Quarterly Financial Report

Period ended September 30, 2012

Published November 29, 2012

TELEFILM CANADA

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1. TELEFILM

Telefilm Canada is a Crown corporation reporting to Parliament through the Department of Canadian Heritage. Our mission is inspired by its mandate to foster and promote the development of the Canadian audiovisual industry by playing a leadership role through financial support and initiatives that contribute to the industry's cultural, industrial and commercial success. The Corporation offers its services through its Vancouver, Toronto, Montreal and Halifax offices.

Funding

Telefilm financially supports the development and production (including treaty coproductions) of feature films that have potential for success in Canada and abroad.

Promotion

Telefilm acts to stimulate audience demand for Canadian screen-based content at home and abroad, notably by:

- supporting the marketing and promotion of feature films and Canadian talent, and participating in industry events such as festivals and markets that help Canadian audiovisual companies showcase and sell their productions;
- forging partnerships to help the industry promote its productions and talent around the world and promoting diversity and emerging creators from official language minorities and Aboriginal communities.

Administering programs

In addition to administering its own programs and initiatives, Telefilm administers program funds for the Canada Media Fund (CMF) through a services agreement.

2. QUARTERLY FINANCIAL REPORT

This quarterly financial report complies with all requirements of the Standard on Quarterly Financial Reports for Crown Corporations established by the Treasury Board Secretariat and with the Canadian Public Sector Accounting Standards (CPSAS). There is no requirement for an audit or review of the financial statements included in this quarterly financial report, and as such, the report has not been reviewed or audited by external auditors.

3. IMPORTANT CHANGES

Programs

The Corporation and the Rogers Group of Funds welcomed the National Film Board of Canada (NFB) as a new partner in the Theatrical Documentary Program. This unique public-private partnership provides funding for feature-length documentary projects during their production and post-production stages, and is endowed with an annual budget of $1.5 million. In addition, two meetings of the Canada Feature Film Fund Working Groups were held on the topic of the new Production Program. Furthermore, the Corporation calculated its new Success Index, which shows that Canada's film industry is achieving increasing success on the domestic and international fronts. The Success Index measures the commercial, cultural and industrial results, from one year to another, of the Corporation funded feature-films. In 2011, the Index rose by nearly 24%.

Activities

As part of its investment activities during the quarter, the Corporation supported 18 new productions for a total amount of $23.5 million. On the international scene, MIPCOM (the world's largest television and digital content market) in partnership with the Corporation and the Canada Media Fund selected Canada as the country in honor of the 2012 edition. That is how the Canadian audiovisual industry as a whole will be celebrated during an entire week. More than 228 Canadian companies, supported by leaders of Canada's digital-media industries, will attend the event, which will feature a speakers' series, matching sessions for industry stakeholders, special screenings, and appearances by internationally renowned Canadian personalities. Moreover, the pan-Canadian Oscar selection committee chose Kim Nguyen's *War Witch* (*Rebelle*) to represent Canada for consideration as a possible nominee in the Best Foreign Language Film category at the 2013 Academy Awards. Finally, the Corporation is proud to announce that nine Canadian films, including three co-productions, will be presented at the Busan International Film Festival in South Korea, one of the most important film festivals in Asia.

In Canada, the Corporation shone a spotlight on Canadian talent during the 37th Toronto International Film Festival (TIFF) through seven different initiatives: *Filmmaker Boot Camp*, *Eye On TIFF*, *Talent to Watch*, *PITCH THIS!*, *TIFF Rising Stars*, *Talent Lab*, and the *Spotlighting Canadian producers at the Festival* microsite. The Corporation also demonstrated its expertise as talent promoter and partnership originator by uniting with the Calgary International Film Festival (CIFF), the Canada Media Fund and Alberta Film to foster closer ties between Calgary audiences, political and business communities and Alberta's movie industry through the screening of *Midnight's Children,* Deepa Mehta's latest feature film, during the Festival's Red Carpet Opening Night Gala. Finally, the Corporation highlighted Canadian talent at the 31st Vancouver International Film Festival by participating in the *Film & Television Forum*, the *Telefilm Canada International Tête-à-Tête Meetings*, and the *Film & Television Forum Speed Dating* sessions. The goal was to encourage players in the industry to form partnerships and to stimulate public interest in Canadian cinema.

Personnel

The Director of Communications, Ms Denise Arab, who also sat on the Management Committee, left the Corporation during the quarter. There were no other changes to the Management Committee or Board.

4. GOVERNANCE AND INTERNAL AUDIT

The Corporation's governance is carried out through the activities of the Board and its committees and by the Management Committee, chaired by the Executive Director, and its subcommittees. The Board, the Audit and Finance Committee, and the Nominating, Evaluation and Governance Committee each held a meeting during the quarter. The Management Committee, for its part, meets regularly.

The Corporation commissions an outside firm to carry out internal auditing work for which accountability is made to the Corporation's Audit and Finance Committee. Three of five planned assignments are currently underway.

5. RISK MANAGEMENT

The Corporation strives to integrate risk management within the framework of a continuous management process. To this end, the Corporation held a managers' forum during the previous quarter to better integrate and standardize the understanding of risk management in a daily operating environment. Moreover, the risks have generally diminished over the last quarter.

6. UNADJUSTED DIFFERENCES

Management strives to produce relevant financial information in compliance with Canadian Public Sector Accounting Standards (CPSAS) and within the closing timeframe established by the Receiver General of Canada, namely five business days after the end of the quarter. Accordingly, Management uses means and methods that allow it to identify the required adjustments. For efficiency purposes, certain cut-off procedures applicable to the accounts payable and receivable cycles, the capitalization of expenditure components in the fixed assets and certain adjustments concerning liabilities for employee future benefits were not carried out at September 30, 2012. Given that the importance of these adjustments to make to the amounts, classification or presentation is deemed immaterial by Management, the financial statements provide a fair representation in all their significant aspects.

7. ANALYSIS OF CUMULATIVE RESULTS

Identifying the variances to be explained stems from established thresholds in collaboration with the Corporation's Audit and Finance Committee.

Assistance Expenses

For the six-month period ended September 30, 2012

	Budget	**Actual** ($M)		Variance			
				Budget		Actual	
	2012-2013	**2012-2013**	2011-2012	$	%	$	%
Production	27.1	**32.2**	25.0	-5.1	-19	7.2	29
Development	5.4	**3.8**	3.0	1.6	30	0.8	27
	32.5	**36.0**	28.0	-3.5	-11	8.0	29
Marketing	7.0	**4.1**	5.2	2.9	41	-1.1	-21
International events	1.6	**1.4**	1.6	0.2	13	-0.2	-13
Promotion	4.9	**4.1**	2.6	0.8	16	1.5	58
	13.5	**9.6**	9.4	3.9	29	0.2	2
	46.0	**45.6**	37.4	0.4	1	8.2	22

Production assistance expenses show significant variances in relation to the budget and to expenses incurred in the previous semester. The budgetary deficit is tied to specific circumstances and derives notably from a higher-than-forecast increase in the number of projects submitted. As for expense-related variances, the Corporation supported a higher number of projects overall than it did during the comparative period. It should be noted that this favourable variance is only temporary because the overall budget for the current fiscal year is lower than last year's.

Development assistance expenses are lower than anticipated in the initial budgetary expectations. The Corporation had planned on receiving a higher number of applications during the semester as a result of the program redesign which, among other things, eliminated application deadlines for French-language projects. Management anticipates receiving further applications during the next quarter, which would serve to reduce the budgetary surplus. Finally, expenses rose in comparison with the same period last year because of changes to the way projects are submitted under the program: the program now accepts applications for a portfolio of projects, which means that higher amounts of funding are now being granted.

Distribution and marketing expenses recorded a temporary budgetary surplus. This variance derives from the fact that, overall, fewer projects than expected were funded, particularly in the selective component. However, the Corporation expects funding requests to increase, given the number of theatrical releases scheduled over the

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next few months. Finally, the $1.1 million decrease in expenses from the comparative period stems, in particular, from a temporary albeit significant decrease in the granted amounts and number of signed projects in the program's selective component.

Activities related to international events show a budgetary surplus and lower expenses when compared with figures for the comparative period, owing to a number of non-meaningful variations. Promotion assistance expenses, for their part, show both a budgetary surplus and higher expenses when compared with the previous period. The Corporation launched its new Promotion Program, which standardizes processes and thereby speeds up the treatment of funding requests. As a result, a higher number of contracts was signed during the six-month period, in comparison to the previous fiscal period. However, program activity has not reached the level provided for in the initial budget planning. This variance is expected to diminish over the next few quarters.

Operating and Administrative Expenses

For the six-month period ended September 30, 2012

	Budget	**Actual** ($M)		Variance			
				Budget		Actual	
	2012-2013	**2012-2013**	2011-2012	$	%	$	%
Salaries & wages	10.1	**9.9**	9.9	0.2	2	-	-
Rent	1.0	**1.0**	1.0	-	-	-	-
Information technology	0.9	**0.8**	0.7	0.1	11	0.1	14
Professional services	1.2	**0.5**	0.9	0.7	58	-0.4	-44
Amortization	n/a	**0.5**	0.5	n/a	n/a	-	-
Travel	0.3	**0.2**	0.3	0.1	33	-0.1	-33
Office expenses	0.3	**0.2**	0.3	0.1	33	-0.1	-33
Advertising & publications	0.1	**0.1**	0.1	-	-	-	-
	13.9	**13.2**	13.7	1.2	9	-0.5	-4

The Corporation finds itself in a good budgetary position after an active six-month period. In addition, expenses are generally stable in relation to comparative data.

Information technology expenses are higher when compared with the previous semester, owing essentially to recurrent computer-related costs. Professional fees show a temporary budgetary variance that stems mainly from expenses anticipated for certain current activities, for which work in progress has not yet been invoiced, specifically, internal auditing services and application development and computer maintenance. In addition, professional fees for the semester are decreasing in relation to the comparative data. This decrease stems mainly from the fact that, during the previous semester, a number of non-recurrent fees were incurred for services related to the implementation of corporate-plan initiatives, such as, the preparation of the Talent Fund and the strategic initiative related to the promotion of Canadian talent.

Moreover, travel expenses show favourable variances with respect to both the budget and the comparative data. The Corporation does not anticipate significant budgetary savings in this area, although a certain number of travel expenses that had been planned in connection with computer upgrades have been put on hold. Several areas of activity account for the decrease in travel costs when compared to the previous semester, but this decrease is temporary given that expected expenses as at March 31 should be comparable to those of the previous fiscal year.

Finally, office expenses are lower in comparison to both budgetary expectations and the comparative data. The portfolio of training and professional development activities has not been fully deployed and is currently being reassessed. In addition, upgrades to certain items of computer equipment are being deferred, which also contributes to the favourable budgetary position. Furthermore, the decrease in office expenses in relation to comparative results stems, notably, from changing needs regarding the use of industry data and by the new Promotion Program's taking charge of promotional activities.

Revenues and Government Funding

For the six-month period ended September 30, 2012

	Budget	Actual ($M)		Variance			
				Budget		Actual	
	2012-2013	**2012-2013**	2011-2012	$	%	$	%
Parliamentary appropriation	49.5	**53.6**	45.9	4.1	8	7.7	17
Management fees from the CMF	5.3	**5.1**	5.1	-0.2	-4	-	-
Investment revenues and recoveries	4.0	**6.2**	4.8	2.2	55	1.4	29
Interest and other revenues	n/a	**0.1**	0.1	n/a	n/a	-	-
	58.8	**65.0**	55.9	6.1	10	9.1	16

The parliamentary appropriation used shows an increase in comparison to the previous fiscal period, with the increase correlating directly to a significant rise in assistance-expense payments. Investment and recovery revenues generate positive variances from both a budgetary and comparative revenue standpoint. The Corporation has no control over sales and, as a result, it is difficult to forecast revenue and recovery levels; as such, the revenue budget is based on past data. Several factors account for the increase in revenues over the previous semester, mainly the increase in recovered advances stemming from development funded projects and marketing projects. In this regard, the Corporation saw a higher number of higher-value returns from distributors in comparison with the previous fiscal period, owing mainly to such successful films as *Barney's Version*.

8. ANALYSIS OF RESULTS FOR THE SECOND QUARTER

	Actual ($M)		Variance	
	2012-2013	2011-2012	$	%
Assistance expenses	**32.9**	25.4	7.5	30
Operating and administrative expenses	**6.2**	6.8	-0.6	-9
Revenues	**8.0**	6.6	1.4	21
Parliamentary appropriation	**34.9**	27.1	7.8	29
Surplus	**3.8**	1.5	2.3	153

In the second quarter, assistance expenses rose by nearly $8 million. This increase stems in particular from higher investments in a few projects, in comparison to funding granted during the previous quarter. In addition, following the redesign of the promotion assistance program, the new standardized process made it possible to accelerate the awarding of funding contracts for a number of recurrent events, which in turn led to higher spending levels in comparison to the previous quarter. Higher revenues flowed mainly from increased returns from distributors, and the increased parliamentary appropriation is directly tied to higher assistance expense payments during the quarter.

9. ANALYSIS OF FINANCIAL POSITION

	Actual ($M)		Variance	
	Sept 30, 2012	March 31, 2012	$	%
Financial assets				
Cash	**46.2**	41.1	5.1	12
Accounts receivable	**5.5**	4.0	1.5	38
Receivable CMF	**2.5**	2.6	-0.1	-4
	54.2	47.7	6.5	14
Financial liabilities				
Accounts payables	**1.1**	1.6	-0.5	-31
Assistance programs obligations	**32.5**	33.9	-1.4	-4
Employee future benefits	**2.2**	2.2	-	-
Net financial assets	**18.4**	10.0	8.4	84
Non-financial assets				
Capital assets	**1.7**	2.3	-0.6	-26
Prepaid expenses	**0.1**	1.9	-1.8	-95
Accumulated surplus	**20.2**	14.2	6.0	42

Financial assets

Our most important financial asset, cash, has risen since March 31. This increase is due mainly to the recoveries recorded over the last six months. Accounts receivable, made up mostly of taxes and income from investments and recoveries receivable, have risen. The increase comes from taxes receivable that show greater amounts to recover, consistent with the increase in activities in the second quarter in relation to activities during the last few months of fiscal 2011-2012. Furthermore, revenues and recoveries receivable have increased following the intake of a significant return, which will be collected in the short term.

Financial liabilities

The decrease in accounts payable is explained mainly by the settling of regular accounts payable as at March 31, 2012. During the year, the Corporation implements a limited and targeted cut-off procedure, which leads to lower the accounts payable balance.

Non-financial assets

Another fluctuation derives from the decrease in the net value of capital assets related to current amortization. Prepaid expenses have decreased significantly ($1.8 million). All prepaid expenses from the previous year have been recorded as expenses and the new balance stems entirely from charges expensed thereon in October.

10. RECONCILIATION OF COST OF OPERATION 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.

($M)	Sept. 30, 2012
Cost of operations	58.9
Adjustments affecting cost of operations:	
Amortization	(0.5)
Adjustments affecting the use of Parliamentary appropriation:	
Adjustment related to eligibility criteria of assistance expenses	1.4
Operating expenses funded by the CMF	(5.1)
Prepaid administrative expenses at March 31	(1.2)
Prepaid administrative expenses at September 30	0.1
	(4.8)
Use of Parliamentary appropriation at September 30	53.6
Parliamentary appropriation available for subsequent quarters	49.4
Parliamentary appropriation authorized	103.0

The amount of the Parliamentary appropriation comes from the 2012-2013 Main Estimates reduced by the savings announced in the federal government's budget in March.

11. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2012

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.

Carolle Brabant, CPA, CA, MBA
Executive Director

Denis Pion,
Director – Administration and Corporate Services

Montreal, Canada

November 26, 2012

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Quartely Statement of Operations

For the three-month period ended September 30, 2012

In thousand of dollars	Schedule	Quarter ended Sept. 30 2012	Quarter ended Sept. 30 2011 (Restated - Note 2)
Assistance expenses			
Development of the Canadian audiovisual industry			
Production assistance		24,546	18,035
Development assistance		3,633	1,755
		28,179	19,790
Promotional support in Canada and abroad			
Distribution and marketing assistance		788	2,790
Participation in international events		307	392
Promotion		3,625	2,401
		4,720	5,583
		32,899	25,373
Operating and administrative expenses	A	6,171	6,778
Cost of operations		39,070	32,151
Revenues			
Management fees from the Canada Media Fund		2,433	2,625
Investment revenues and recoveries		5,516	3,963
Interest and other revenues		49	27
		7,998	6,615
Net cost of operations before government funding		31,072	25,536
Government funding			
Parliamentary appropriation		34,879	27,093
Surplus		3,807	1,557
Accumulated surplus, beginning of period		16,486	14,318
Accumulated surplus, end of period		20,293	15,875

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

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Statement of Operations

For the six-month period ended September 30, 2012

In thousands of dollars	Schedule	Semester ended Sept. 30 Cumulative Budget	Cumulative 2012	Restated - Note 2 Cumulative 2011
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		27,122	32,246	24,986
Development assistance		5,350	3,742	2,987
		32,472	35,988	27,973
Promotional support in Canada and abroad				
Distribution and marketing assistance		6,987	4,145	5,222
Participation in international events		1,625	1,409	1,618
Promotion		4,945	4,057	2,619
		13,557	9,611	9,459
		46,029	45,599	37,432
Operating and administrative expenses	B	13,990	13,273	13,732
Cost of operations		60,019	58,872	51,164
Revenues				
Management fees from the Canada Media Fund		5,280	5,063	5,146
Investment revenues and recoveries		4,000	6,211	4,815
Interest and other revenues		-	82	53
		9,280	11,356	10,014
Net cost of operations before government funding		50,739	47,516	41,150
Government funding				
Parliamentary appropriation		49,508	53,588	45,900
Surplus (deficit)		(1,231)	6,072	4,750
Accumulated surplus, beginning of period			14,221	11,125
Accumulated surplus, end of period			20,293	15,875

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

Statement of Financial Position

In thousands of dollars	**September 30, 2012**	**March 31, 2012**
Financial assets		
Due from Consolidated Revenue Fund	46,202	41,088
Accounts receivable	5,527	4,010
Receivable from the Canada Media Fund	2,456	2,636
	54,185	47,734
Financial liabilities		
Accounts payable and accrued liabilities	1,100	1,572
Financial assistance programs obligations	32,460	33,894
Liabilities for employee future benefits	2,204	2,186
	35,764	37,652
Net financial assets	18,421	10,082
Non-financial assets		
Tangible capital assets	1,728	2,264
Prepaid expenses	144	1,875
	1,872	4,139
Accumulated surplus	20,293	14,221

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

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Statement of Change in Net Financial Assets
For the six-month period ended September 30, 2012

In thousands of dollars	**September 30, 2012**	**March 31, 2012**
Surplus	6,072	3,096
Tangible capital asset transactions		
Amortization	536	1,092
Acquisition	-	(93)
Other transactions		
Acquisition of prepaid expenses	(144)	(1,875)
Use of prepaid expenses	1,875	1,797
Increase in net financial assets	8,339	4,017
Net financial assets, beginning of period	10,082	6,065
Net financial assets, end of period	18,421	10,082

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

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Statement of Cash Flows

For the period ended September 30, 2012

	Quarter ended Sept. 30		Semester ended Sept. 30	
		Restated - Note 2		Restated - Note 2
In thousand of dollars	**2012**	**2011**	**2012**	**2011**
Operating transactions				
Surplus	3,807	1,557	6,072	4,750
Items not affecting cash:				
Increase (decrease) in financial assistance programs obligations	1,494	2,625	(1,434)	(844)
Increase (decrease) for employee future benefits	19	(20)	18	(24)
Amortization of tangible capital assets	267	274	536	548
	5,587	4,436	5,192	4,430
Changes in non-cash financial items:				
Decrease (increase) in accounts receivable	(2,949)	(1,010)	(1,517)	288
Decrease (increase) in receivable from the Canada Media Fund	179	(81)	180	426
Increase (decrease) in accounts payable and accrued liabilities	(131)	381	(472)	328
Decrease (increase) in prepaid expenses	(1)	3	1,731	1,654
	2,685	3,729	5,114	7,126
Capital transactions				
Acquisition	-	(76)	-	(76)
Increase in Due from Consolidated Revenue Fund	2,685	3,653	5,114	7,050
Due from Consolidated Revenue Fund, beggining of period	43,517	40,636	41,088	37,239
Due from Consolidated Revenue Fund, end of period	46,202	44,289	46,202	44,289

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

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Notes to the Quarterly Financial Statements

1. Basis of financial statements presentation

These unaudited quarterly financial statements have been prepared by the Corporation's management in accordance with Canadian Public Sector Accounting Standards (CPSAS) pursuant to the *Standard on Quarterly Financial Reports for Crown Corporations issued by the Treasury Board of Canada*. They must be read in conjunction with the most recent annual audited financial statements of March 31, 2012. The accounting and calculation methods used in these quarterly financial statements are identical to those used in the annual financial statements of March 31, 2012.

The financial data in the financial statements, the accompanying notes and schedules are expressed in thousands of Canadian dollars.

2. Adoption of Public Sector Accounting Standards

On March 31, 2012 the Corporation retroactively adopted the revised chapter PS 3410 "Government Transfers". Under CPSAS, the Corporation must recognize government transfers as expenses in the year in which the transfer is authorized and the applicant meets the eligibility criteria. As a result, on September 30, 2011, the Corporation recognized, by anticipation, financial liabilities as financial assistance program obligations, reducing the accumulated surplus in the amount of $33,236. Some comparative data of September 30, 2011 have thus been restated to take this into account. The Corporation prepared reconciliations in order understand the effects of this restatement.

a) Statement of operations reconciliation

The following table shows the effect of the application of chapter PS 3410 on the comparative results of the period ending September 30, 2011.

	September 30, 2011	
	Quarter	Semester
Surplus	4,182	3,906
Financial assistance programs obligations	(2,625)	844
Surplus	1,557	4,750

b) Statement of financial position reconciliation

The following table shows the effect of the application of chapter PS 3410 on the accumulated surplus as at September 30, 2011.

	September 30, 2011
Accumulated surplus	49,111
Financial assistance programs obligations	(33,236)
Accumulated surplus	15,875

3. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for September 2012.

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Schedules A and B − Other Information

A - Operating and administrative expenses

	Quarter ended Sept. 30	
	2012	2011
Salaries and employee benefits	4,767	4,975
Rent, taxes, heating and electricity	460	449
Amortization of tangible capital assets	267	274
Professional services	206	511
Information technology	204	132
Travel and hospitality	114	173
Office expenses	98	209
Advertising and publications	55	55
	6,171	6,778

B - Cumulative operating and administrative expenses

	Semester ended Sept. 30		
	Budget	2012	2011
Salaries and employee benefits	10,136	9,884	9,911
Rent, taxes, heating and electricity	979	997	969
Information technology	863	826	730
Amortization of tangible capital assets	-	536	548
Professional services	1,233	478	870
Travel and hospitality	335	239	289
Office expenses	332	221	329
Advertising and publications	112	92	86
	13,990	13,273	13,732