Quarterly Financial Report

Period ended June 30, 2011

First quarter of fiscal 2011-2012

Published August 26, 2011

TELEFILM CANADA

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1. HIGHLIGHTS

The first quarter report shows overall assistance expenses of $15.5M, down $3.4M or -18% from the same quarter last year. At this stage, it is too early to conclude that this decrease will persist at March 31. Operating and administrative expenses of $6.9M also show a decrease, down $0.2M or -2.6% from the comparative quarter, testifying to efficient management of administrative expense control. In keeping with the spending levels, government funding amounts to $18.8M, down by 19%.

This report presents the Corporation's financial information for the first time under the Public Sector Accounting Standards. Note 5 to the Financial Statements identifies the accounting implications of converting to the new standards. Furthermore, the Corporation is participating in the Deficit Reduction Action Plan ordered by the Department of Finance, and in March it issued a promising new corporate plan entitled *Fostering Cultural Success*; these topics are discussed in the Risk Management and Important Changes sections, respectively.

2. THE FOUNDATION OF TELEFILM CANADA

Established in 1967 by the *Telefilm Canada Act*, Telefilm is a Crown corporation reporting to Parliament through the Minister of Canadian Heritage.

- Our mandate: Foster and promote the development of the audiovisual industry in Canada;
- Our vision: Audiences everywhere demanding screen-based content created by Canadians – accessible anywhere, anytime and on any platform;
- Our mission: To foster and promote the development of the Canadian audiovisual industry by playing a leadership role through financial support and initiatives that contribute to its success.

Telefilm serves the entire audiovisual industry through its Vancouver, Toronto, Montreal and Halifax offices. The Corporation has three main roles:

1) To invest in the development of the Canadian audiovisual industry, primarily by providing financial support for the development and production of films intended for a global audience. In addition, the Corporation recommends the certification of treaty coproductions for film and television to the Minister of Canadian Heritage.
2) To provide promotional support for Canadian content at home and abroad. The Corporation recognizes the need to stimulate audience demand for Canadian screen-based content. Our role as promoter includes supporting the marketing and promotion of Canadian feature films and our audiovisual industry as a whole. In this respect, we participate in industry events such as festivals and markets that help Canadian audiovisual companies showcase and sell their productions and supporting the industry's own business development activities.
3) To manage audiovisual industry programs. In addition to its own programs and initiatives, the Corporation provides services to the Canada Media Fund (CMF) under a service agreement.

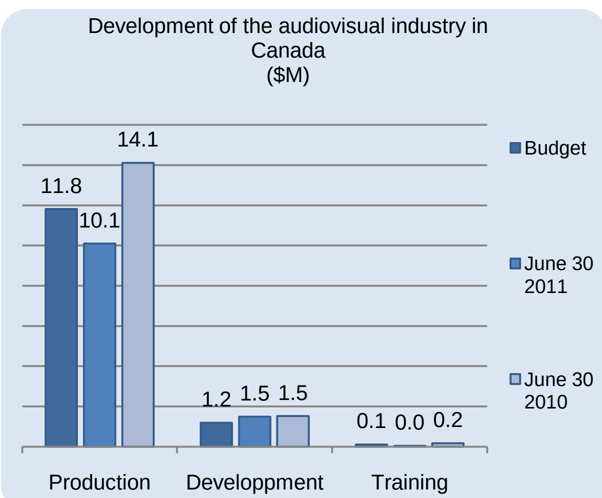
3. CONTEXT OF QUARTERLY FINANCIAL REPORT

The Corporation is subject to section 131.1 of the *Financial Administration Act*, which states that each Crown corporation must produce a quarterly financial report for each of the first three quarters of each fiscal year and make it public within 60 days after the end of the fiscal quarter to which the report relates. The Treasury Board Secretariat (TBS) has issued the *Standard on Quarterly Financial Reports for Crown Corporations*, which is designed to ensure that Crown corporation quarterly financial reports are timely and consistent in support of effective oversight of public funds. The TBS Standard sets out the required form and content for the reports and the financial statements. There is no requirement for an audit or review of the financial statements included in the quarterly financial report. This financial report complies with the accounting principles applicable to the public sector. It has not been reviewed or audited by external auditors.

4. ANALYSIS OF RESULTS

The budgetary figures come from the annual budgets submitted to the Board's Audit and Finance Committee. The budget amounts were subsequently allocated by quarter based on management's best estimates.

Assistance Expenses
The Corporation supports the audiovisual industry under two distinct themes: investment in industry development through production, development and training activities, and promotional support chiefly for film marketing and international events.



Under the supervision of the Audit and Finance Committee, management has defined significant variance thresholds in dollars and in percentage. The dollar variances are rounded whereas the percentage variances are calculated precisely.

For assistance expenses and revenues, variances equal to or exceeding $150 000 and 15% are deemed significant and require explanation.

Production
Variance

Budget	$1.7M	15%
Expenses	-$4.0M	-28%

The budget/expense variance is explained mainly by the fact that performance envelope holders triggered projects for an amount of $2.3M below what was anticipated in the first quarter.

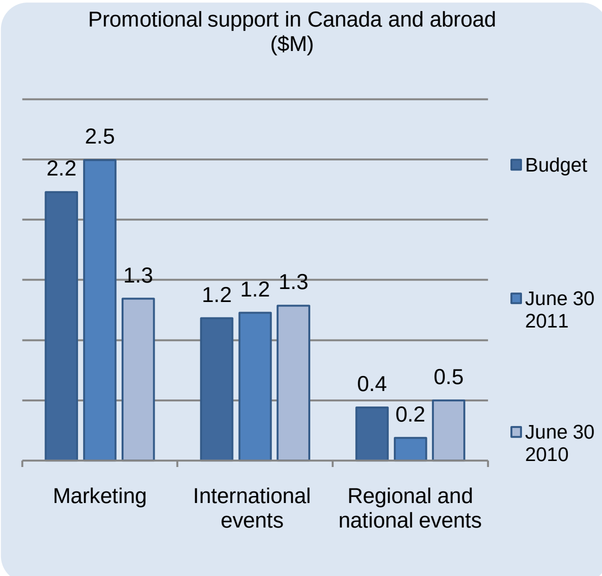
The large decrease in expenses is mostly due to the fact that fewer new projects were undertaken during the quarter, in both the selective and the performance envelope components (6 vs. 11 projects last fiscal).

Development
Variance

Budget	-$0.3M	-25%

90% of the budget overrun is attributable to development projects funded through performance envelopes. Producers with envelopes availed themselves of the reserved amounts earlier than projected (5 vs. 3 projects last fiscal).

Training
There is no significant variance in training activities.



Marketing

<u>Variance</u>

Expenses	$1.2M	86%

Marketing expenses are in line with the first quarter budget forecast. The increase in expenses this year is due to an increase in the number of performance component projects triggered (9 new projects vs. 2 last year) and to an increase in disbursements linked to the completion of projects funded in previous fiscal years. The funding used by distributors is influenced by the theatrical release calendar.

International Events

There is no significant variance in international event activities.

Regional and National Events

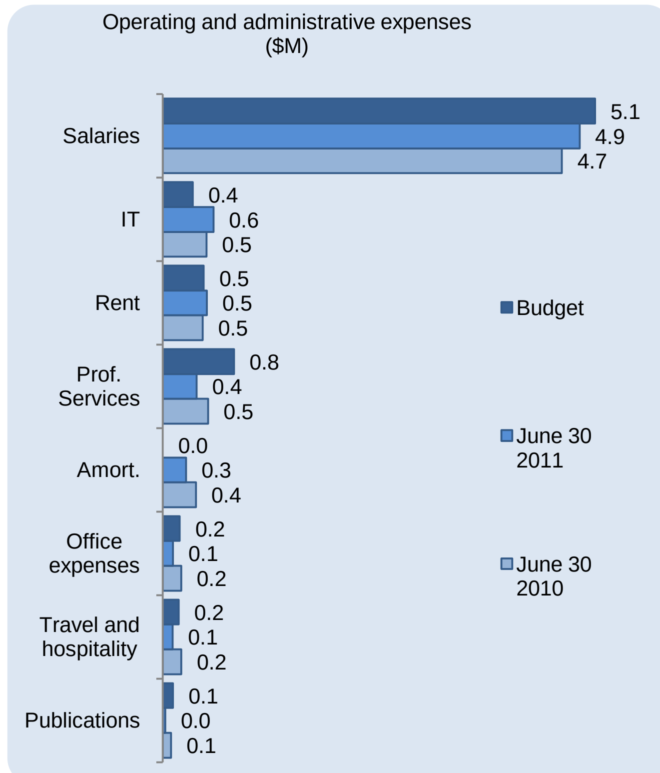
<u>Variance</u>

Budget	$0.2M	58%
Expenses	-$0.3M	-63%

The budgetary surplus is temporary and relates primarily to events inherent to cultural diversity in film and digital content, which will be accounted for in the next quarter; this also causes the expense variance for the current fiscal quarter.

Operating and Administrative Expenses

Operating and administrative expenses are necessary to deliver the Corporation's programs, including the funding programs of the CMF, which are managed through a service agreement, and to ensure the Corporation's intendance. The variations deemed significant are those equal to or exceeding $100,000 and 15%.



Salaries

This item is the largest administrative expense and there is no significant variance, either in terms of budget or expenses.

Information Technology

<u>Variance</u>

Budget	-$0.2M	-69%

The variance comes from the item pertaining to software expense. The Corporation paid a significant portion of the annual software application usage fees as prepaid expenses. The budgetary variance is temporary and will be resolved over the coming quarters.

Professional Fees

Variance

Budget	$0.4M	57%
Expenses	-$0.1M	-33%

The budgetary variance results mostly from provisions for corporate projects currently under way and some consulting services used in day-to-day operations. The decrease in expenses is explained in part by a timing difference for software application support expenses.

Amortization

Variance

Expenses	-$0.1M	-30%

Amortization of capital assets is a non-monetary expense and is not budgeted. The decrease in amortization expense is directly attributable to the end of the estimated life of the capitalized information technology assets.

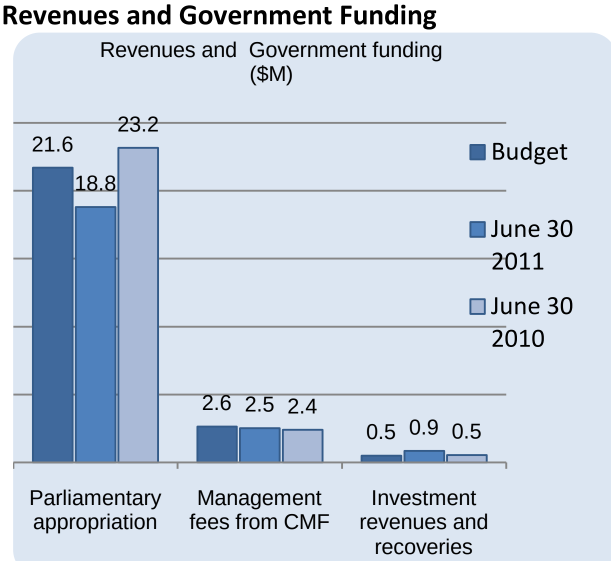
Travel and Hospitality

Variance

Expenses	-$0.1M	-47%

The decrease is generalized across the Corporation. In keeping with the Treasury Board Secretariat directive on cost containment measures, the Corporation expects travel and hospitality expenses to remain stable or decline slightly compared to the previous year.

Revenues and Government Funding



Parliamentary Appropriation

Variance

Government funding	-$4.4M	-19%

The reduction in parliamentary appropriation directly correlates with the significant $3.4M decrease in assistance expenses. The variance is also explained by the prepayment of administrative expenses of $1M in 2010-2011.

Management Fees: Canada Media Fund

There is no significant variance in CMF-related activities.

Revenues and Recoveries

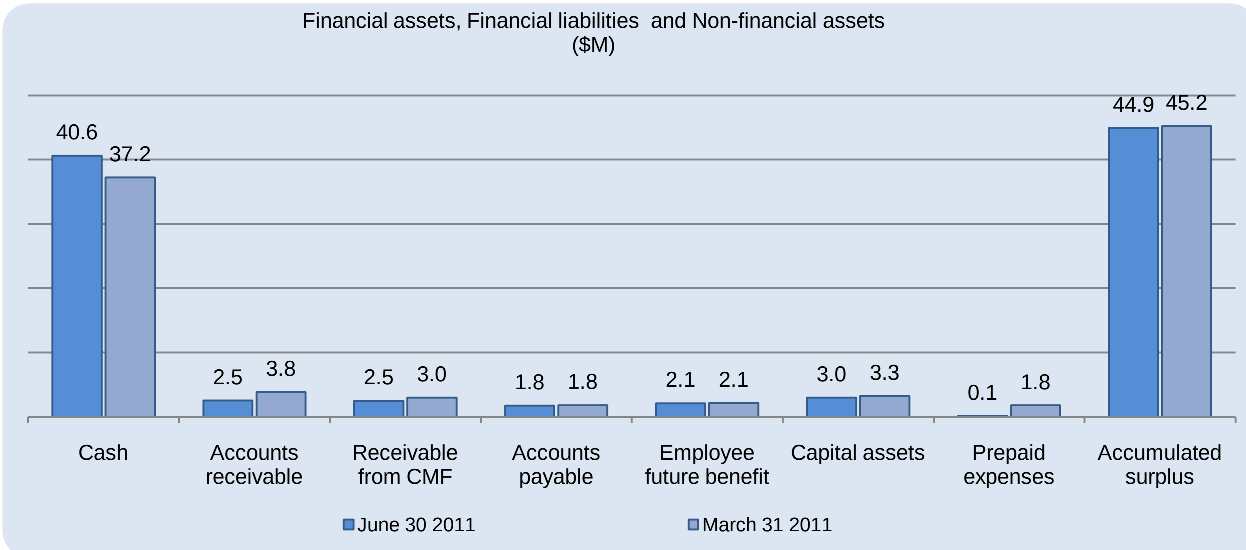
Variance

Budget	-$0.4M	-70%
Revenues	$0.4M	59%

Revenues and recoveries generally come from production revenues, distribution recoveries and development advance repayments. The Corporation does not control sales made by distributors. As a result, it is difficult to forecast revenue and recovery levels.

The revenue/budget variance is explained in part by the repayment of development advances, directly linked to the signing of new production contracts, and by an unexpected increase in investment revenue. The average level for first-quarter revenue and recovery is on the order of $0.5M.

5. ANALYSIS OF FINANCIAL POSITION



Management and the Audit and Finance Committee have defined significant variances in the statement of financial position as those equal to or exceeding $100,000 and 15%. The dollar variances are rounded whereas the percentage variances are calculated precisely. The Accumulated surplus of Canada varied little in the first quarter ($0.3M), indicating that the Corporation's overall expenses are financed by revenues and government funding.

Financial Assets

Variance

Accounts receivable	-$1.3M	-34%
CMF	-$0.5M	-17%

The Corporation's most important financial asset, its cash, did not vary significantly in the first quarter. Accounts receivable declined as a result of substantial receipts totalling approximately $1M during the quarter. Exploitation reports are contractually due twice a year, in August and February, which means that receivables usually show little movement in the first quarter.

The decrease in the account receivable from the CMF comes from specific invoice items; the service fees for program delivery remained unchanged. The decreased receivable at June 30 is explained by the recording of the harmonized sales tax applicable at March 31 and the invoicing of IT development-related expenses.

Financial Liabilities

There is no significant variance in the accounts payable and employee future benefits items.

Non-financial Assets

Variance

Prepaid expenses	-$1.7M	-92%

Prepaid expenses decreased significantly. Since March 31, nearly all prepaid expenses from the previous year have been recorded as current year first quarter expenses, among them the costs of participating in international events, rent and software application support.

6. RECONCILIATION OF COST OF OPERATIONS AND PARLIAMENTARY APPROPRIATION

The Corporation receives most of its funding through an annual parliamentary appropriation. Items recognized in the Statement of Operations and the Statement of Financial Position may have been funded through a parliamentary appropriation approved in either a previous or the current fiscal year. Some of the items in the reconciliation calculation cannot be linked directly to the financial statements. The differences are reconciled in the following table:

($M)	June 30, 2011	June 30, 2010
Cost of operations	22.5	26.1
Adjustment affecting cost of operations:		
Amortization	(0.3)	(0.4)
	(0.3)	(0.4)
Adjustments affecting the use of Parliamentary appropriation:		
Operating expenses funded by the CMF	(2.5)	(2.4)
Prepaid administrative expenses at March 31, 2011	(1.0)	-
Prepaid administrative expenses at June 30, 2011	0.1	-
Other non-funded items	-	(0.1)
	(3.4)	(2.5)
Use of Parliamentary appropriation at June 30	18.8	23.2
Parliamentary appropriation available for subsequent quarters	86.9	82.2
Parliamentary appropriation authorized	105.7	105.4

The amount of the parliamentary appropriation comes from the 2011-2012 Main Estimates.

7. RISK MANAGEMENT

Risk management at Telefilm is based on the Integrated Risk Management Framework issued by the Treasury Board Secretariat and on the model developed by the Committee of Sponsoring Organizations (COSO). The Corporation applies an integrated risk management model that involves all levels of management as well as the various administrative and operational departments. A risk assessment is performed quarterly under the supervision of the Risk Management Committee, which reports to the Management Committee and the Board’s Audit and Finance Committee.

Four categories of risk have been identified: strategic, operational, financial and compliance. The main financial risks relate to fraud and insufficient financial resources. In this regard, the Corporation has put in place a control environment and effective internal controls such as rigorous integrated budget monitoring and optimal segregation of duties. All of the measures in place help keep residual risks associated to financial risk at the lowest level possible.

There is no significant change in risk assessment compared to the Corporation’s last fiscal year. For more details on risk management, see the Governance section of Telefilm’s *2010-2011 Annual Report*, which will be available in fall 2011 after tabling in Parliament.

Furthermore, the Finance Minister has announced a government-wide Deficit Reduction Action Plan for 2011-2012. Sixty-seven departments and agencies are participating in this plan, which is designed to improve the efficiency and effectiveness of government activities and programs. To this end, the Corporation is developing scenarios for savings of 5% and 10% on the expenses voted by Parliament in order to generate ongoing annual savings. The Corporation is assessing the impacts and risks involved in meeting these government objectives, so as to minimize the consequences for the Canadian audiovisual industry and to limit the potential effects of these measures on achieving Telefilm's corporate plan objectives.

8. IMPORTANT CHANGES

Programs

In March, the Corporation issued a new corporate plan with a renewed strategic direction. Entitled *Fostering Cultural Success*, this plan applies to fiscal years 2011-2012 through 2014-2015. The Corporation is presently defining the mechanisms for transitioning to the new directions and implementation of the plan. The new measures and programs will be introduced gradually. The plan is not expected to have any significant financial impact on the Corporation.

In line with the new corporate plan, the Corporation has changed the presentation of its financial results. Industry assistance expenses are now reported under two distinct themes: industry investment activities and industry promotion activities. In addition to aligning the financial resources with organizational priorities, this financial information presentation will encourage greater accountability. The new reporting entails no financial impact.

Activities

First quarter activities in fiscal 2011-2012 were carried out in continuity with previous-year operations. Moreover, in line with the new corporate plan, the Corporation, in partnership with the CMF, launched an important national initiative aimed at increasing the visibility of audiences for Canadian content. The goal is to forge dynamic public-private partnerships, generate original ideas and find local solutions to boost visibility and demand for all Canadian content: feature films, television programs and interactive digital content.

Personnel

Due to the constant strong leadership of the Board and the Executive Director, there was no personnel turnover in the organization's key positions. Management stability will favour achievement of the strategic directions defined in the new corporate plan.

9. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30 2011

Statement of Management Responsibility

Management is responsible for the preparation and fair presentation of these quarterly financial statements in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations and for such internal controls as management determines is necessary to enable the preparation of quarterly financial statements that are free from material misstatement. Management is also responsible for ensuring all other information in this quarterly financial report is consistent, where appropriate, with the quarterly financial statements.

Based on our knowledge, these unaudited quarterly financial statements present fairly, in all material respects, the financial position, results of operations, change in net financial assets and cash flows of the corporation, as at the date of and for the periods presented in the quarterly financial statements.

Montreal, Canada

August 26, 2011

Carolle Brabant, CA, MBA
Executive Director

Denis Pion,
Director – Administration and Corporate Services

Statement of Operations

For the three-month period ended June 30, 2011

In thousands of dollars	Schedule	June 30, Budget	June 30, 2011	June 30, 2010
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		11,812	10,094	14,108
Development assistance		1,186	1,482	1,516
Training		106	44	163
		13,104	**11,620**	15,787
Promotional support in Canada and abroad				
Distribution and marketing assistance		2,229	2,495	1,344
Participation in international events		1,182	1,226	1,287
Participation in regional and national events		441	187	500
		3,852	**3,908**	3,131
		16,956	**15,528**	18,918
Operating and administrative expenses	A	7,266	6,954	7,137
Cost of operations		24,222	**22,482**	26,055
Revenues				
Management fees from the Canada Media Fund		2,631	2,521	2,400
Investment revenues and recoveries		500	852	536
Interests and other revenues		-	26	14
		3,131	**3,399**	2,950
Net cost of operations before government funding		21,091	**19,083**	23,105
Government funding				
Parliamentary appropriation		21,591	18,807	23,165
		21,591	**18,807**	23,165
Surplus (deficit)		500	**(276)**	60
Accumulated surplus of Canada, beginning of period			45,205	49,189
Accumulated surplus of Canada at the end			**44,929**	49,249

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

Statement of Financial Position

June 30, 2011

In thousands of dollars	Note	**June 30, 2011**	**March 31, 2011**	**April 1, 2010**
Financial assets				
Cash receivable from Canada		40,636	37,239	37,391
Accounts receivable		2,544	3,842	6,711
Receivable from the Canada Media Fund		2,521	3,028	2,028
		45,701	44,109	46,130
Financial liabilities				
Accounts payable and accrued liabilities		1,777	1,830	1,293
Employee future benefit obligation		2,130	2,134	2,177
		3,907	3,964	3,470
Net financial assets		**41,794**	40,145	42,660
Non-financial assets				
Tangible capital assets		2,989	3,263	4,512
Prepaid expenses		146	1,797	2,017
		3,135	5,060	6,529
Accumulated surplus of Canada	5	**44,929**	45,205	49,189

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

Statement of Change in Net Financial Assets
For the three-month period ended June 30, 2011

In thousands of dollars	June 30, Budget	June 30, 2011	March 31, 2011
Surplus (deficit)	-	(276)	(3,984)
Tangible capital asset transactions			
Amortization	-	274	1,312
Acquisition	-	-	(63)
Other transactions			
Acquisition of prepaid expenses	-	-	(1,797)
Use of prepaid expenses	-	1,651	2,017
Increase (decrease) in net financial assets	**-**	**1,649**	(2,515)
Net financial assets, beginning of period	-	40,145	42,660
Net financial assets at the end	-	**41,794**	40,145

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

Statement of Cash Flows
For the three-month period ended June 30, 2011

In thousands of dollars	June 30, 2011	June 30, 2010
Operating activities		
Surplus (deficit)	(276)	60
Items not affecting cash:		
Amortization of tangible capital assets	274	391
Increase (decrease) in employee future benefit obligation	(4)	109
	(6)	560
Changes in non-cash financial items		
Decrease in accounts receivable	1,298	1,195
Decrease (increase) in receivable from the Canada Media Fund	507	(635)
Decrease in prepaid expenses	1,651	1,872
Decrease in accounts payable and accrued liabilities	(53)	(388)
Increase in cash	**3,397**	2,604
Cash receivable from Canada, beginning of period	37,239	37,391
Cash receivable from Canada at the end	**40,636**	39,995

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

Notes to Interim Financial Statements

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 audio-visual industry in Canada. The Corporation may also act through agreements with the Department of Canadian Heritage for the provision of services or the management of programs relating to the audio-visual or sound recording industries.

The Corporation is a Crown corporation subject inter alia to Part VIII of the *Financial Administration Act,* chapter F-10 of the Revised Statutes of Canada, 1970*,* as it read immediately before September 1, 1984, as if it had not been repealed and as if the Corporation continued to be named in Schedule C to that Act. The Corporation is also subject to certain provisions of Part X of the *Financial Administration Act*.

The Corporation is not subject to income taxes.

2. Basis of financial statement presentation

These unaudited interim financial statements have been prepared by the Corporation's management in accordance with Public Sector Accounting Standards ["PSAS"] pursuant to the *Standard on Quarterly Financial Reports for Crown Corporations* issued by the Treasury Board. They must be read in conjunction with the most recent annual audited financial statements prepared under the former set of generally accepted accounting principles, Canadian generally accepted accounting principles ["GAAP"], as set out in the Part V of the Canadian Institute of Chartered Accounts ["CICA"] Handbook.

The significant accounting policies in accordance with PSAS are disclosed in note 4. PSAS have been applied retroactively except for the exceptions and exemptions discussed below. The changeover became effective on April 1, 2011 with retrospective application to April 1, 2010. As a result, the comparative figures have been restated to reflect the new standards. The impact on income and the Accumulated surplus of Canada is disclosed in note 5.

a) Exceptions to retroactive application

The Corporation ensured that the estimates reflected in the opening statement of financial position prepared in accordance with PSAS were consistent with those in the balance sheet as at the same date prepared under Canadian GAAP adjusted, as needed, for any difference in accounting policy. Estimates required under PSAS that were not required under Canadian GAAP reflect the conditions that existed at the opening statement of financial position date prepared in accordance with PSAS.

b) Exemptions applied

In accordance with Section PS 2125, *First-time Adoption by Government Organizations*, the Corporation elected to apply the tangible capital asset impairment exemption. As a result, the Corporation prospectively applied, as of the transition date, the impairment criteria and conditions for tangible capital assets set out in Section PS 3150. The Corporation reviewed the first-time adoption standard and determined that none of the other exemptions were applicable.

3. Changes in accounting standards: early adoption of released Handbook sections

The Corporation elected to early adopt the following CICA Handbook sections on changeover. Since these are the first financial statements prepared in accordance with PSAS, the impact of the early adoption is not determinable.

Section PS 3410 Revised, *Government Transfers*
Section PS 3410, *Government Transfers*, was amended by the Public Sector Accounting Board ["PSAB"] in December 2010. The main changes pertain to recognition criteria for government transfers by the transferor, affecting how the Corporation accounts for assistance expenses. These amendments are affective for fiscal years beginning on or after April 1, 2012 and earlier adoption is encouraged. The Corporation decided to early adopt the Section for the year ending March 31, 2012.

Sections PS 3450, *Financial Instruments*, PS 2601, *Foreign Currency Translation*, and PS 1201, *Financial Statement Presentation*
In March 2011, the PSAB approved new Section PS 3450, *Financial Instruments*, Section PS 2601 to replace current Section PS 2600, *Foreign Currency Translation*, and Section PS 1201 to replace current Section PS 1200, *Financial Statement Presentation*

The three sections are effective on April 1, 2012 for government agencies and April 1, 2015 for governments, with earlier adoption permitted. Governments and government agencies are required to adopt the three sections in the same year. The Corporation decided to early adopt the three sections for the fiscal year ending March 31, 2012.

4. Significant accounting policies

These financial statements have been prepared by management in accordance with PSAS. The significant accounting policies followed by the Corporation are as follows:

a) Assistance expenses

Assistance expenses, whether pertaining to the Canadian audiovisual industry development or promotional support in Canada and abroad, are carried out mainly through investments, forgivable advances, grants and contributions, and recognized as follows:

i. Investments

Investments in productions entitle the Corporation to copyright ownership and a percentage of production revenues. The investments do not qualify as financial assets and are recognized as assistance expenses in the year in which the recipient meets the contractual eligibility criteria for the disbursements.

4. Significant accounting policies (cont.)

ii. Forgivable advances

Forgivable advances are accounted for as government transfers and recognized in assistance expenses in the year in which the recipient meets the contractual eligibility criteria for the disbursements.

Certain advances are convertible into investments in lieu of repayment. When this occurs, the advance is converted into an investment through assistance expenses.

Advances recognized through assistance expenses generally consist of project development and distribution and marketing assistance contracts.

iii. Grants and contributions

Grants and contributions are recognized in assistance expenses in the year in which the recipient meets the contractual eligibility criteria for the disbursements.

b) Revenues

i. Investment revenues and recoveries

Investment revenues represent a percentage of production revenue stipulated in agreements and contractually payable to the Corporation. Recoveries come from the repayment of advances granted whose contractual conditions have been met. These amounts are recorded on an accrual basis, net of bad debt losses.

ii. Management fees

The management fees correspond to the reimbursement of expenses relating to the administration and the delivery of the Canada Media Fund financing programs. Fees are recorded on an accrual basis.

iii. Interests and other revenues

Interests and other revenues are recorded on an accrual basis. Interests are calculated using the effective interest method.

c) Government funding

The Corporation obtains funding through a parliamentary appropriation. As this funding is free of any stipulations limiting its use, it is recorded as government funding up to the authorized amount where eligibility criteria have been met.

d) Restricted assets

All of the Corporation’s assets are restricted to developing the audio-visual industry in Canada, as stipulated by the *Telefilm Canada Act*. Furthermore, certain assets and liabilities described in note 6 are restricted by the Canada New Media Fund (CNMF) to the Receiver General for Canada.

4. Significant accounting policies (cont.)

e) Cash receivable from Canada

The Receiver General for Canada processes the banking 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 all banking operations appears on the statement of financial position as cash receivable from Canada.

f) Other financial assets and liabilities

The Corporation's financial instruments are all recorded at cost or amortized cost. Financial assets consist of assets that could be used to settle existing liabilities or fund future activities.

The Corporation holds the following financial assets recorded net of allowances for bad debt:

- Receivables related to investments and forgivable advances;
- Receivables from the Canada Media Fund.

Financial liabilities consist of the Corporation's accounts payable recorded at the initially invoiced amount.

g) Employee future benefit obligation

i. Pension plan

All eligible employees participate in the Public Service Pension Plan administered by the Government of Canada. This pension plan provides benefits based on years of service and average earnings of the best five consecutive years. Employer contributions are based on the Public Service Pension Plan and reflect the full cost for the Corporation. This amount is based on a multiple of employee contributions and may change over time depending on the Plan's financial position. The Corporation's contributions are recognized during the year in which the services are rendered and represent its total pension benefit obligation. The Corporation is not required to make contributions in respect of any actuarial deficiencies of the Public Service Pension Plan.

ii. Severance benefits

Employees are entitled to severance benefits as stipulated in their conditions of employment. The cost of these benefits is recognized in the statement of operations in the year in which they are earned. The severance benefit obligation is calculated on a present value basis using assumptions based on management's best estimates of future salary and wage changes, employee age, years of service, the probability of voluntary departure due to resignation or retirement and other factors. These assumptions are reviewed annually. Severance benefits represent the Corporation's only obligation of this nature whose settlement gives rise to payments in subsequent fiscal years.

4. Significant accounting policies (cont.)

iii. Sick leave

Employees are entitled to sick leave as stipulated in their conditions of employment. Unused sick leave accrues but cannot be converted into cash. The cost of sick leave is recognized through the statement of operations in the year it is earned. The obligation is calculated on a present value basis using assumptions based on management’s best estimates of the probability of use of accrued sick leave, future salary and wage changes, employee age, the probability of departure, retirement age and the discount rate. These assumptions are reviewed annually.

iv. Parental leave

Employees are entitled to parental leave as stipulated in their conditions of employment. The Corporation tops up employees’ employment insurance benefits up to a set percentage of their gross salary. The Corporation recognizes a liability for the entire duration of the parental leave at the time employees submit an application and sign the agreement as stipulated by their conditions of employment.

h) Tangible capital assets

Tangible capital assets are recorded at cost and are amortized on a straight-line basis over their respective useful lives using the following rates and period:

Asset	Rate(s) and Period
Leasehold improvements	Terms of the leases
Technological equipment	20%
Furniture	10%
Software and licences	14% and 20%

Tangible capital assets related to work in progress are not subject to amortization. When work in progress is completed, the tangible capital asset portion is reclassified to the appropriate line item of tangible capital assets and is amortized in accordance with the Corporation’s policy.

i) Measurement uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of expenses, revenues and government funding during the reporting period. The most significant items for which estimates are used are the allowance for bad debts, the useful life of tangible capital assets, the employee future benefit obligation and contingencies. Actual results could differ from those estimates and such differences could be significant.

5. First-time adoption of PSAS

As mentioned in note 2, these are the first financial statements prepared by the Corporation in accordance with PSAS. In accordance with Section PS 2125, *First-time Adoption by Government Organizations*, the Corporation has prepared reconciliations to enable readers to understand the effects of the changeover on its comparative results and its financial position.

a) Statement of operations reconciliation

The following table shows the effects of the changeover on the statement of operations for the comparative period, that is, the three months ended June 30, 2010, as well as for the transition year, consisting of the 12 months ended March 31, 2011.

Reconciliation of comparative results In thousands of dollars	Reference	**March 31, 2011**	**June 30, 2010**
Net income - under GAAP		**(2,560)**	**486**
Accrued sick leave	i.	(32)	-
Deferred government assistance	ii.	(1,249)	(391)
Deferred lease inducements	iii.	(143)	(35)
		(1,424)	(426)
Surplus (deficit) - under PSAS		**(3,984)**	**60**

As at the same dates, the Corporation also made the following reclassification:

Reclassification of comparative results In thousands of dollars	Reference	**March 31, 2011**	**June 30, 2010**
Recoveries	vii.		
GAAP - Recoveries		(9,109)	(536)
PSAS - Investment revenues and recoveries		9,109	536

5. First-time adoption of PSAS (cont.)

b) Statement of financial position reconciliation

The following table shows the effects of the changeover on Accumulated surplus of Canada as at the transition date of April 1, 2010 and the adoption date of March 31, 2011.

Reconciliation of Accumulated surplus of Canada In thousands of dollars	Reference	**March 31, 2011**	**April 1, 2010**
Equity of Canada - under GAAP		**41,929**	**44,489**
Accrued sick leave	i.	(490)	(458)
Deferred government assistance	ii.	3,263	4,512
Deferred lease inducements	iii.	503	646
		3,276	4,700
Accumulated surplus of Canada - under PSAS		**45,205**	**49,189**

As at the same dates, the Corporation also made the following adjustments and reclassifications:

Reclassifications due to the changeover In thousands of dollars	Reference	**March 31, 2011**	**April 1, 2010**
Parental leave and severance benefits	iv.		
GAAP - Accounts payable		(387)	(99)
PSAS - Employee future benefit obligation		387	99
Software	v.		
GAAP - Intangible assets		(958)	(1,517)
PSAS - Tangible capital assets		958	1,517
Long-terme accounts receivable	vi.		
GAAP - Long-term accounts receivable		(355)	-
PSAS - Accounts receivable		355	-

c) Nature of adjustments and reclassifications

i. Sick leave

Each employee of the Corporation is entitled to a set number of days of sick leave per fiscal year. Earned but unused sick leave is accrued and deferred; it cannot be converted into cash but may be taken by the employee until his departure. Under GAAP, the Corporation was not required to recognize a liability in respect of this leave to the extent that the incapacity to work arising from injury or illness had not occurred. Under PSAS, the Corporation is required to record a provision in respect of this obligation. As a result, the Corporation adjusted the employee future benefit obligation in reduction of the Accumulated surplus of Canada at the transition date.

5. First-time adoption of PSAS (cont.)

ii. Deferred government assistance

Under GAAP, the portion of parliamentary appropriations used by the Corporation to fund acquisitions of tangible capital assets must be deferred in the statement of financial position and amortized through the statement of operations using the same rates as for the related assets. This is required under PSAS only where the parliamentary appropriations have special stipulations as to their use. The Corporation's parliamentary appropriations do not have such stipulations and must be recognized as government funding when authorized and the eligibility criteria have been met. As a result, the balance of deferred government assistance was fully reversed in the Accumulated surplus of Canada at the transition date.

iii. Deferred lease inducements

Under GAAP, lease inducements are deferred and amortized over the term of the lease. Since there is no PSAS equivalent, the balance of deferred lease inducements at the transition date was fully reversed in the Accumulated surplus of Canada.

iv. Parental leave and severance benefits

Since the short-term and long-term distinction is not required under PSAS on the face of the statement of financial position, the amounts related to the current portion of severance benefits and allowances for parental leave, previously included in accounts payable and accrued liabilities, have been reclassified to employee future benefit obligation.

v. Software

Under PSAS, intangible assets are not reflected through the statement of financial position, except for software considered as tangible capital assets. This balance was reclassified to tangible capital assets on the changeover date.

vi. Long-term accounts receivable

Since the short-term and long-term distinction is not required under PSAS on the face of the statement of financial position, long-term accounts receivable have been reclassified to accounts receivable.

vii. Recoveries

Recoveries are derived from repayment of advances and participation in revenues resulting from investments and were formerly recognized as a reduction of assistance expenses. Given that they represent the recoveries of amounts contractually payable to the Corporation in connection with transactions recognized in assistance expenses in prior periods, recoveries satisfy the definition of revenue under PSAS and must be accounted for as investment revenues and recoveries in the statement of operations.

6. Restricted assets and liabilities – Canada New Media Fund

Under contribution agreements with the Department of Canadian Heritage applicable to fiscal 2007-2008 and thereafter, all future receipts from projects previously funded via the Canada New Media Fund must be returned to the Receiver General for Canada.

Restricted assets and liabilities - Receiver General for Canada In thousands of dollars	**June 30, 2011**	**March 31, 2011**	**April 1, 2010**
Cash receivable from Canada	388	-	-
Accounts receivable	89	435	53
Accounts payable and accrued liabilities	477	435	53

7. Comparative figures

Certain 2010-2011 figures have been reclassified to conform to the presentation adopted for 2011-2012.

Schedule A – Other information

A - Operating and administrative expenses

In thousands of dollars	June 30, Budget	June 30, 2011	June 30, 2010
Salary and employee benefits	5,082	4,936	4,692
Information technology	354	598	515
Rent, taxes, heating and electricity	483	520	470
Professional services	837	359	534
Amortization of tangible capital assets	-	274	391
Office expenses	201	120	218
Travel and hospitality	188	116	219
Advertising and publications	121	31	98
	7,266	**6,954**	7,137