cannot be compared. The specific guidelines for each Fund strongly influence their respective management costs, and these operational differences entail substantial operating expenses.

2. GOVERNMENT FUNDING AND REVENUES

Government funding and revenues consist of our parliamentary appropriation, our contribution agreements with the Department of Canadian Heritage and the contribution from the Canadian Television Fund – Licence Fee Program.

The total funding is up by \$7.4 million this year. Most of these additional monies come from an \$11.1 million increase in the Canadian Television Fund contribution, combined with a \$5.1 million increase under the Canada New Media Fund agreement, a \$3.8 million decrease in our parliamentary appropriation and a \$5.3 million reduction in funding related to the Music Entrepreneur Program.

Government Funding and Revenues

(in thousands of dollars)

	2006	2005
Parliamentary appropriation	122,476	126,300
Department of Canadian Heritage:		
Canadian Television Fund – Equity Investment Program	49,775	49,775
Canada New Media Fund	14,000	8,907
Music Entrepreneur Program	175	5,443
Professional training schools	2,550	2,550
Canadian Television Fund – Licence Fee Program	13,082	2,000
Amortization of deferred capital funding	2,241	2,182
Other revenues	933	671
	205,232	197,828

PARLIAMENTARY APPROPRIATION

The parliamentary appropriation serves to fund assistance expenses, operating and administrative costs and capital asset acquisitions.

The Corporation used \$122.5 million to fund assistance and operating and administrative expenses and \$2.4 million for the purchase of capital assets; the corresponding figures for 2004-2005 were \$126.3 million and \$2 million, respectively. The total parliamentary appropriation was \$124.9 million for the fiscal year, down by \$3.4 million from 2004-2005. The decrease is directly attributable to a past carryover of funding for the Canada Feature Film Fund.

DEPARTMENT OF CANADIAN HERITAGE

The Department of Canadian Heritage is one of the Corporation's key partners. Contribution agreements account for 32% of our annual funding.

Canadian Television Fund – Equity Investment Program

Funding for this program remained stable at \$49.8 million, covering both program support and operating and administrative expenses. This agreement expired on March 31, 2006, and will not be renewed.

Canada New Media Fund

The Corporation renewed the contribution agreement, which raises funding from \$9 million to \$14 million for fiscal 2005-2006. This large increase is a strong vote of confidence in the Corporation by the Department. Management firmly believes in the growth and convergence of the new media industry within the Canadian audio-visual sector and will pursue its efforts to obtain an even more substantial increase in funds to meet the growing challenges of the multiplatform environment.

Music Entrepreneur Program

This agreement expired on March 31, 2005, and funding received in 2005-2006 was used to offset the expenses incurred in terminating the program.

CANADIAN TELEVISION FUND – LICENCE FEE PROGRAM

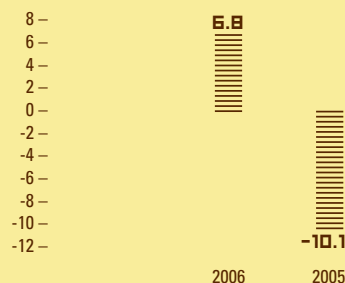
The contribution of the Licence Fee Program serves to cover the shortfall in project funding from the main television funds. This contribution, subject to fluctuations over the fiscal years, amounted to \$13 million in 2005-2006.



3. NET RESULT

Net Operating Result

(in millions of dollars)

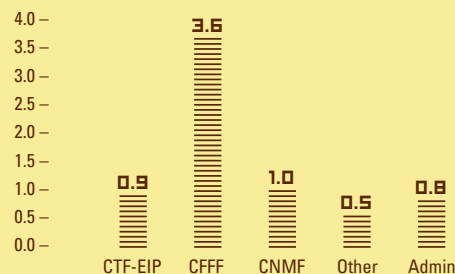


The net operating result totals \$6.8 million. This is a complete turnaround from 2004-2005, which posted a loss of \$10.1 million. The net result is affected mainly by annual recoveries on advances and investments, which, depending on the industry's needs, are either reinvested in the course of the year or carried forward to subsequent fiscal years.

The graph below shows that all Funds recorded a net profit for 2005-2006, which means that not all of the annual recoveries were reinvested. This situation reflects the reality of a market in which funding applications vary from year to year depending on which projects are available and ready to start production. This bodes well for the future, since funds unused as at March 31, 2006, are available for investment as of fiscal 2006-2007.

Breakdown of the \$6.8 Million Surplus

(in millions of dollars)



Assets

(in thousands of dollars)

	2006	2005
Receivable from Canada	35,238	14,783
Contributions receivable from:		
Department of Canadian Heritage	4,656	18,502
Canadian Television Fund – Licence Fee Program	–	2,000
Accounts receivable, prepaid expenses and loans	7,500	6,771
Long-term accounts receivable and loans	268	164
Property and equipment	9,135	8,991
	56,797	51,211

Our balance receivable from Canada represents 62% of the value of our assets. Our cash on hand comes from recoveries and is available to be reinvested in the Fund's assistance expenses.

Contributions receivable are down for the second consecutive year. The outstanding collaboration between the Corporation and the Department of Canadian Heritage, coupled with rigorous monitoring of our agreements, account for the \$13.8 million decrease.

Our accounts receivable and prepaid expenses are up this year. The \$0.7 million change arises mainly from an increase in prepaid administrative expenses. Of the year's total investment net recovery of \$25.6 million, only \$2.4 million is outstanding. This telling financial information is a sign of the strength and vitality of the Canadian audiovisual industry.

Most of the net value of our property and equipment comes from amounts invested in operational and financial information systems. The Corporation maximizes technological leverage so that its employees can be assigned to more productive tasks. A portion of our acquisitions amounting to \$2.4 million for the fiscal year is the result of functions developed for our transactional site, eTelefilm, and for our new Business Intelligence System, which will deliver information of unrivalled quality.

Liabilities and Equity of Canada

(in thousands of dollars)

	2006	2005
Accounts payable and accrued liabilities	2,072	3,639
Severance benefit obligation	1,125	914
Deferred lease inducements	1,167	1,183
Deferred capital funding	9,135	8,991
Equity of Canada	43,298	36,484
	56,797	51,211

Accounts payable and accrued liabilities are down. The most pronounced change comes from accounts payable related to assistance expenses, which declined by \$1.3 million. This decrease is explained mainly by the strengthening of administrative measures that promote an efficient payment process. Also, the Finance department makes it a point of honour to uphold the service standard for payment set out in Telefilm Canada's Client Service Charter, which is eight business days.

The severance benefit obligation is management's accounting estimate and represents the monetary benefits payable to employees upon termination of employment. These benefits are subject to various conditions and are comparable to those offered by other federal agencies.

The Corporation discontinued operation of its Ottawa office. This business decision will yield medium-term savings. The accounting effect is that we have assumed a leasehold obligation evaluated at \$100,000. The deferred lease inducements, which result mainly from favourable conditions for signing leases, will be reduced gradually over the next nine years.

The deferred capital funding was amortized using the straight-line method and correlates perfectly with the amount of parliamentary appropriation used to acquire the Corporation's property and equipment. These long-term liabilities do not constitute a financial instrument and are therefore presented as a non-monetary item.

The Equity of Canada climbed to \$43.3 million. The \$6.8 million increase is directly attributable to the net operating result, which is positive. The Equity balance is at par with the average of the past five years. Management is satisfied with this financial position, because it allows the Corporation a margin of flexibility in terms of reinvestment.

Cash Flow

(in thousands of dollars)

	2006	2005
Receivable from (payable to) Canada at the beginning	14,783	(8,551)
Operating activities	20,416	23,189
Financing activities	2,385	1,979
Investing activities	(2,346)	(1,834)
Receivable from Canada at the end	35,238	14,783

In 2005-2006, operating activities generated a positive cash flow of more than \$20 million. Our net result of \$6.8 million, combined with rigorous management of accounts receivable and contributions receivable from partners, put us in an excellent cash position at March 31, 2006. The amount receivable from Canada is \$35.2 million; this is the best cash position of the last five years. For the most part,

the financing and investing activities represent the use of funds to purchase property and equipment.

THE FUTURE

Telefilm is committed to meeting the established service levels in delivering the Canadian Television Fund programs in the new fiscal year. At the same time, Telefilm will fully respect the vision enunciated by the Minister of Canadian Heritage, which is to serve a solid industry with the highest standards of client service, such as a "one-stop" process for submitting applications.

Telefilm intends to be guided by the revision of CTF service agreement control mechanisms and business processes as it undertakes to extend these good management practices throughout the organization.

The Corporation has truly shifted its focus to performance. Starting next year, performance measurement mechanisms will be established at all levels of the organization to help managers meet their operational and strategic obligations and to ensure constant alignment with institutional strategies.

Telefilm will further improve its business process management so that its management practices and information systems can optimize the Corporation's activities and processes on an ongoing basis. To this end, managers in all sectors will continue to work together to prioritize projects and ensure institutional alignment and greater flexibility in allocating resources to achieve common goals.

Internet protocol telephony, email and document archiving solutions are some of the technologies we plan to deploy over the next few months. These technologies will lead to considerable savings in infrastructure sharing or the automation of certain processes, such as those involving the classification and sorting of information. Employees who work in more than one Telefilm office or travel to festivals and markets will also have better access to information. At this stage, we will have all the tools we need to archive the various data formats that we handle.

In the longer term, Telefilm will continue to implement data management tools to ensure greater accuracy of information, in terms of both granularity and context. Business portals, federated search engines and self-classification of information come readily to mind. With the amount of stored information growing exponentially, the key to making a successful analysis is to extract relevant information (time and context) at the precise moment when we need to make a decision or exercise judgment.

FIVE-YEAR OVERVIEW

Statement of Operations

(in thousands of dollars)

	2006	2005	2004	2003	2002
Expenses					
Canadian Television Fund – Equity Investment Program	107,673	109,890	110,043	114,206	102,912
Canada Feature Film Fund	74,573	79,304	91,875	78,866	57,974
Canada New Media Fund	12,445	8,608	9,737	8,469	5,713
Other funds	5,945	5,690	5,535	7,859	8,766
Music Entrepreneur Program	–	5,389	8,797	4,355	–
Assistance expenses	200,636	208,881	225,987	213,755	175,365
Net recoveries	(25,640)	(24,764)	(19,823)	(22,392) ¹	(19,636) ¹
Operating and administrative expenses	23,422	23,788	22,413	21,614 ¹	20,381 ¹
Cost of operations	198,418	207,905	228,577	212,977	176,110
Government Funding and Revenues					
Parliamentary appropriation	122,476	126,300	123,419	134,953	103,598
Department of Canadian Heritage:					
Canadian Television Fund – Equity Investment Program	49,775	49,775	49,775	47,275	56,175
Canada New Media Fund	14,000	8,907	9,656	7,452	6,000
Music Entrepreneur Program	175	5,443	9,560	5,740	–
Professional training schools	2,550	2,550	2,550	2,795	2,800
Canadian Television Fund – Licence Fee Program	13,082	2,000	24,509	26,761	8,448
Amortization of deferred capital funding	2,241	2,182	1,961	1,498	929
Other revenues	933	671	441	909	355
	205,232	197,828	221,871	227,383	178,305
Net result from operations	6,814	(10,077)	(6,706)	14,406	2,195

Balance Sheet

(in thousands of dollars)

	2006	2005	2004	2003	2002
Assets					
Receivable from Canada	35,238	14,783	–	8,854	–
Contributions receivable from the:					
Department of Canadian Heritage	4,656	18,502	30,664	15,381	37,183
Canadian Television Fund – Licence Fee Program	–	2,000	24,509	26,761	8,448
Accounts receivable, prepaid expenses and loans, net	7,500	6,771	8,289	10,108	11,244
Long-term accounts receivable and loans	268	164	243	428	763
Property and equipment	9,135	8,991	9,194	6,714	5,664
	56,797	51,211	72,899	68,246	63,302
Liabilities and Equity of Canada					
Payable to Canada	–	–	8,551	–	10,183
Accounts payable and accrued liabilities	2,072	3,639	6,544	6,388	6,762
Severance benefit obligation	1,125	914	727	585	601
Deferred lease inducements	1,167	1,183	1,322	1,292	1,231
Deferred capital funding	9,135	8,991	9,194	6,714	5,664
Equity of Canada	43,298	36,484	46,561	53,267	38,861
	56,797	51,211	72,899	68,246	63,302

¹ These financial data have not been adjusted to conform to the presentation format adopted in 2006, 2005 and 2004.

RISK MANAGEMENT

Risk management is an integral part of Telefilm's organizational strategy. In 2005-2006, to help the agency better manage its risks, management created the Information, Performance and Risk department, which is responsible for ensuring that every unit of the organization identifies, assesses and mitigates the risks inherent to its activities on an ongoing basis.

Strategic Risks

These are risks that could interfere with the accomplishment of the Corporation's objectives. Some of the factors that could affect our ability to achieve these objectives are changes in our clients' and stakeholders' needs, amendments to laws and regulations, such as the *Federal Accountability Act*, or changes to our mandate.

During the year, Telefilm worked closely with its clients and stakeholders in order to better understand their needs. Management set up structural mechanisms designed to collect information that, once interpreted, can be used in taking concrete steps to reduce barriers to achieving our objectives. One of these mechanisms are the two CFFF Working Groups, which include, among others, a Department of Canadian Heritage representative and active members of the industry. The purpose of these Groups is to help identify and resolve common issues.

Management also worked with Aboriginal groups, cultural communities and producers in minority-language situations to ensure that our programs and services meet their needs and contribute to their growth.

Operational Risks

The Corporation's operational risks arise mainly as the result of shortcomings in processes required by our activities. Telefilm's concrete operations are based on the interaction of a set of variables, such as our employees' competence and knowledge of our policies and procedures and the quality of information that our systems provide.

Management took concrete steps to limit the risks of failure inherent in our day-to-day operations. For example, Telefilm initiated an ongoing program to review applications submitted to its main Funds. Employees also benefited from a specific training program that will be renewed annually, and procedure documentation was revised to facilitate analysis and ensure the uniform treatment of applications and documentation. Ongoing improvements enable management to modernize its systems and practices, which tends to mitigate operational risks.

Organizational Risks

Management ensures that Telefilm has the optimum organizational structure needed to achieve its institutional objectives and to reduce the risks that could jeopardize their attainment. The work organization at Telefilm is modern and efficient. It includes traditional administrative functions such as operations, finance, human resources and technologies, but its strength lies in the architecture of functional links among these sectors.

The Executive Committee is ultimately responsible for risk management and ensures that each sector has an appropriate level of accountability. This committee is composed of our most senior managers: the Executive Director, the Chief Operating Officer and the Chief Administration Officer. They are assisted in their duties by the Information, Performance and Risk department. These control mechanisms help alleviate the impact of organizational risk in areas such as the preservation of organizational memory, key employee retention and knowledge and information sharing.

Financial Risks

Telefilm is exposed to many financial risks, and management has established systems and practices to help mitigate them effectively. We rely on the quality of our financial information to counter our financial risks. For every quarter, the Finance department produces scrutinized, relevant and timely financial reports. This ongoing accounting enables management to anticipate any negative effects that may arise from financial risks, such as budget overruns, failure to reach our contribution agreement targets or failure to ensure continuity when we renew our funding. In addition, complete documentation of the processes involved in generating accounting data helps us provide high-quality financial information.

FINANCIAL STATEMENTS

Year ended March 31, 2006



MANAGEMENT REPORT

The financial statements of Telefilm Canada are the responsibility of management and have been approved by the Board of Directors of the Corporation. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and, where appropriate, include estimates based on the experience and judgment of management. Management is also responsible for all other information in the annual report and for ensuring that this information is consistent with the financial statements.

Management maintains books of accounts, financial and management controls, and information systems, together with management practices designed to provide reasonable assurance that reliable and relevant information is available on a timely basis, that assets are safeguarded and controlled, that resources are managed economically and efficiently in the attainment of corporate objectives, and that operations are carried out effectively. These systems and practices are also designed to provide reasonable assurance that transactions are in accordance with the Part VIII of the *Financial Administration Act*, as it read before its repeal on September 1, 1984, with the relevant sections of part X of the *Financial Administration Act*, with the *Telefilm Canada Act* and with the by-laws and policies of the Corporation.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting as stated above. The Board exercises its responsibilities through the Audit and Finance Committee, which consists of directors who are not officers of the Corporation. The Committee reviews the quarterly financial statements, as well as the annual financial statements and related reports and may make recommendations to the Board of Directors with respect to these and/or related matters. In addition, the Committee also meets annually with the external auditor to discuss the audit of the financial statements.

The external auditor, the Auditor General of Canada, conducts an independent audit of the financial statements, and reports to the Corporation and to the Minister of Canadian Heritage and Status of Women.



S. Wayne Clarkson
Executive Director



Carolle Brabant, CA, MBA
Chief Administration Officer

Montreal, Canada
June 9, 2006

AUDITOR'S REPORT

To the Minister of Canadian Heritage and Status of Women

I have audited the balance sheet of Telefilm Canada as at March 31, 2006, and the statements of operations and equity of Canada and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act*, the *Telefilm Canada Act* and the by-laws of the Corporation.



Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 9, 2006

STATEMENT OF OPERATIONS AND EQUITY OF CANADA

Year ended March 31, 2006

(in thousands)

	Schedule	2006	2005
Assistance expenses			
Canadian Television Fund – Equity Investment Program	A	\$ 107,673	\$ 109,890
Canada Feature Film Fund	B	74,573	79,304
Canada New Media Fund	C	12,445	8,608
Other funds	D	5,945	5,690
Music Entrepreneur Program		–	5,389
		200,636	208,881
Net recoveries	A, B, C, D	(25,640)	(24,764)
Net assistance expenses		174,996	184,117
Operating and administrative expenses	E	23,422	23,788
Cost of operations		198,418	207,905
Revenues			
Contribution from the Canadian Television Fund – License Fee Program		13,082	2,000
Investment revenues		668	451
Interest		265	220
		14,015	2,671
Net cost of operations before government assistance		184,403	205,234
Government assistance			
Parliamentary appropriation		122,476	126,300
Contributions from the Department of Canadian Heritage	F	66,500	66,675
Amortization of deferred capital funding (Note 7)		2,241	2,182
		191,217	195,157
Net result from operations		6,814	(10,077)
Equity of Canada at the beginning		36,484	46,561
Equity of Canada at the end		\$ 43,298	\$ 36,484

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

BALANCE SHEET

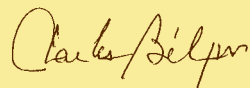
March 31, 2006

(in thousands)

	Note	2006	2005
Assets			
Current assets			
Receivable from Canada		\$ 35,238	\$ 14,783
Contributions receivable from the Department of Canadian Heritage		4,656	18,502
Accounts receivable	3	5,827	5,742
Contribution receivable from the Canadian Television Fund – License Fee Program		–	2,000
Prepaid expenses		1,673	1,011
Loans, net		–	18
		47,394	42,056
Accounts receivable	3	268	143
Loans		–	21
Property and equipment	4	9,135	8,991
		\$ 56,797	\$ 51,211
Liabilities and equity of Canada			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 2,072	\$ 3,639
Long-term liabilities			
Severance benefit obligation	6	1,125	914
Deferred lease inducements		1,167	1,183
Deferred capital funding	7	9,135	8,991
		11,427	11,088
Equity of Canada		43,298	36,484
		\$ 56,797	\$ 51,211
Commitments (Note 8)			
Contingencies (Note 10)			

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

Approved by the Board:



Charles Bélanger, Chair

STATEMENT OF CASH FLOWS

Year ended March 31, 2006

(in thousands)

	2006	2005
Operating activities		
Net result from operations	\$ 6,814	\$ (10,077)
Items not affecting cash:		
Decrease in the allowance for loan impairment	–	(38)
Amortization of property and equipment	2,241	2,028
Loss on write-offs of property and equipment	–	154
Increase in the severance benefit obligation	211	187
Decrease in deferred lease inducements	(16)	(139)
Amortization of deferred capital funding	(2,241)	(2,182)
	7,009	(10,067)
Changes in non-cash working capital items:		
Decrease in contributions receivable from the Department of Canadian Heritage	13,846	12,162
Decrease in contribution receivable from the Canadian Television Fund – License Fee Program	2,000	22,509
Decrease (increase) in accounts receivable	(85)	1,797
Increase in prepaid expenses	(662)	(407)
Decrease in accounts payable and accrued liabilities	(1,567)	(2,905)
Decrease (increase) in long-term accounts receivable	(125)	100
	20,416	23,189
Financing activities		
Parliamentary appropriation for capital funding	2,385	1,979
Investing activities		
Acquisition of property and equipment	(2,385)	(1,979)
Repayments of loans	39	145
	(2,346)	(1,834)
Increase in liquidity	20,455	23,334
Receivable from (payable to) Canada at the beginning	14,783	(8,551)
Receivable from Canada at the end	\$ 35,238	\$ 14,783

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

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2006

1. AUTHORITY AND ACTIVITIES

The Corporation was established in 1967 by the *Telefilm Canada Act*. The mandate of the Corporation is to foster and promote the development of the audiovisual industry in Canada, including feature film, television and new media industries. The Corporation may also act through agreements with the Department of Canadian Heritage for the provision of services or programs relating to audiovisual or sound recording industries.

The Corporation is a Crown corporation subject inter alia to the provisions of Part VIII of the *Financial Administration Act* as it read before its repeal on September 1, 1984, and as if it continued to be named in Schedule C of the Act. The Corporation is also subject to certain provisions of Part X of the *Financial Administration Act*.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies followed by the Corporation are summarized as follows:

a) Assistance expenses

Assistance expenses include all forms of assistance granted to activities related to feature film, television and new media industries. Assistance expenses are carried out mainly through investments, forgivable advances and grants; they are accounted for as follows:

- i) Investments granted in return for a share in operating revenues and forgivable advances are recorded for the operations in the year in which the funds are paid or have become payable; they are all recorded as assistance expenses due to the uncertainty of the amounts that can be recovered.
- ii) Grants are recorded for the operations in the year in which the funds are paid or have become payable.

b) Recoveries

Recoveries come from recovered advances and shares in operating revenues resulting from investments. Recoveries are recorded for the operations once they have become due. Any recovery of investment that exceeds the amount invested is recorded as investment revenue. Recoveries are shown net of the costs incurred to recover them.

c) Government assistance

The Corporation obtains its funds by means of parliamentary appropriation and contributions from the Department of Canadian Heritage. Parliamentary appropriation used to finance the assistance expenses and the operating and administrative expenses is recorded on the Statement of Operations and Equity of Canada. The portion of parliamentary appropriation used to finance the acquisition of property and equipment is recorded as deferred capital funding on the balance sheet and is amortized on the same basis as the related property and equipment.

The contributions from the Department of Canadian Heritage are recorded on the Statement of Operations and Equity of Canada up to allowable incurred expenditures.

d) Interest revenue

Interest revenue consists of interest on the accounts receivable of the Corporation and interest on loans. Interest revenue from accounts receivable is recorded on an accrual basis. Interest on loans is recorded as income on an accrual basis except for loans that are considered impaired. When a loan becomes impaired, recognition of interest in accordance with the terms of the original loan agreement ceases.

2. SIGNIFICANT ACCOUNTING POLICIES (cont.)

e) Amount receivable from Canada

The Receiver General for Canada processes the financial operations of the Corporation through the consolidated revenue fund, thus the absence of bank accounts. For the purposes of the financial statements, the result of banking operations appears on the balance sheet as an amount receivable from Canada.

f) Property and equipment

Property and equipment are recorded at cost. Amortization is based on their useful life using the following method and rates:

Asset	Method	Rates
Software and licenses	Straight-line	14% and 20%
Leasehold improvements	Straight-line	Terms of the leases
Technological equipment	Straight-line	20%
Furniture	Straight-line	10%

Assets related to work in progress are not subject to amortization. When work in progress is completed, the sums relating to assets are reported in the appropriate item and are amortized in compliance with the Corporation's policy.

g) Employee future benefits

Pension plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. The Corporation's contributions to the plan reflect the full cost of the employer contribution. This amount is currently based on a multiple of the employees' required contributions and may change over time depending on the experience of the Plan. The Corporation's contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the Corporation. The Corporation is not currently required to make contributions with respect to any actuarial deficiencies of the Public Service Pension Plan.

Severance benefits

Employees are entitled to severance benefits as provided for under conditions of employment. The cost of these benefits is accrued as employees render the services necessary to earn them. Management determined the severance benefit obligation using a method based upon assumptions and its best estimates. The main assumption is related to the estimate of employees who will benefit from maximal admissible severance that is related to the number of years of service and to the reason for termination employment. This assumption is revised annually. These benefits represent the only obligation of the Corporation that entails settlement by future payment.

h) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The allowance for bad debts, the useful life of property and equipment and the severance benefit obligation and contingencies are the most significant items where estimates are used. Actual results could differ from those estimates and such differences could be material.

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2006

3. ACCOUNTS RECEIVABLE

(in thousands)

	2006	2005
Tax to be recovered	\$ 3,094	\$ 3,506
Accounts receivable related to recoveries	2,668	2,233
Other accounts receivable	333	146
	\$ 6,095	\$ 5,885
Short-term portion	\$ 5,827	\$ 5,742
Long-term portion	268	143
	\$ 6,095	\$ 5,885

4. PROPERTY AND EQUIPMENT

(in thousands)

	Cost	Accumulated Amortization	2006 Net Value	2005 Net Value
Software and licenses	\$ 13,946	\$ 6,989	\$ 6,957	\$ 5,915
Leasehold improvements	2,718	937	1,781	1,808
Technological equipment and furniture	691	440	251	314
Work in progress	146	–	146	954
	\$ 17,501	\$ 8,366	\$ 9,135	\$ 8,991

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

(in thousands)

	2006	2005
Accounts payable related to assistance expenses, trade payables and accrued liabilities	\$ 1,743	\$ 3,401
Current portion of deferred lease inducements	195	138
Current portion of severance benefit obligation	134	100
	\$ 2,072	\$ 3,639

6. EMPLOYEE FUTURE BENEFITS

a) Pension plan

The Corporation and all eligible employees contribute to the Public Service Pension Plan. This pension plan provides benefits based on years of service and average earnings at retirement. The benefits are fully indexed to the increase in the Consumer Price Index. The Corporation's and employees' contributions to the Public Service Pension Plan were as follows:

(in thousands)

	2006	2005
Corporation contributions	\$ 1,461	\$ 1,429
Employees contributions	\$ 606	\$ 604

b) Severance benefit obligation

The Corporation provides severance benefits to its employees based on years of service and final salary. This benefit plan is not pre-funded and thus has no assets, resulting in a plan deficit equal to the accrued benefit obligation. Benefits will be paid from future appropriations and other funding sources. Information about the plan, measured as at the balance sheet date, is as follows:

(in thousands)

	2006	2005
Balance at beginning	\$ 1,014	\$ 827
Cost for services rendered during the year	277	257
Benefits paid during the year	(32)	(70)
Balance at end	\$ 1,259	\$ 1,014
Short-term portion (included in accounts payable)	\$ 134	\$ 100
Long-term portion	1,125	914
	\$ 1,259	\$ 1,014

7. DEFERRED CAPITAL FUNDING

The amount presented on the balance sheet is as follows:

(in thousands)

	2006	2005
Balance at beginning	\$ 8,991	\$ 9,194
Parliamentary appropriation for capital funding	2,385	1,979
Amortization of deferred capital funding	(2,241)	(2,182)
Balance at end	\$ 9,135	\$ 8,991

NOTES TO FINANCIAL STATEMENTS

Year ended March 31, 2006

8. COMMITMENTS

a) Projects

The Corporation is committed contractually to disburse sums in the following funds:

(in thousands)

	Total
Canadian Television Fund – Equity Investment Program	\$ 33,443
Canada Feature Film Fund	22,816
Canada New Media Fund	5,717
Other Funds	873
	<u>\$ 62,849</u>

According to the Canada Feature Film Fund production assistance program based on performance, the Corporation has reserved a total of \$4,779,437 to finance projects to be submitted. These projects will need to comply with all the conditions of the agreements.

b) Leases

The Corporation has entered into long-term leases for the rental of office space and equipment used in its operations. The aggregate minimum annual rentals payable during subsequent years are as follows:

(in thousands)

	Total
2007	\$ 1,537
2008	1,656
2009	1,606
2010	1,520
2011	1,495
2012 – 2015	4,596
	<u>\$ 12,410</u>

9. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with these entities in the normal course of business. The transactions are recorded at exchange value.

10. CONTINGENCIES

In the normal course of business, various claims and lawsuits have been brought against the Corporation. Management is in no position to predict the issue of these lawsuits and the potential losses cannot reasonably be estimated. Thus, no provision was taken in this regard in the Corporation's accounts.



11. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts reported for short-term accounts receivable and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments. There is no concentration of accounts receivable; consequently, any credit risk is low.

The following table represents the carrying amounts and fair values of the Corporation's other financial instruments:

(in thousands)

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Long-term accounts receivable	\$ 268	\$ 247	\$ 143	\$ 127
Short-term loans, net	\$ –	\$ –	\$ 18	\$ 17
Long-term loans	\$ –	\$ –	\$ 21	\$ 19

The fair values of long-term accounts receivable have been established by discounting the drawdowns expected in the repayment agreements at capitalization rates based on the interest rate assessed by the Corporation.

12. SUBSEQUENT EVENT

In June 2005, the Minister of Canadian Heritage announced a “one board – one administration” model for the Canadian Television Fund. Accordingly, Telefilm and the Canadian Television Fund signed an agreement in principle on March 31, 2006. Since April 2006, the principles set forth in the agreement have been gradually put into effect. During the next fiscal year, the two organizations will sign a final agreement on the provision of services. By virtue of this agreement, Telefilm will be responsible for the administration and delivery of the Licence Fee Program and the Equity Investment Program of the Canadian Television Fund. Governance of the Fund will remain with the Canadian Television Fund.

Over the next fiscal year and in accordance with the authorization received from the Governor General in Council, Telefilm will transfer to the Canadian Television Fund all its rights, titles, interests and obligations, including copyrights, pertaining to the television productions and television projects in which it has participated financially or in which it has invested, or relating to the agreements that it has entered into since November 20, 1996 as part of the Equity Investment Program of the Canadian Television Fund, and this without any financial compensation.

Based on the 2006 results, the financial impact of this change over a 12-month period will be a lowering of assistance expenses estimated at \$101 million, a reduction in recoveries of nearly \$11 million and a decrease of government funding and revenues evaluated at \$83 million.

13. COMPARATIVE FIGURES

Some of the 2005 figures have been reclassified to conform to the presentation adopted for 2006.

SCHEDULES A AND B - OTHER INFORMATION

Year ended March 31, 2006

A – CANADIAN TELEVISION FUND – EQUITY INVESTMENT PROGRAM

(in thousands)

	2006	2005
Assistance expenses		
Production assistance	\$ 93,904	\$ 97,653
Development assistance	12,681	10,983
Versioning and subtitling assistance	963	897
Distribution and marketing assistance	50	357
	107,598	109,890
Complementary activities		
Grants for industrial and professional development	60	–
Grants to Canadian festivals	15	–
	75	–
	107,673	109,890
Recoveries	(14,069)	(11,488)
Recovery fees	574	491
	(13,495)	(10,997)
Net assistance expenses	\$ 94,178	\$ 98,893

B – CANADA FEATURE FILM FUND

(in thousands)

	2006	2005
Assistance expenses		
Production assistance	\$ 43,025	\$ 48,408
Distribution and marketing assistance	14,944	16,465
Development assistance	7,732	5,879
Low budget independent feature film assistance	1,954	1,721
Screenwriting assistance	1,050	930
Versioning and subtitling assistance	539	534
Official coproduction assistance	390	772
	69,634	74,709
Complementary activities		
Grants to Canadian festivals	2,551	1,981
Participation in foreign festivals and markets	1,433	1,432
Grants for industrial and professional development	560	640
Advertising, promotion and publications	264	202
Other	131	340
	4,939	4,595
	74,573	79,304
Recoveries	(10,838)	(12,544)
Recovery fees	442	536
	(10,396)	(12,008)
Net assistance expenses	\$ 64,177	\$ 67,296

SCHEDULES C AND D - OTHER INFORMATION

Year ended March 31, 2006

C – CANADA NEW MEDIA FUND

(in thousands)

	2006	2005
Assistance expenses		
Production assistance	\$ 5,237	\$ 4,039
Development assistance	3,709	1,815
Distribution and marketing assistance	2,109	1,527
	11,055	7,381
Complementary activities		
Grants for industrial and professional development	923	891
Grants to Canadian festivals	243	135
Participation to foreign markets	185	192
Advertising, promotion and publications	39	9
	1,390	1,227
	12,445	8,608
Recoveries	(1,358)	(539)
Recovery fees	55	23
	(1,303)	(516)
Net assistance expenses	\$ 11,142	\$ 8,092

D – OTHER FUNDS

(in thousands)

	2006	2005
Assistance expenses		
Official coproduction assistance – Television	\$ 456	\$ 653
Development assistance	276	205
Production assistance	140	312
Distribution and marketing assistance	1	–
Versioning and subtitling assistance – Television	–	90
	873	1,260
Complementary activities		
Grants to professional training schools	2,295	2,299
Participation in foreign markets	935	564
Grants for industrial and professional development	837	722
Grants to Canadian festivals	514	433
Other	274	289
Advertising, promotion and publications	217	123
	5,072	4,430
	5,945	5,690
Recoveries	(466)	(1,298)
Recovery fees	20	55
	(446)	(1,243)
Net assistance expenses	\$ 5,499	\$ 4,447

SCHEDULES E AND F - OTHER INFORMATION

Year ended March 31, 2006

E – OPERATING AND ADMINISTRATIVE EXPENSES

(in thousands)

	Operating	Administrative	2006	2005
Salary and employee benefits	\$ 11,777	\$ 1,760	\$ 13,537	\$ 13,996
Professional services	1,770	686	2,456	2,563
Amortization and write-offs of property and equipment	1,901	234	2,135	2,073
Rent, taxes, heating and electricity	1,608	245	1,853	1,555
Office expenses	942	153	1,095	950
Information technology	969	122	1,091	1,210
Travel and hospitality	650	308	958	987
Advertising and publications	199	98	297	454
	\$ 19,816	\$ 3,606	\$ 23,422	\$ 23,788

Operating expenses represent expenses incurred to deliver the programs. Administrative expenses represent expenses associated with corporate activities inherent to responsibilities vested to the Corporation.

The administrative expenses include an amount of \$306,171 that represent expenses incurred by the Board of Directors for the fiscal year 2006. For the fiscal year 2005, these expenses amounted to \$534,766.

F – CONTRIBUTIONS FROM THE DEPARTMENT OF CANADIAN HERITAGE

(in thousands)

	2006	2005
Canadian Television Fund – Equity Investment Program	\$ 49,775	\$ 49,775
Canada New Media Fund	14,000	8,907
Professional training schools	2,550	2,550
Music Entrepreneur Program	175	5,443
	\$ 66,500	\$ 66,675