Quarterly Financial Report

Period ended June 30, 2013

First quarter of fiscal 2013-2014

Published August 29, 2013

TELEFILM
CANADA

TABLE OF CONTENT

TELEFILM CANADA

1. TELEFILM

Telefilm Canada is a Crown corporation reporting to Parliament through the Department of Canadian Heritage. Telefilm Canada's vision is: Audiences everywhere demanding screen-based content created by Canadians - accessible anywhere, anytime and on any platform.

Our mission

Telefilm's mission is 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.

What we do

Telefilm is dedicated to the cultural, commercial and industrial success of the Canadian audiovisual industry. Our funding programs provide financial support to dynamic Canadian production and distribution companies that deliver content to audiences. We promote Canadian audiovisual success and talent at festivals, markets and events-regionally, nationally and around the world. Telefilm values diverse perspectives, including those of emerging talent, linguistic minorities as well as culturally diverse viewpoints from Aboriginal communities.

Telefilm administers programs for the Canada Media Fund (CMF). We also make recommendations regarding the certification of audiovisual treaty coproductions to the Minister of Canadian Heritage. Headquartered in Montréal, we employ nearly 190 employees who serve clients through four offices located in Vancouver, Toronto, Montréal and Halifax.

2. QUARTERLY FINANCIAL REPORT

This quarterly financial report complies with all requirements of the Standard on Quarterly Financial Reports for Crown Corporations[1] 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 launched its new Marketing Program[2] in May. The former Marketing, Alternative Distribution, Web-Ciné 360, and Versioning Assistance Programs have now been merged into a single program in order to enhance administrative efficiency and improve customer service. In keeping with this, expenses for marketing and distribution on digital platforms are now eligible. The Corporation also introduced a simplified application process for funding feature-film coproductions to help ensure that recommendation requests for coproduction certification are now integrated with production funding requests.

In June, the CRTC approved the final agreement between Bell and Astral. As a result of this transaction, Telefilm's Talent Fund will receive $5 million spread out over seven years.

1 : www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=18789&section=text
2 : www.telefilm.ca/en/funds-and-programs/canada-feature-film-fund/marketing-program

3. IMPORTANT CHANGES (CONTINUED)

Activities

During the quarter, the Corporation financed 20 new productions for nearly $19 million. Moreover, eight Canadian films were presented at the third annual Beijing International Film Festival[3], where Telefilm also hosted a networking event to celebrate Canadian talent. In addition, the Canadian industry made its presence known at the Shanghai International Film Festival[4] with the screening of ten films, including two features in official competition. The Corporation is also delighted by the large selection of Canadian films at the Karlovy Vary International Film Festival[5], where of the eight chosen titles, two films are in competitive sections.

Some 50 Canadian companies presented their 3D and multiplatform projects at MIPTV 2013, an important market especially for the sale and purchase of broadcasting rights, coproductions, financing and partnerships. Canadian productions are also present at the Cannes Festival and Film Market[6]. In fact, the Official Selection, International Critics' Week, Cinéfondation and Cannes Classics each presented a Canadian film, and 44 shorts were shown via our *Not Short on Talent* program.

In addition, Telefilm presented the 2012 *Guichet d'or award* and *Golden Box Office Award* to the directors and writers of the Canadian films *Omertà* and *Goon*, which had the highest grossing domestic box office sales among Canadian films, taking in $2.8 million and $4.1 million respectively.

Telefilm partnered with *CineCoup* as part of the newly minted *New Ways of Discovering Canadian Talent* marketing campaign. In addition, Telefilm has invested along with SODEC, the NFB and the Centre national du cinéma et de l'image animée so that varied programs of shorts by filmmakers from Quebec, Canada and France will be available for free screenings on December 21, 2013. Lastly, Corus Entertainment and Telefilm announced the creation of the Family Feature Production Fund, an initiative that encourages increased production of audience-driven Canadian English-language live-action family movies for theatrical release.

Personnel

The Corporation hired Sylvie L'Écuyer as Director, Strategy and Research and Project Management Officer. Mrs. L'Écuyer is also a member of the Management Committee. In addition, Yvon Bélanger's five-year term as Board member and Chair of the Audit and Finance Committee ended in April. In this regard, Mrs. Elise Orenstein, Vice-Chair of the Board, will take over in an interim capacity as Chair of the Audit and Finance Committee.

4. GOVERNANCE AND INTERNAL AUDIT

Governance of the Corporation 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, the Nominating, Evaluation and Governance Committee, and the Strategic Planning and Communications Committee each held one meeting during the quarter, while the Management Committee met almost every week.

The Corporation mandates an independant external firm with the task of conducting internal audits, and accountability is carried out by the Corporation's Audit and Finance Committee. The mandates of fiscal 2012-2013 have been completed and their conclusions presented to the Audit and Finance Committee. An internal audit plan for the 2013-2014 and 2014-2015 fiscal years was adopted and the mandate to ensure compliance of coproduction treaties was begun during the quarter.

3 : www.bjiff.com/en/
4 : www.siff.com/InformationEn/Index.aspx
5 : www.kviff.com/en/news/
6 : www.marchedufilm.com/en

5. RISK MANAGEMENT

Risk management is evolving over time. The Executive Director reviewed the governance in this regard by creating a new Risk Management Committee, which she now chairs. This committee brings together all members of the Management Committee who support the Executive Director in identifying, evaluating and prioritizing risks, and in developing the necessary measures to effectively mitigate them. Moreover, the level of risks evaluated during the current year has generally decreased. In addition, the Corporation is conducting an exercise to map the risks of fraud.

6. ANALYSIS OF QUARTERLY RESULTS AND OF FINANCIAL POSITION

Assistance Expenses

For the three-month period ended June 30, 2013

	Budget ($M)		Actual ($M)		Variance			
			2013-	2012-	Budget		Actual	
	Annual	Period	**2014**	2013	$	%	$	%
Production	66.4	15.0	19.8	7.7	(4.8)	(32)	12.1	157
Development	6.0	0.3	0.3	0.1	-	-	0.2	200
	72.4	15.3	20.1	7.8	(4.8)	(31)	12.3	158
Promotion	6.9	1.1	1.7	0.4	(0.6)	(55)	1.3	325
Marketing	10.2	2.1	1.2	3.4	0.9	43	(2.2)	(65)
International events	2.3	1.1	0.7	1.1	0.4	36	(0.4)	(36)
	19.4	4.3	3.6	4.9	0.7	16	(1.3)	(27)
	91.8	19.6	23.7	12.7	(4.1)	(21)	11.0	87

The identification of variances to be explained is based on thresholds established in collaboration with the Corporation's Audit and Finance Committee.

Production assistance significantly exceeds the quarterly budget established and comparative expenditures. These variances are temporary. Production companies submitted their projects ahead of time compared with the comparative quarter, for both the performance envelope stream and the selective stream. In this regard, eight more films have received funding to date. Note that the new faster decision-making process, implemented for the selective stream, has contributed to this result. Expenses for the development assistance also show a circumstantial variance compared with the comparative quarter, which is explained by companies holding performance envelopes who submitted their projects earlier on in the fiscal year.

Promotion assistance expenses show a budget overrun and an increase in expenditures versus the comparative quarter. The budget overrun is due mainly to funding of major Canadian festival that had been anticipated later in the year. In addition, the application of the standard process for the new promotion program introduced last year has helped speed up the processing of funding applications compared with the previous fiscal year. This last item stems mainly from the variance in promotion expenses.

Marketing expenses are lower than budget expectations and the expenditures of the comparative quarter. The budget variance is due mainly to companies holding performance envelopes for which no major project was contractually reached during the quarter. This element also helps explain the decline in expenses compared with last year. In addition, distribution companies waited for the launch of the new revamped marketing program in May before submitting their projects, which contributed to the decrease in expenditures.

Expenses for international events show a reduction with respect to the budget and comparative quarter. This decrease is explained mainly by the deferral of an expense to a later period in order to match the expense with the actual holding of the event.

6. ANALYSIS OF QUARTERLY RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Operating and Administrative Expenses

For the three-month period ended June 30, 2013

	Budget ($M)		Actual ($M)		Variance			
			2013-	2012-	Budget		Actual	
	Annual	Period	**2014**	2013	$	%	$	%
Salaries & wages	18.8	4.7	4.9	5.1	(0.2)	(4)	(0.2)	(4)
Information technology	1.2	0.7	0.7	0.6	-	-	0.1	17
Rent	1.9	0.5	0.6	0.6	(0.1)	(20)	-	-
Professional services	2.2	0.3	0.2	0.3	0.1	33	(0.1)	(33)
Amortization	0.7	0.2	0.2	0.3	-	-	(0.1)	(33)
Office expenses	0.7	0.2	0.1	0.1	0.1	50	-	-
Travel	0.6	0.2	0.1	0.1	0.1	50	-	-
Advertising & publications	0.3	-	-	-	-	-	-	-
	26.4	6.8	6.8	7.1	-	-	(0.3)	(4)

Operating and administrative expenses show rounded amounts and must be analyzed in relation to Schedule A – Other Information, for greater clarity. The Corporation demonstrates good control of its costs, both with respect to the budget and its previous expenditures.

Professional fees show a slight budget surplus due to several sectors requiring different expertise. To this extent, the Corporation continues to achieve efficiencies with the elimination of the application deadlines of its production program that have reduced the need for external resources. Moreover, translation costs in the first quarter were lower than expected. In addition, the reduced use of information technology consultants and the promotion of available internal resources explain the variance with the comparative quarter.

The amortization expense has decreased compared with the comparative quarter, which is due to the fact that some software programs and computer licenses became fully amortized, reaching the end of their useful accounting lives.

Lastly, the travel item shows a slight budget surplus that comes from several sectors. Some trips were cancelled while others will take place at a later date. The Corporation strives to minimize its travel costs, in particular by using low-cost video-conferencing technologies.

6. ANALYSIS OF QUARTERLY RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Revenues and Government Funding

For the three-month period ended June 30, 2013

	Budget ($M)		Actual ($M)		Variance			
			2013-	2012-	Budget		Actual	
	Annual	Period	**2014**	2013	$	%	$	%
Parliamentary appropriation	99.6	24.1	23.6	18.7	(0.5)	(2)	4.9	26
Management fees from the CMF	10.1	2.5	2.6	2.6	0.1	4	-	-
Investment revenues and recoveries	9.0	0.5	0.4	0.7	(0.1)	(20)	(0.3)	(43)
Talent Fund	1.2	-	0.1	-	0.1	-	0.1	-
Interest and other revenues	0.1	-	-	-	-	-	-	-
	120.0	27.1	26.7	22.0	(0.4)	(1)	4.7	21

The Parliamentary appropriation shows a significant increase versus the comparative quarter. This rise is attributed mainly to the amounts paid for new projects of fiscal 2013-2014 related to the production assistance program. To date, this program has experienced an appreciable growth in its activities. Note that the approved amount of Parliamentary appropriation is not affected by this increase.

The investment revenues and recoveries generated variances, both in terms of the budget and comparative revenues. The Corporation does not control sales. As a result, it is difficult to forecast revenue and recovery levels. Several elements account for the decline vis-à-vis the comparative quarter, especially the decrease in recoveries of advances from projects financed in development. In addition, for the marketing projects stemming from distributors, recoveries are slightly delayed compared with the previous fiscal year, for both the number of remittances and the corresponding amounts.

Lastly, the Talent Fund reported $100,000 worth of donations during the first quarter, while it was only at the start-up phase during the same period last year.

6. ANALYSIS OF QUARTERLY RESULTS AND OF FINANCIAL POSITION (CONTINUED)

Financial position

	Actual ($M)		Variance	
	June 30, 2013	March 31, 2013	$	%
Financial assets				
Due from Consolidated Revenue Fund	45.6	45.6	-	-
Cash - Talent Fund	0.1	-	0.1	-
Accounts receivable	2.7	2.6	0.1	4
Receivable from CMF	2.6	3.0	(0.4)	(13)
	51.0	51.2	(0.2)	-
Liabilities				
Accounts payables	1.5	2.1	(0.6)	(29)
Special termination benefits payable as a result of downsizing	-	0.3	(0.3)	(100)
Financial assistance programs obligations	36.7	33.7	3.0	9
Liabilities for employee future benefits	2.4	2.3	0.1	4
Net financial assets	10.4	12.8	(2.4)	(19)
Non-financial assets				
Tangible capital assets	1.4	1.6	(0.2)	(13)
Prepaid expenses	0.5	1.7	(1.2)	(71)
Accumulated surplus	12.3	16.1	(3.8)	(24)

Our most important financial asset, cash, has not varied significantly during the quarter, while the account receivable from the Canada Media Fund (CMF) shows a decline due mainly to the harmonized sales tax of 13% resulting from the invoicing of March 31, 2013.

The decrease in accounts payable is explained mainly by a decline in accrued liabilities compared with those of March 31, 2013. To that effect, at the end of the year, Management applies cut-off procedures over a longer period of time that cannot be carried out during a quarter in the year. Moreover, the special employment termination benefits payable were mainly paid in the first quarter, as anticipated.

Another fluctuation derives from the decrease in the net value of capital assets related mainly to current amortization. Finally, the prepaid expenses have decreased significantly as a result of almost all prepaid expenses of the previous fiscal year being recorded as expenses.

7. 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.

In million of Canadian dollars	**June 30, 2013**
Cost of operations	30.5
Adjustments affecting cost of operations :	
Amortization	(0.2)
Employee future benefits	(0.2)
Adjustments affecting the use of Parliamentary appropriation :	
Adjustment related to eligibility criteria of assistance expenses	(3.0)
Operating expenses funded by the CMF	(2.6)
Prepaid administrative expenses at March 31	(1.1)
Prepaid administrative expenses at June 30	0.2
	(6.5)
Use of Parliamentary appropriation at June 30	23.6
Parliamentary appropriation available for subsequents quarters	76.0
Parliamentary appropriation authorized	99.6

The amount of the Parliamentary appropriation comes from the 2013-2014 Main Estimates.

8. QUARTERLY FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2013

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

Montréal, Canada
August 29, 2013

Statement of Operations

For the three-month period ended June 30, 2013

In thousands of Canadian dollars	Schedule	June 30, Budget	June 30, 2013	June 30, 2012
Assistance expenses				
Development of the Canadian audiovisual industry				
Production assistance		15,000	19,767	7,700
Development assistance		300	259	109
		15,300	20,026	7,809
Promotional support in Canada and abroad				
Promotion		1,100	1,679	432
Distribution and marketing assistance		2,050	1,229	3,357
Participation in international events		1,100	725	1,102
		4,250	3,633	4,891
		19,550	23,659	12,700
Operating and administrative expenses	A	6,751	6,823	7,102
Cost of operations		26,301	30,482	19,802
Revenues				
Management fees from the Canada Media Fund		2,517	2,600	2,630
Investment revenues and recoveries		490	387	695
Talent Fund		-	100	-
Interest and other revenues		25	22	33
		3,032	3,109	3,358
Net cost of operations before government funding		23,269	27,373	16,444
Government funding				
Parliamentary appropriation		24,060	23,594	18,709
Surplus (deficit)		791	(3,779)	2,265
Accumulated surplus, beginning of period			16,069	14,221
Accumulated surplus, end of period			12,290	16,486

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

TELEFILM CANADA

Statement of Financial Position

In thousands of Canadian dollars	**June 30, 2013**	**March 31, 2013**
Financial assets		
Due from Consolidated Revenue Fund	45,585	45,561
Cash - Talent Fund	136	36
Accounts receivable	2,650	2,572
Receivable from the Canada Media Fund	2,600	2,973
	50,971	51,142
Liabilities		
Accounts payable and accrued liabilities	1,506	2,066
Special termination benefits payable as a result of downsizing	38	336
Financial assistance programs obligations	36,666	33,730
Liabilities for employee future benefits	2,356	2,250
	40,566	38,382
Net financial assets	10,405	12,760
Non-financial assets		
Tangible capital assets	1,414	1,585
Prepaid expenses	471	1,724
	1,885	3,309
Accumulated surplus	12,290	16,069

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

Statement of Changes in Net Financial Assets

For the three-month period ended June 30, 2013

In thousands of Canadian dollars	June 30, Budget	June 30, 2013	March 31, 2013
Surplus (deficit)	791	(3,779)	1,848
Tangible capital asset transactions			
Amortization	175	175	1,036
Acquisitions	-	(4)	(357)
Other transactions			
Acquisitions of prepaid expenses	-	(318)	(1,724)
Use of prepaid expenses	1,571	1,571	1,875
Increase (decrease) in net financial assets	2,537	(2,355)	2,678
Net financial assets, beginning of year	12,760	12,760	10,082
Net financial assets, end of period	15,297	10,405	12,760

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, 2013

In thousands of Canadian dollars	**June 30, 2013**	**June 30, 2012**
Operating transactions		
Surplus (deficit)	(3,779)	2,265
Items not affecting cash:		
Increase in liabilities for employee future benefits	106	137
Amortization of tangible capital assets	175	269
	(3,498)	2,671
Changes in non-cash financial items:		
Decrease (increase) in accounts receivable	(78)	1,432
Decrease in receivable from the Canada Media Fund	373	1
Decrease in accounts payable and accrued liabilities	(560)	(341)
Decrease in special termination benefits payable as a result of downsizing	(298)	(138)
Increase (decrease) in financial assistance programs obligations	2,936	(2,928)
Decrease in prepaid expenses	1,253	1,732
	128	2,429
Capital transactions		
Acquisitions	(4)	-
Increase in Due from Consolidated Revenue Fund and Cash - Talent Fund	124	2,429
Due from Consolidated Revenue Fund and Cash - Talent Fund, beginning of year	45,597	41,088
Due from Consolidated Revenue Fund and Cash - Talent Fund, end of period	45,721	43,517

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

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, 2013. The accounting and calculation methods used in these quarterly financial statements are identical to those used in the annual financial statements of March 31, 2013 below.

Annual financial statements of March 31, 2013

2. Comparative figures

Certain 2012-2013 figures have been reclassified to conform to the presentation adopted for 2013-2014.

Schedule A - Other Information

A - Operating and administrative expenses

In thousands of Canadian dollars	**June 30 Budget**	**June 30 2013**	**June 30 2012**
Salaries and employee benefits	4,718	4,875	5,117
Information technology	692	675	622
Rent, taxes, heating and electricity	534	570	537
Professional services	277	226	272
Amortization of tangible capital assets	175	175	269
Office expenses	152	136	123
Travel and hospitality	151	126	125
Advertising and publications	52	40	37
	6,751	6,823	7,102